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Should I Stay Or Should I Go? Founder Power And Exit Via Initial Public Offering

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Abstract:	<p>Founders can voluntarily exit their ventures via initial public offerings (IPOs). In this study, we build on power theory to develop and test a model of founder exit using a dataset of 313 founders from 177 entrepreneurial IPOs between 2002 and 2010. We largely find support for the model—a negative relationship between founder power and full exit. To capture the underlying mechanism of the power-exit relationship, we conducted two experiments in which we randomly assigned decision makers to either a high- or low-power condition. We find that decision makers in the low-power condition are more likely to use a full exit via IPO than those in the high-power condition and that frustration mediates this relationship. However, founders can also engage in partial exits, including a managerial partial exit in which the founder leaves management but keeps ownership and a financial partial exit in which the founder divests ownership but remains in management. We find that the negative relationship between founder power and exit is more negative for full exits than partial exits. With this paper, we contribute to the literature on exit by identifying a novel mechanism—frustration—underlying power’s influence on the likelihood and type of founder exit.</p>

Should I Stay or Should I Go? Founder Power and Exit via Initial Public Offering

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SHOULD I STAY OR SHOULD I GO? FOUNDER POWER AND EXIT VIA INITIAL PUBLIC OFFERING

ABSTRACT

8 Founders can voluntarily exit their ventures via initial public offerings (IPOs). In this study,
9 we build on power theory to develop and test a model of founder exit using a dataset of 313
10 founders from 177 entrepreneurial IPOs between 2002 and 2010. We largely find support for
11 the model—a negative relationship between founder power and full exit. To capture the
12 underlying mechanism of the power-exit relationship, we conducted two experiments in which
13 we randomly assigned decision makers to either a high- or low-power condition. We find that
14 decision makers in the low-power condition are more likely to use a full exit via IPO than those
15 in the high-power condition and that frustration mediates this relationship. However, founders
16 can also engage in partial exits, including a managerial partial exit in which the founder leaves
17 management but keeps ownership and a financial partial exit in which the founder divests
18 ownership but remains in management. We find that the negative relationship between founder
19 power and exit is more negative for full exits than partial exits. With this paper, we contribute
20 to the literature on exit by identifying a novel mechanism—frustration—underlying power’s
21 influence on the likelihood and type of founder exit.
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25 **Keywords:** Entrepreneurship, entrepreneurial exit, founder power, IPO, frustration.
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INTRODUCTION

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Founder exit is a key event in the entrepreneurial process (Aldrich, 2015; DeTienne & Wennberg, 2016; Wasserman, 2003). However, despite considerable scholarly interest in founder entry through the creation of new ventures (De Carolis, Litzky, & Eddleston, 2009; Eesley, 2016; Haveman, Habinek, & Goodman, 2012; Newbert & Tornikoski, 2012), only recently has there been a concerted effort to understand how and why founders exit their ventures (DeTienne, 2010; DeTienne, McKelvie, & Chandler, 2015). Founder exit has been found to be more likely for ventures that are older, larger, and at a later stage of development presumably because these ventures’ development has outpaced their founders’ skills and knowledge (Boeker & Karidhalil, 2002; Dobrev & Barnett, 2005) such that the founders need to be replaced by professional managers (Boeker & Wiltbank, 2005; DeTienne & Cardon, 2012; Hambrick & Crozier, 1985; Wasserman, 2003).

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Although there has been research on why founders are forced to exit when their ventures are performing well (Ewens & Marx, 2017; Wasserman, 2003) and performing poorly (Laitinen, 1992; Wiklund, Baker, & Shepherd, 2010) as well as why founders choose to exit

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3 their ventures to avoid further losses (DeTienne, Shepherd, & De Castro, 2008; Gimeno et al.,
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5 1997; Thorburn, 2000), there has been less research on why founders might decide to leave
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7 their successful ventures (DeTienne & Wennberg, 2016). This insufficient scholarly attention
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9 on founders' exits from high-potential ventures is surprising. In particular, we focus on initial
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11 public offerings (IPOs), which firm stakeholders perceive as a sign of high venture
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13 performance (Hochberg, Ljungqvist, & Lu, 2007; Shane & Stuart, 2002) and firm founders
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15 view as a primary vehicle to harvest their investments in their ventures.
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19 The time leading up to an IPO involves considerable uncertainty, negotiation, and
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21 turmoil for founders (Certo et al., 2001; Krigman, Shaw & Womack, 1999; Pollock, Rindova,
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23 & Maggitti, 2008). This period of uncertainty creates a context that invites the use of power
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25 (Finkelstein, 1992; Mintzberg, 1983) because, under uncertainty, decisions are not
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27 programmable or easily specified (Tushman, 1977) and thus people likely differ in their
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29 preferred choices—i.e., there are conflicting preferences (Mintzberg, 1983; Pettigrew, 1973).
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31 In situations of conflicting preferences, power is used to influence decisions and outcomes
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33 (Finkelstein, 1992; Pettigrew, 1973) creating winners and losers in an atmosphere of frustration
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35 (Eisenhardt & Zbaracki, 1992; Pettigrew, 1973). Indeed, lack of power emerged as an
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37 important cause of founder exit in our exploratory interviews (see Appendix 1 for a description
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39 of these interviews), as the following quote illustrates:
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45 The IPO was a difficult process. You find that your shareholding is very much reduced;
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47 you no longer have power over the company; and on top, you have many people that
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49 don't understand the business, make bad decisions, and they don't even listen. And I
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51 think this was the same for a lot of people that went through an IPO and then exited.

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53 Given that power is useful in uncertain contexts, such as those surrounding an IPO, we ask the
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55 following: how and why does founders' power influence their decision to exit from their
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57 ventures via IPO?

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59 To address the above question, we build on theories of power (Child, 1972; Finkelstein,
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1992; Finkelstein & Hambrick, 1996; Nakauchi & Wiersema, 2015) and frustration (Fox &

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3 Spector, 1999; Spector, 2002; Storms & Spector, 1987) to theorize on how founders' lack of
4 power at the time of IPO leads them to exit their ventures (rather than continue with their
5 ventures) and how power is more explanatory for full exits than for partial exits. To test our
6 power model of founder exit, we constructed a novel dataset of 313 founders from the total
7 population of 177 first-time listings of UK entrepreneurial firms on the London Stock
8 Exchange between 2002 and 2010 and used binary and multinomial regression for the analyses.
9
10 The findings from these initial analyses largely support our proposed model. Following a
11 mixed-methods approach (Edmondson & McManus, 2007; Molina-Azorin, 2012), we also
12 conducted two experiments. The first experiment (181 entrepreneurial decision makers)
13 provides evidence of causality, and the second experiment (190 managers taking an
14 entrepreneurship course) captures frustration as the underlying mechanism in the relationship
15 between founders' power and venture exit.
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31 Through our theorizing and findings, we make four primary contributions to the
32 literature on entrepreneurial exits. First, prior research on founder exit has focused on the
33 reasons why "others" decide to replace founders from their highly (Ewens & Marx, 2017;
34 Wasserman, 2003) and poorly (Boeker & Wiltbank, 2005; Laitinen, 1992; Wiklund, Baker, &
35 Shepherd, 2010) performing ventures and how founders "close down" their ventures to avoid
36 bankruptcy (DeTienne et al., 2008; Gimeno et al., 1997; Shepherd, Wiklund, & Haynie, 2009).
37 We extend this stream of research by providing new insights into why *founders decide* to exit
38 their high-potential ventures via IPO. Specifically, over and above the potential financial
39 incentives for founders' to exit their firms, we explain the role that power (i.e., low power)
40 plays in this exit decision.
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54 Second, the extant literature has investigated founders' exit strategies (Bruce & Picard,
55 2006; Ryan & Power, 2012) and modes of exit (DeTienne, et al., 2015; Wennberg, Wiklund,
56 DeTienne, & Cardon, 2010) and has explained the likelihood of exit (Cefis & Marsili, 2012;
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3 DeTienne et al., 2008; Gimeno et al., 1997). The often implicit assumption in this stream of
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5 research is that founder exit is “all or nothing”: the founder either exits completely from the
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7 venture—full exit—or continues fully with his or her venture. We extend this current
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9 conversation of founder exit (or not) to highlight founders’ use of managerial and financial
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11 partial exits. We provide insights into the nature of partial exits and distinguish them from full
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13 exits based on the role of founder power.
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17 Third, prior research has highlighted a “coercive” effect of power on exit; CEOs (Allen
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19 & Panian, 1982; Boecker, 1992; Shen & Cannella, 2002) and founder-CEOs in particular
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21 (Wasserman, 2003) can lose power and consequently be forced out. We propose an alternate
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23 role of power—namely, a mechanism that involves the mediating effect of frustration in the
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25 relationship between low power and the founders’ decision to exit. We also reveal how this
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27 frustration mechanism differs for full exits vis-à-vis partial exits. Finally, by doing so, we add
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29 to the entrepreneurship literature on the role of emotions in starting (e.g., passion [Baron, 2008;
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31 Cardon et al., 2005]) and closing a venture (e.g., grief [Shepherd, 2003; Shepherd, Wiklund, &
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33 Haynie, 2009]) by highlighting the role of frustration in founders’ decisions to exit their
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35 ventures.
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40 This paper proceeds as follows: First, we introduce the IPO event, distinguish CEO
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42 dismissal from founder exit, theorize on founder exit based on low power over the venture, and
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44 distinguish full exits from partial exits based on the role of power. Second, we describe the
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46 method for Study 1, which is based on secondary data, and offer the corresponding results.
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48 Third, we detail the method for Study 2, which is based on two experiments, and present the
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50 corresponding results. Finally, we conclude with a discussion of the implications of the current
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52 study for the exit literature.
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55 **THEORY AND HYPOTHESIS DEVELOPMENT**

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57 The literature on the IPO phenomenon has largely focused on explaining the success of
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59 a venture’s IPO based on, for example, the involvement of venture capitalists (Brav & Gompers,
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3 1997; Gompers, 1996), the reputation of underwriters (Carter & Manaster, 1990; Ellis,
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6 Michaely, & O'hara, 2000), the composition of the board of directors (Certo, 2003; Filatotchev
7
8 & Bishop, 2002; Kroll, Walters, & Le, 2007), and the replacement of the founder as CEO in
9
10 preparation for the IPO (Jain & Tabak, 2008; Pollock, Fund, & Baker, 2009). Of particular
11
12 interest to our study, replacing the founder CEO in preparation for an IPO appears to be a
13
14 strategic decision forced on the founder by powerful investors who lack confidence in the
15
16 founder's ability to continue to manage and grow the company (Jain & Tabak, 2008;
17
18 Wasserman, 2003 and 2008).

21 **IPO Context and CEO Dismissal**

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23 As mentioned earlier, IPOs are shrouded in uncertainty, negotiation, and political
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25 turmoil (Certo et al., 2001; Krigman et al., 1999; Pollock et al., 2008), creating a context that
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27 invites the use of power (Finkelstein, 1992; Mintzberg, 1983). Indeed, considerations of power
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29 were prominent in our exploratory interviews, specifically regarding exit. For example, one
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31 founder noted the following:
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35 Losing power and influence over the business is the fear that entrepreneurs have: they
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37 believe in their own decision making, rightly or wrongly, and therefore, when they lose
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39 that ability for their decision making to affect their wealth, then they would rather pack
40
41 their bags and make their own decisions somewhere else.

42
43 In the context of top management, power refers to an actor's capacity to exert his or her
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45 will on organizational decisions and actions (Finkelstein, 1992; French & Raven, 1959;
46
47 Hickson, Hinings, Lee, Schneck, & Pennings, 1971).¹ For instance, top managers' power has
48
49 been shown to influence strategic decisions, organizational processes, and performance
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53 ¹ In this study, we conceptualize power as an individual attribute rather than a relational concept (Fleming &
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55 Spicer, 2014). Thus, power is based on the focal actor's attributes (e.g., structural role, expertise, ownership, and
56
57 prestige), which reflect the actor's perceived capacity to exert his or her will (Finkelstein, 1992), rather than
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59 power as the obverse of relational dependence in a bilateral relationship (Emerson, 1962). Therefore, our
60
conceptualization is individual and subjective rather than dyadic and objective. We adopt this conceptualization
of power because it is suitable for explaining individual-level decisions (e.g., founder exit decisions), which are
affected by perceptions of power, consistent with research on CEOs and corporate governance (Cannella &
Shen, 2001; Krause, Priem, & Love, 2015; Krause, Filatotchev, & Bruton, 2016; Ocasio, 1994; Zazac &
Westphal, 1996).

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3 outcomes (Child, 1972; Eisenhardt & Bourgeois, 1988; Finkelstein, 1992; Finkelstein &
4 Hambrick, 1996; Nakauchi & Wiersema, 2015). Power derives from a manager's formal
5 position in the hierarchy (what is called structural power), but there are also other sources of
6 power, such as power from ownership, expertise, and prestige (Finkelstein, 1992). The
7 literature has informed us that even CEOs who have, by definition, high structural power are
8 more likely to be dismissed from their ventures when they lack other forms of power to
9 influence decisions (Allen & Panian, 1982; Boeker, 1992; Ocasio, 1994; Weisbach, 1988).

19 In the context of an IPO, since it creates a liquid market for a venture's stock, it
20 creates an opportunity for founders to voluntarily exit their ventures (Poulsen & Stegemoller,
21 2008; Wennberg & DeTienne, 2014). Founder exit from a venture via IPO is distinct from the
22 phenomenon of CEO dismissal for a number of reasons. First, CEO dismissal is an
23 involuntary exit from a role (Boeker & Karichalil, 2002), whereas founder exit via IPO is
24 typically a voluntary decision. Since nobody can "force" founders to sell their shares, full
25 exits and financial partial exits of founders are, by definition, voluntary acts. Managerial
26 partial exits also happen by choice, on most occasions. While, in theory at least, a founder
27 can be fully forced out of management, there is evidence that the majority of "replaced"
28 founder-CEOs remain in their companies in different managerial roles (Rubenson & Gupta,
29 1992; Wasserman, 2003). Our exploratory interviews indicated that even "replaced" founders
30 who leave their companies, do so after turning down offers to stay in different managerial
31 roles. Indeed, investors prefer founders to remain involved in some managerial capacity even
32 when removed from the helm (Wasserman, 2008). As a founder put it, "investors totally
33 ousting a founder from the venture at IPO—not just from the CEO role—is such drastic
34 action, sending the wrong market signals, and is, therefore, a rare event."

56 Founder exit is also different from CEO dismissal because, compared to hired CEOs,
57 founders are more likely to strongly identify with and have an emotional attachment to the
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3 ventures they created (Dobrev & Barnett 2005; Fischer & Pollock, 2004; Shepherd, 2003).
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5 Finally, the impact of power on CEO dismissal has largely been considered from the
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7 perspective of investors exercising power under conditions of poor firm performance (Allen &
8
9 Panian, 1982; Boeker, 1992; Kesner & Sebor, 1994; Shen & Cannella, 2002). Therefore,
10
11 current arguments and findings on power and CEO dismissal are unlikely to be directly
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13 transferable to founder exit via IPO, to which we now turn.
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15

16 17 **Founder Power and Full Venture Exit via IPO**

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19 At the time of IPO, individual founders may have already given up some (or most)
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21 control over their ventures' strategic decision making (Beckman & Burton, 2008; Nelson,
22
23 2003); however, founders can still influence the direction of their ventures via soft power. Soft
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25 power is based on "subtle influence mechanisms that cause others to willingly behave in ways
26
27 that benefit the focal agent," which is distinct from hard power, which is based on "coercion,
28
29 direct rewards, and extensive resource deployment to force others' behaviors" (Santos &
30
31 Eisenhardt, 2009: 663; Nye, 2004). The following statement from an interview with a founder
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33 indicates the influence exerted by soft power:
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37 My soft power comes largely from alignment, and that is in two ways: the first way,
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39 internally, the internal team works well with me. . . . The more important one has to do
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41 with the external stakeholders. So, in order to replace me, they would need to find
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43 someone that could command the same alignment. . . . Since that is not easy, I remain
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45 influential, and people listen to what I have to say.

46
47 However, not all founders can maintain this sort of soft power. When founders lack
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49 power, they likely become *frustrated* by their inability to exercise their will over their ventures
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51 (that they [co]created), which may ultimately influence their exit decisions. Frustration is a
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53 negative emotional state caused by "interference with goal attainment or goal-oriented activity"
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55 (Spector, 1978: 816). In simple terms, frustration occurs when something or someone blocks
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57 one's efforts toward a desired goal (Fox & Spector, 1999). For example, Buchholtz, Amason,
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59 and Rutherford (2005) found that when the top management team is not given sufficient
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discretion to make strategic decisions (i.e., they have low power), they become frustrated.

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3 Similarly, Buono, Bowditch, and Lewis (1985) found that managers of acquired firms often
4 lose power and feel frustrated as a result. Indeed, it appears that low power has the potential to
5 transform an individual's psychology (Keltner, Gruenfeld, & Anderson, 2003)—that is, to
6 change the lens by which information is interpreted (Anderson & Galinsky, 2006; Fiske, 1993;
7 Galinsky, et al., 2006; Smith & Trope, 2006). For example, individuals with low power
8 perceive negative situations as more threatening than those with high power (Keltner et al.,
9 2003) because they perceive a lack of control to rectify such situations (Fast, et al., 2009;
10 Spector & Fox, 2002; White & Ruh, 1973).
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21 In our context, low-power founders are likely to experience frustration at IPO because
22 IPOs often involve transformational changes in ventures (Fischer & Pollock, 2004). This
23 frustration is likely to be especially high when founders lack the power to respond to such
24 changes (Daily & Johnson, 1997; Eisenhardt & Bourgeois, 1988) and when the changes affect
25 objects they feel strong ownership over (Bartunek, 1993). The following quote from a founder
26 reflects the relationship between low power (i.e., blocked influence) and frustration well:
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35 You get the chairman and other people in the board to say “Right, this is what we want
36 to do now,” and the business becomes different from what you first intended. For me,
37 it was more the case of going down a particular route for the product. But I felt that the
38 rest of the board was more interested in raising more money, bringing the product to
39 market. . . . When you lose the liberty to drive something the biggest feeling you
40 experience is actually frustration. Frustration!
41
42

43 Frustration, such as that experienced from low power, leads to three possible behavioral
44 reactions in the organizational context (Maier, 1949; Spector, 1978). First, a somewhat
45 common reaction to mild frustration is to find an alternative path to achieve one's original goal
46 (Fox & Spector, 1999; Spector, 1978). Second, frustration can lead to aggression toward those
47 obstructing the path to the actor's goal (e.g., Dollard et al., 1939; Storms & Spector, 1987).
48 The third possible response to frustration is withdrawal from the situation (e.g., disengagement
49 [Rothmann & Hamukang'andu, 2013], intention to quit [Spector & Michaels, 1986], and
50 turnover [Marrow, 1972; O'Connor et al., 1984]). Withdrawal usually happens under
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3 conditions of high frustration, especially when other courses of action are inhibited and
4 aggression is punished (Lazar et al., 2006; Spector, 1978; Storms & Spector, 1987). Indeed,
5 because those low in power perceive change (e.g., changes from going public [Fischer &
6 Pollock, 2004; Williams, 2013]) as threatening (Cortina & Magley, 2009; Keltner et al., 2003),
7 they are likely to withdraw from the situation altogether (Fugate, Prussia, & Kinicki, 2012;
8 McCrae, 1984). Therefore, founders frustrated from low power may decide to have nothing to
9 do with their firms and may thus fully exit via IPO. As one founder put it,

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19 I left fully! I found that being on the stock market was an incredibly horrible experience.
20 I wanted to leave because I thought the board was making bad decisions, and I had no
21 confidence in my business partners, and there is no way I would have kept equity in
22 something I had no control over and did not think it was running in ways in which I
23 wished to run it. For me, there was only one option: take my money and go. I did not
24 want to be involved in management after leaving. I did not want anything to do with
25 the people on the board after I left.
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28
29 Based on the above, we propose that founders' lack of power can lead to frustration and
30 withdrawal from their ventures—namely, full exit. We offer two hypotheses regarding full
31 exits—one about the direct relationship between power and full exit and the other on the
32 mediating role of frustration:
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38 *Hypothesis 1. The lower a founder's power at IPO, the more likely he or she will fully*
39 *exit from the venture via IPO vis-à-vis maintaining involvement in the venture.*

40
41 *Hypothesis 2. Frustration mediates the relationship between a founder's power at IPO*
42 *and his or her likelihood of fully exiting via IPO vis-à-vis maintaining involvement in*
43 *the venture. That is, a founder's power at IPO is negatively related to frustration, and*
44 *frustration is positively related to full exit.*
45

46 **Founder Power and Partial Venture Exit via IPO**

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48 As we mentioned earlier, full exit or full continuation are not the only choices open to
49 founders via IPO; some founders may decide to partially exit their ventures. Specifically, a
50 founder can resign from his or her managerial position but keep ownership shares in the
51 venture (i.e., a managerial partial exit) or can sell his or her ownership shares in the
52 venture but retain a managerial role (i.e., a financial partial exit). While lack of power could still lead
53 to a partial exit, we theorize that a founder's lack of power is more influential in full exits
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3 than in partial exits. Specifically, lack of power has a strong impact on complete withdrawal
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5 (Lazar et al., 2006; Marrow, 1972; O'Connor et al., 1984; Spector, 1978; Storms & Spector,
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7 1987)—in this case, full exit—because powerful actors obstruct the individual from pursuing
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9 and achieving desired outcomes, which causes frustration and, consequently, withdrawal
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11 (Fast, et al., 2009; Spector & Fox, 2002; White & Ruh, 1973). Compared to a full exit, a
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13 partial exit represents a finer-grained course of action that founders can engage in for
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15 multiple purposes unrelated to low power. Moreover, partial exits are not well suited for
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17 dealing with frustration from low power because frustration tends to spill over into other
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19 domains. We elaborate below.
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24 A partial exit provides a mechanism for founders to realign their evolved roles in their
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26 ventures with their desired goals, which may be unrelated to frustration from low power.
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28 Specifically, ventures can evolve (Boeker & Wiltbank, 2005; Fisher, Kotha, & Lahiri, 2016),
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30 and so too can founders' goals (Collewaert, et al., 2016; Levesque, Shepherd, & Douglas,
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32 2002). A partial exit can help founders realign their evolved managerial roles in their
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34 ventures with their desired managerial goals. Indeed, one founder told us, "I am a serial
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36 entrepreneur, and it is natural for me to start something new after the IPO. I love this
37
38 business, but my work is done here." Another founder told us the following: "I was kind of
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40 tired of running the business, and I wanted to have more time off for other things in my life
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42 (my family, my music, etc.). On the other hand, I knew that the company could grow more.
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44 Why sell?" Such a desired change in lifestyle has little to do with frustration from low power
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46 and can be addressed through a managerial partial exit.
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51 Founders can also choose financial partial exits to reflect the evolution of their
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53 ventures and changes in their personal goals. For example, after IPO, a venture may no
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55 longer need its founder's investment to grow further (e.g., Black & Gilson, 1998; Certo et al.,
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57 2001), and/or with increased wealth from venture success, a founder may become more risk
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averse (consistent with prospect theory [Tversky & Kahneman, 1981]) such that he or she financially exits the venture to re-invest this personal wealth in a more diverse set of assets. As explained by a founder who used a financial partial exit, “I enjoyed my role in the company; running R&D is an exciting and influential job. I just found a good chance to cash out my shares. There were no hard feelings when I sold.” Therefore, while full exits can arise from founders’ frustration due to lack of power over their ventures, partial exits represent a more nuanced approach by founders attempting to realign either their managerial or financial roles to the current circumstances regardless of their level of power over their ventures.

Furthermore, as power in a role decreases, frustration with that role likely increases. These feelings of frustration can spill over into the individual’s other roles, which makes a partial exit less effective for dealing with the low-power situation. Spillover in the organizational context highlights how an individual’s perceptions, emotions, and behaviors generated by an event in one domain influence his or her perceptions, emotions, and behaviors in another domain (Judge & Illies, 2004; Kahn, et al., 1964; Rantanen, et al., 2008). For example, frustrations at work can spill over into the home, and frustrations at home can spill over into work (Bolger, et al., 1989; Judge et al., 2006). Indeed, Takeuchi, Yun, and Tesluk (2002) found that expatriates specific issues related to living conditions developed into a generalized frustration with the host country investigated, which in turn reduced their overall job satisfaction. In turn, job dissatisfaction among expatriates has been associated with withdrawal intentions, such as prematurely terminating assignments and returning home early (Parker & McEvoy, 1993; Shaffer & Harrison, 1998). Therefore, it appears that frustration in one domain at work can spill over to influence a “global attitude toward the organization”—that is, a belief that there is an unbalanced social exchange with the organization (Neves, 2012: 966). For example, an employee’s negative global attitude about the organization may spill over to that employee’s negative attitude about his or her

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3 supervisor (Stinglhamber & Vandenberghe, 2003; Vandenberghe, Bentein & Stinglhamber,
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5 2004). Similarly, an employee's negative emotions at work, such as frustration, can reduce
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7 his or her affective commitment to the organization (Ng, Feldman & Lam, 2010)—namely,
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9 reduce his or her identification with the organization (O'Reilly & Chatman, 1986) such that
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11 he or she is less willing to “give energy and loyalty to the organization” (Kanter, 1968: 499).
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13 This reduced affective commitment can lead to withdrawal in the form of absenteeism and
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15 turnover (Somers, 1995).
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19 In our context, as the founder loses power and feels greater frustration in one domain
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21 (e.g., the founder's managerial role), that frustration is likely to spill over into other domains
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23 (e.g., the founder's ownership role). In such an instance of “spilled-over” frustration, a partial
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25 exit (e.g., a managerial partial exit) is less likely to address the founder's negative global
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27 attitude toward the venture, and as a result, the founder is more likely to turn to a full exit. In
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29 other words, a partial exit is less effective for dealing with founders' frustration from low
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31 power than a full exit.
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35 Based on the above two lines of reasoning that (1) founders sometimes use partial
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37 exits for purposes unrelated to power and (2) founders' partial exits are not well suited for
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39 dealing with frustration from low power, we offer the following:
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43 *Hypothesis 3. A founder's power at IPO has a weaker association with his or her*
44
45 *likelihood of a partial exit (managerial and financial) than a full exit from the venture*
via IPO.

46 47 **METHODS**

48 49 **Overview**

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51 To test the relationship between founder power and exit via IPO, we used a mixed-
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53 methods approach (Edmondson & McManus, 2007; Molina-Azorin, 2012). Specifically, we
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55 conducted two complementary studies: (1) an observational study with archival data from the
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57 London Stock Exchange (LSE) to test the main effects in a large sample and (2) a lab study
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59 consisting of two randomized experiments with entrepreneurial decision makers to establish
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3 causality, control for alternative explanations, and observe the mechanism for the effects
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5 (mediation). We begin with Study 1.
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7 8 **STUDY 1**

9 10 **Data and Sample**

11 We started with an initial sample of all UK companies that listed on the main market
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13 of the LSE and the sub-market of the LSE (AIM) for smaller growing companies between 2002
14
15 and 2010, resulting in a total of 2,180 firms. Consistent with the work by Filatotchev and
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17 Bishop (2002), we excluded firms falling into the following categories: (1) cases of re-
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19 admission and those transferred from the AIM to the main market (917 firms) because these
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21 firms were not listed for the first time; (2) investment trust IPOs (462 firms) because these
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23 organizations have unique governance characteristics that make it difficult to identify the
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25 founders (Chahine, Filatotchev, & Wright, 2007); (3) IPOs representing de-mergers, equity
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27 carve-outs, reverse takeovers, or equity re-organizations (45 firms) because these do not
28
29 represent entrepreneurial ventures; (4) investment and acquisition vehicles (233 firms) since
30
31 the founders are typically no longer involved with these ventures; and (5) firms incorporated
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33 more than 10 years before IPO (234 firms) because we focus on entrepreneurial exits, so we
34
35 wanted to ensure the firms in our sample were still in the entrepreneurial phase of their life
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37 cycle (also consistent with Carpenter, Pollock, & Leary, 2003; Eisenhardt & Schoonhoven,
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39 1990; Talaulicar, Grundei, & Werder, 2005). Using company prospectuses, we also identified
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41 and eliminated firms that were subsidiaries (32 firms) and spinoffs (20 firms) as well as firms
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43 for which it was not possible to identify the founders (60 firms) (Jain & Kini, 1999; Kroll,
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45 Walters, & Le, 2007). This selection process resulted in a final sample of 313 founders nested
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47 in 177 entrepreneurial firms at risk of full or partial exit at the time of IPO.
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55 56 **Dependent Variables**

57 We aimed to predict these founders' exits from the listed companies within 24 months
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59 after their lock-up period. Lock-ups are contractual agreements between existing shareholders
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3 and underwriters stating that the shareholders will not sell their shares for a specified period.
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5 Lock-up agreements in the United Kingdom vary between 6 and 24 months (Espenlaub,
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7 Goergen, & Khurshed, 2001). We chose 24 months after the end of the lock-up period as a
8
9 cutoff point because founders can realistically sell all their shares during this time. A longer
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11 period would make any exit distal from the IPO, which is our focal anchor event, and a shorter
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13 period could be problematic since insiders can sell their shares only to the underwriter during
14
15 the first 12 months after the lock-up period.
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19 As we discussed above, founders can exit their ventures in full or in part—managerially
20
21 or financially. We operationalize a *full exit* as when a founder leaves the top management team
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23 and the board of directors and holds less than 3% ownership of the firm 24 months after the
24
25 lock-up period. We used a 3% shareholding cutoff because below 3% is considered negligible
26
27 by the investment community and is not reported in annual reports. We operationalize a
28
29 *managerial partial exit* as when a founder leaves the top management team and the board of
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31 directors but still holds 3%, or more, ownership in the venture 24 months after the lock-up
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33 period. We operationalize a *financial partial exit* as when a founder sells all his or her shares
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35 but remains in the top management team and on the board of directors (as presented in the
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37 annual report) 24 months after the lock-up period.
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41 42 **Independent Variables**

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44 Finkelstein (1992) built upon earlier work on individual power (French & Raven, 1959)
45
46 to offer four dimensions of managerial power: structural, ownership, expert, and prestige power
47
48 (see also Bach & Smith, 2007). Following Finkelstein (1992), we set the independent variables
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50 to be proxies for the four different dimensions of power held by founders at the time of IPO.
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52 We used the ventures' IPO prospectuses to collect most of the information for coding, to which
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54 we now turn.
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58 *Structural power* refers to power based on formal organizational structures and
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60 hierarchical authority (Brass, 1984; Hambrick, 1981). In the context of ventures going for IPOs,

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3 founders who have the role of CEO *or* board chair have the opportunity to steer their companies
4 toward their visions, so they have high structural power (Finkelstein, 1992). The CEO is the
5 top executive responsible for the venture's strategy and direction (Boeker & Karichalil, 2002).
6
7 Similarly, the chair of the board can influence the board of directors, which is the venture's
8 ultimate decision-making body (Harrison, Torres, & Kukalis, 1988). Consistent with
9 Wasserman (2017), we combined executive and board influence into a categorical variable to
10 capture structural power; 0 represents founders who were neither CEO nor chairperson, 1
11 represents founders who were CEO *or* chair of the board at IPO but did not hold both roles
12 together, and 2 represents founder-CEOs who also chaired the board.²

23
24 *Ownership power* derives from actors' proportional shareholding (Finkelstein, 1992).
25 Ownership helps founders safeguard their influence in public companies; founders with
26 relatively large shareholdings have more influence on their boards and can influence important
27 decisions (Finkelstein, 1992). Therefore, we operationalized ownership power as a founder's
28 ownership *relative* to the ownership of the largest shareholder at IPO (consistent with Attig,
29 Ghoul, & Guedhami, 2009). We derived this information from the firms' IPO prospectuses
30 (typically in the "Directors' and other interests" or "Significant shareholdings" sub-sections).

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40 *Expertise power* arises from founders' ability to deal with environmental contingencies
41 and contribute to the success of their firms (Crozier, 1964; Hambrick, 1981; Hickson et al.,
42 1971; Mintzberg, 1983; Tushman & Romanelli, 1983). Expert founders feel more powerful
43 (than those with less expertise) because they possess the ability to manage their "grown-up"
44 ventures in the new post-IPO environment (Fischer & Pollock, 2004). For example, if a founder
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54 ² As a robustness check, we tried two alternative four-category measures to capture structural power. (1) We
55 coded founders who were neither CEO nor chairperson as 0, founders who were chairperson of the board as 1,
56 founders who were CEO as 2, and founder-CEOs who were also the chair of their board as 3. This measure
57 assumes that the CEO has more structural power than the chairperson. (2) We coded founders who were neither
58 CEO nor chairperson as 0, founders who were CEO as 1, founders who were the chairperson as 2, and founder-
59 CEOs who were also the chair of their board as 3. This measure assumes that the chairperson has more
60 structural power than the CEO. The regression results for both these alternative measures of structural power
were consistent with the reported main results for the three-category measure.

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3 is the inventor or main developer of the primary product, he or she will enjoy special technical
4 status in the company (Ibarra, 1993). Therefore, as the first proxy of expertise power, we
5 measured whether the focal founder was *the inventor or the main developer* of his or her
6 venture's product (dummy coded 1 and 0 otherwise). Again, we found the relevant information
7 in the IPO prospectuses (typically in the introduction, the section on R&D, or the founder's
8 resume). Industry experience is another characteristic linked to expert power (Datta, Guthrie,
9 & Rajagopalan, 2002; Haynes & Hillman, 2010). A founder with more industry-specific
10 experience generally has better networks, is better equipped to steer the company through
11 difficulties, and is more highly regarded by investors (Bach & Smith, 2007; Cooper, Gimeno-
12 Gascon, & Woo, 1994; Goodall & Pogrebna, 2015; Pennings, Lee, & Witteloostuijn, 1998).
13 Therefore, we included relevant *industry experience* as another proxy of expertise power,
14 measured as the number of years the founder worked in an industry related to the focal IPO
15 firm before founding his or her firm (Kotha, & George, 2012). We captured founders'
16 experience using the resumes reported in the IPO prospectuses, which we corroborated using
17 information from company websites and social media (e.g., LinkedIn). We considered a
18 founder's experience to be relevant if he or she gained that experience in the same Industry
19 Classification Benchmark super sector as the focal IPO venture (19 super sectors in total).

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42 *Prestige power* derives from people's status, which influences others' perceptions of
43 their importance (Dalton, Barnes, & Zaleznik, 1968; Finkelstein, 1992). Prestige enhances
44 founders' credibility and makes them legitimate leaders of their companies (D'Aveni, 1990).
45 Furthermore, high-prestige founders can improve their firms' market status (Chahine, et al.,
46 2011) and therefore perceive themselves as more powerful (Finkelstein, 1992). Founders can
47 enhance their prestige power by participating in other firms' boards of directors (Daily &
48 Johnson, 1997), which signals that they belong to a managerial elite and offers access to
49 contacts and valuable information (D'Aveni & Kesner, 1993; Tushman & Romanelli, 1983).
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3 Another way for entrepreneurs to acquire prestige power is to gain popularity through the
4 media (Porter & Sallot, 2005), thus becoming figureheads for their firms (Trevino et al., 1990).
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6 Therefore, we captured a founder's prestige power using two proxies: *number of directorships*
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8 in other firms during the five years before the IPO (consistent with Finkle, 1998; Higgins &
9
10 Gulati, 2003) and *media coverage* (Nguyen, 2015). We selected a five-year window for the
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12 number of directorships because this figure is reported in IPO prospectuses and is visible to
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14 investment audiences and because prestige from a directorship is not ephemeral (compared to
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16 the number of current directorships) but has a lasting impact. We calculated media coverage as
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18 the number of news items mentioning a founder together with his or her company from
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20 company founding until the IPO. We obtained news data from the Nexis UK database, which
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22 includes coverage in national and regional newspapers. In line with prior literature (Kotha,
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24 Rajgopal, & Rindova, 2001; Milbourn, 2003), we randomly inspected approximately 10% of
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26 the total pieces of media and found that the coverage was overwhelmingly positive. We
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28 concluded that the extent of potential negative coverage was negligible, and in any case, the
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30 total media coverage, both positive and negative, increases attention and is positively related
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32 to personal reputation (Castellucci & Ertug, 2010; Kotha, Rajgopal, & Rindova, 2001;
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34 Milbourn, 2003). Therefore, we considered total media coverage as a good proxy of founders'
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36 prestige power.
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44 **Control Variables**

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46 To rule out alternative explanations for founders' exit decisions, we included several
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48 control variables. At the individual level, *founder's age* can be a determinant of exit. Compared
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50 to younger founders, older founders are closer to retirement, which might increase their
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52 likelihood of exit. Since feelings of attachment to the company may differ between men and
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54 women (Rosenstein & Horowitz, 1996), we also controlled for founders' gender, coding female
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56 1 and male 0. Also, compared to other types of founders, serial entrepreneurs are usually more
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58 passionate about the initial founding process and are familiar with selling their firms (Cardon,
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3 Wincent, Singh, & Drnovsek, 2009). We dummy coded *serial entrepreneurs* (founders who
4 had exited from earlier companies) as 1 and 0 otherwise. Finally, other founders' power may
5 decrease the focal founder's likelihood of exit if the team is united or increase the focal
6 founder's likelihood of exit if the team is divided (Hellerstedt & Aldrich, 2008). To take into
7 account these possibilities, we controlled for the share of *ownership of other founders* as well
8 as *the percentage of board seats occupied by other founders* at IPO. For example, in a firm
9 with two founders who are both members of a board with five seats, the 'percentage of board
10 seats occupied by other founders' would be 20 (one board seat of the other-cofounder—i.e.,
11 other than the focal founder—over five board seats in total).

12
13 We also used controls at the firm level. As firms mature, founders may become less
14 qualified to manage them, which increases the probability of founder exit (Boeker & Karichalil,
15 2002; Dobrev & Barnett, 2005). Therefore, we controlled for *firm age*, measured as the number
16 of months since incorporation. The amount of money founders could gain through selling their
17 shares could also influence founder exit, so we controlled for the *average market value of the*
18 *firm* between IPO and 24 months after the lock-up period. Because firm growth might induce
19 a founder to stay, we included *annualized turnover growth* in the three years before IPO as a
20 control. Additionally, companies that receive more private financing before IPO often face
21 higher pressure from their institutional investors to replace founders with a professional
22 management team (Hellman & Puri, 2002; Wasserman, 2003). Therefore, we included the
23 proportion of *ownership by institutional investors* as a control variable. Moreover, *board size*
24 might influence founder exit. On the one hand, larger boards include broader expertise, which
25 decreases the impact of individual founders and may thus facilitate exit (Boeker & Karichalil,
26 2002). On the other hand, larger boards with broader expertise could benefit performance,
27 which might encourage founders to continue with their firms. We also controlled for *length of*
28 *lock-up period* in months since it might influence founders' exit decisions.

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3 Finally, we controlled for the influence of the industry and the broader economy.
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5 Compared to traditional sectors, firms in growing and fast-changing industries need to adjust
6
7 their top management teams' capabilities more frequently (Virany, Tushman, & Romanelli,
8
9 1992), which might increase the possibility of founder exit after IPO. We dummy coded firms
10
11 operating in *information technology* (IT) and *biotechnology* as 1 and 0 otherwise since those
12
13 were rapidly growing and changing industries during the period of analysis. We also controlled
14
15 for *hot period* effects regarding IPO volume. We dummy coded firms that went public during
16
17 2004 and 2005 as 1 and 0 otherwise because the IPO volume was considerably higher in those
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19 two years than in the rest of the data period (52% of the total number of IPOs between 2002
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21 and 2010 happened in 2004 or 2005).
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26 **Method of Analysis**

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28 We first employed a binary probit model to test the relationship between founder power
29
30 and full exit after IPO vis-à-vis maintaining involvement with the business (i.e., continuing or
31
32 exiting partially only). We then employed multinomial logit regression to explore the factors
33
34 associated with the type of founder exit. We created a fine-grained categorical dependent
35
36 variable: continuation, full exit, managerial partial exit, and financial partial exit. The
37
38 multinomial logit model compared the estimates for full exit, managerial partial exit, and
39
40 financial partial exit vis-à-vis continuing with the business. In our sample, 75.7% of the
41
42 founders were part of a founding team and therefore shared the same firm-level data with their
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44 co-founders. To ensure valid statistical inferences, we applied a robust clustered standard errors
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46 estimation process to control for possible heteroskedasticity caused by data clustered at the
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48 firm level (Kennedy, 2003).
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53 **Results**

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55 In Table 1, we observe that among the 313 founders, 40.25% of the founders exited
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57 from the business within 24 months after the lock-up period and 59.75% fully continued. Of
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59 the exits, 61.12% of founders exited from the business totally, 25.40% left management but
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3 retained ownership, and 13.49% sold all their shares but continued to work in the company in
4 some managerial role. We present the descriptive statistics and correlations matrix in Table 2.
5
6 The average age of entrepreneurs in our dataset was 46.32 years, and only 6.71% were female.
7
8 The mean ownership held by each founder was 15.62% at the time of IPO, and 40.58% of them
9
10 were the largest shareholders in their firms. Also, 40.89% of founders held the position of CEO
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12 or board chair. Specifically, 92 founders (29.39%) were CEOs but not board chairs, 29 founders
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14 (9.27%) were board chairs but not CEOs, and seven founders (2.24%) held both roles. On
15
16 average, founders had 13.39 years of experience in a related industry before founding their
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18 companies, 29.07% of founders were serial entrepreneurs, 13.74% of founders were the
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20 inventors or main developers of their firms' products; and the founders served on an average
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22 of 7.31 boards (other than the focal company) in the five years before IPO.
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30 Insert Table 1 and then Table 2 about here
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33 In Table 3, we present the descriptive statistics for different exit routes. We observe
34 differences in the mean values of each power dimension between continuation and full exit.
35 These differences, in most cases, are less pronounced between continuation and partial exit
36 (managerial or financial) than between continuation and full exit. We note that 35.29% of
37 founders who continued were CEOs at IPO compared to 22.08% of founders who had a full
38 exit. Founders who continued held 17.93% of ownership at IPO on average compared to 10.53%
39 for founders who had a full exit and 14.76% for founders who had a managerial partial exit.
40 Further, 17.11% of founders who continued were the inventors or main developers of their
41 firms' products compared to 3.90% for founders who had a full exit and 9.38% for founders
42 who had a managerial partial exit. Founders who continued had an average of 14.58 years of
43 experience working in a related industry compared to 10.58 years for founders who had a full
44 exit and 12.12 years for founders who had a financial partial exit. Founders who continued
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3 served on 8.09 boards on average during the five years before IPO, whereas founders who had
4 a full exit served on 5.49 boards during the same period compared to 6.50 boards for founders
5 who had a managerial exit. Finally, founders who continued were reported in the news 15.20
6 times on average compared to 12.00 times for founders who had a full exit.
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14 Insert Table 3 about here
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17 In Tables 4 and 5, we report the regression results. Model 1 in Table 4 includes the
18 control variables, which explain 8.09% of the variance in the dependent variable—founders’
19 full exit (vis-à-vis maintaining involvement). Turnover growth before IPO ($beta = -0.159, p$
20 $=0.027$) and the average market value of the firm ($beta = -0.148, p=0.069$) are the statistically
21 significant control variables, and both have a negative association with founders’ full exit.
22 These findings suggest that pre-IPO growth and high market value of the firm are negatively
23 related to full exit (vis-à-vis maintaining involvement).
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33 The inclusion of the independent variables in Model 2 increases the model’s
34 explanatory power significantly by 13.61% to 21.70% of the variance. The categorical variable
35 for founders’ CEO/board chair status has a marginally significant negative association with full
36 exit ($beta = -0.293, p = 0.071$) and indicates that founders with greater structural power (CEOs
37 and/or board chairs) are less likely to fully exit their ventures via IPO vis-à-vis maintaining
38 involvement. Specifically, a one-unit increase on the structural power scale is associated with
39 a 7.19% decrease in the likelihood of full exit. The relative proportion of the founder’s
40 ownership at IPO has a negative and significant association with full exit ($beta = -0.907, p$
41 $=0.002$). Specifically, all else equal, one standard deviation more relative ownership at IPO is
42 associated with a 8.25% lower probability that the founder will fully exit his or her venture
43 after IPO (vis-à-vis maintaining involvement). Being the inventor or main developer of the
44 product ($beta = -1.402, p < 0.001$) and having more industry-related experience ($beta = -0.028,$
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3 $p = 0.002$) have a negative and significant association with founders' full exit (vis-à-vis
4 maintaining involvement). Specifically, on average, being the main developer/inventor is
5 associated with a 24.33% lower probability of full exit, and an increase of one standard
6 deviation in related industry experience is associated with a 6.83% lower probability of full
7 exit. These results suggest that expert power is related to a lower probability that a founder will
8 fully exit from his or her venture after IPO (vis-à-vis maintaining involvement). The model
9 also shows a negative and significant association between the number of directorships held by
10 a founder in other businesses within five years before IPO and the probability of full exit (β
11 $= -0.026$, $p = 0.012$). Specifically, an increase of one standard deviation in directorships is
12 associated with a 5.92% lower probability of full exit. These findings indicate that prestige
13 power is related to a lower likelihood of full founder exit after IPO.
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28 Overall, these results provide support for Hypothesis 1 that the lower a founder's power
29 at IPO, the more likely he or she will fully exit from the venture via IPO vis-a-vis maintaining
30 involvement with the venture. Specifically, except for the non-significant results for media
31 coverage ($\beta = 0.024$, $p = 0.758$), all the other proxies for structural, ownership, expertise,
32 and prestige power have a significant negative association with founders' full exits from their
33 ventures.
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44 Insert Table 4 about here
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46 We then employed multinomial logit regression, using the categorical outcomes of full
47 exit, managerial partial exit, and financial partial exit as mutually exclusive dependent
48 variables vis-à-vis continuation (see Table 5). First, we observe that the multinomial model
49 confirms the binary regression results for full exit. The power dimensions are negatively and
50 significantly associated with full exit compared to continuation with the venture even in the
51 presence of the partial exit categories, which increases our confidence in the results supporting
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3 Hypothesis 1. Regarding the control variables, we see that founders who were serial
4 entrepreneurs ($\beta = 1.345, p = 0.002$) were 11.66% more likely to have a partial managerial
5 exit than founders who were first-time entrepreneurs. Further, one extra year of founder age at
6 IPO ($\beta = 0.052, p = 0.050$) equates to a 0.30% greater likelihood of partial managerial exit,
7 and female founders ($\beta = 1.320, p = 0.046$) were 16.32% more likely to have a partial
8 managerial exit than their male counterparts. We also find that male founders ($\beta = -12.459,$
9 $p < 0.001$) were 5.79% more likely to have a partial financial exit than female founders and that
10 founders of firms that went public during the hot period ($\beta = 1.916, p = 0.014$) were 7.22%
11 more likely to have a partial financial exit than IPO founders outside the hot period.
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24 The dimensions for founder power generally have limited association with partial exits
25 except for media coverage ($\beta = -1.000$ for news log-transformed, $p = 0.026$): an increase of
26 one standard deviation in media coverage (for news log-transformed) decreases the likelihood
27 of financial partial exit by 5.07%. Instead, partial exits are associated with factors related the
28 founder (e.g., age, gender, and being a serial entrepreneur) and the financial market context
29 (i.e., IPO during the hot period).
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42 Additionally, we measured founder power with an index, calculated by standardizing
43 and adding our six proxy measures of power, and compared the effect size of power on
44 different exit routes (see Tables 6 and 7). For the power-index models, we also included a
45 variable capturing the *average market value of the founders' holding shares*, to control for
46 the financial incentives to exit. The measure is the product of the amount of shares the focal
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3 founder held and the average share price, between the IPO and 24 months after the lock-up
4 period³.
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8 The power index has a significant negative association with full exit vis-à-vis
9 continuation, over and above the effects of financial incentives; a one-standard deviation
10 decrease in the power index increases the likelihood of full exit by 11.05%. Founder power
11 also has a weaker, but still statistically significant, association with partial managerial exit
12 vis-à-vis continuation. A one standard deviation decrease in the power index increases the
13 likelihood of managerial partial exit by (only) 3.85%. Financial partial exit is not
14 significantly explained by founder power.
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24 Interestingly, regarding the financial incentives, we observed a negative relationship
25 between the average value of founders' holding shares and the probability of exit. When the
26 shares appreciate in value, founders might feel more confident in the long-term prospects of
27 their firm, which would reduce their desire to exit. This empirical observation could be
28 explained by research on the 'endowment effect', which shows that by owning an asset, the
29 focal person begins to value that asset more, especially if the asset is expensive, and thus the
30 person is less likely to sell the asset at its market value (Kahneman, Knetsch & Thaler, 1991;
31 Knetsch & Sinden, 1984; Morewedge & Giblin, 2015).
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44 Insert Tables 6, 7 & 8 about here
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47 In Table 8, we report the contrast of margins between full exit and partial exit for all
48 the measures of power, as well as the power index. We find significant differences in the
49 increase of the exit probabilities between full and partial exits when power drops for the
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57 ³ The market value of the founders' holding shares could not be used in the models with separate measures of
58 power because of multicollinearity issues; the measure was, as expected, highly correlated with ownership
59 power (one of the predictors) and with the average market value of the whole business (a control variable).
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3 majority of power measures, including the power index. For example, with a one-standard
4 deviation decrease in the power index, the probability of full exit increases by 7.45% more (p
5 = 0.027) than the probability of managerial partial exit. Additionally, for a one-standard
6 deviation decrease in the power index, the probability of full exit increases by 11.82% more
7 ($p < 0.001$) than the probability of financial partial exit. These differences in the effect size
8 are both meaningful and statistically significant, suggesting that power is generally a stronger
9 predictor of founders' full exits compared to partial exits (managerial or financial). Overall,
10 our results support Hypothesis 3.
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21 **Robustness Checks**

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23 Founder power and the control variables (e.g., firm performance) may change over time
24 after IPO. Thus, to examine the temporal sensitivity of our hypothesized relationships, for each
25 venture, we collected longitudinal data for our variables in six-month intervals from the end of
26 the lock-up period until 24 months later. With the time-varying variables, we conducted a
27 discrete-time hazard model (complementary log-log [cloglog]) (Allison, 1982) and a
28 multinomial logit model to examine whether temporary founder power affects the hazard of
29 imminent founder exit (within the next six months). Because of missing values in the
30 construction of the longitudinal variables, we worked with a slightly smaller sample for these
31 longitudinal analyses than the analyses reported above. Specifically, 303 founders were at risk
32 of full exit at the end of the lock-up period (1,092 observations for the cloglog regression
33 analysis). We then excluded 22 of these 303 founders who had already exited managerially by
34 the end of the lock up period, so 281 founders were at risk of all types of exits (including
35 managerial partial exit) for the multiple exit route estimation model (1,049 observations).
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53 In general, the results of the longitudinal analyses provide additional support for our
54 hypotheses (see Tables 9 and 10). Founders' time-varying structural, ownership, expert, and
55 prestige power measured as directorships in other business are all negatively associated with
56 the hazard of full exit in the next six-month period. Further, media coverage of the founder has
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3 limited impact on full exit vis-à-vis maintaining involvement, which is consistent with the
4
5 cross-sectional results.
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8 Regarding partial exit, we do not observe a significant relationship between founders'
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10 temporary power and the hazard of an imminent partial exit, with two exceptions. First, there
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12 is a negative and significant association between founders' relative ownership and their hazard
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14 of partial financial exit. However, this result may be due to the difficulty of selling a large
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16 number of shares within a short period (Mikkelson & Partch, 1985). In other words, the effect
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18 could be attributed to the way the model was structured (the amount of ownership at time t
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20 could be negatively related to the probability of selling all shares within the next six months)
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22 and thus may not necessarily be a power-related effect.⁴ Second, structural power is negatively
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24 associated with managerial partial exit during the following six months. Moreover, the
25
26 longitudinal analyses show that partial exits are associated with founders' gender and
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28 experience as a serial entrepreneur as well as with the time of the IPO (hot period) in ways
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30 consistent with our cross-sectional results. To check the stability of our results, we also carried
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32 out a number of robustness checks with different specifications and measurements. Specifically,
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34 we ran models with the exit deadline set at 12 and 18 months after the lock-up period instead
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36 of 24 months; we ran models with founder power measured at the end of the lock-up period
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38 instead of at the time of IPO. The pattern of results in these additional analyses is consistent
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40 with the initial results, providing additional support for our findings.
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48 Insert Table 9 & 10 about here
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51 **STUDY 2**

52 Despite its empirical strength, Study 1 has some inherent methodological limitations:
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58 ⁴ We note that this was the key drawback of the longitudinal models with time spells, which is why the role of
59 these analyses in our study was to complement and reinforce—rather than replace—our main cross-sectional
60 models with a 24-month cut-off point for exit via IPO.

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3 we could not (1) control for all possible alternative explanations as we lack personal data for
4 the founders that could affect their exit decisions (e.g., state of health and marriage status), (2)
5 empirically establish the direction of causality, (3) exclude the possibility that managerial
6 partial exits were involuntary, and (4) capture the underlying mechanism for the power-exit
7 relationships (thus, we cannot support or reject Hypothesis 2). To tackle the above limitations,
8 we complement the archival data of Study 1 with two laboratory experiments in which we
9 randomly assigned participants to conditions of high versus low power at IPO. This method
10 using scenario-based experiments is known as the “factorial survey approach” (Rossi &
11 Anderson, 1982), to which we now turn.

23 24 **First Experiment**

25
26 The first experiment was designed to test the causality of the relationship between
27 founder power and both full and partial exits after IPO. To increase ecological validity, we
28 recruited 181 participants directly involved in the entrepreneurial ecosystem in London—
29 namely, nascent entrepreneurs (75), active entrepreneurs (64), exited entrepreneurs (13), and
30 entrepreneurship mentors (29). We recruited participants from formal programs dedicated to
31 creating and growing start-ups (e.g., incubators and accelerators). Most of the participants were
32 male (61.33%), the mean age was 29.13 years (S.D. = 7.09), and 42.54% of the participants
33 had entrepreneurship experience (i.e., had started at least one venture). To avoid leading
34 participants to conclusions, we did not brief them about the study’s purpose; we simply
35 explained to them that because of their interest in entrepreneurship, they were selected to
36 participate in a brief experiment.

37
38 We randomly assigned participants to one of two conditions: high or low power at the
39 time of IPO. We presented participants with a scenario (vignette) that portrayed them as a co-
40 founder of a venture that had just achieved an IPO and then described their respective
41 conditions regarding power. We merged the power dimensions into a single description (the
42 equivalent of a power index) to create the two alternative conditions (see Table 11). There is
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3 no significant difference in participants' gender, age, or prior entrepreneurial experience across
4 the two conditions, which indicates that the random allocation of subjects to the two conditions
5 worked well. After reading the scenario, participants indicated the likelihood that they would
6 exit the described firm with a full exit, a managerial partial exit, and a financial partial exit
7 using a seven-point scale (1 = very low likelihood to 7 = very high likelihood). We note that in
8 the design of the experiment, we did not provide information about financial gains. We wanted
9 participants to focus on the information we presented them about their power position, keeping
10 financial gains (and other alternative predictors of exit) 'out of the picture'. Even if participants
11 thought about potential financial gains, and/or differed in their perceptions of how much money
12 they could make by exiting, this would unlikely influence the results because we randomly
13 assigned participants to either the treatment or the control group. Indeed, random assignment
14 is one of the key advantages of an experimental design, in which the researcher can focus on
15 the treatment effect without other systematic differences between the two groups.”

16
17 To test Hypotheses 1 and 3, we compared the means for the likelihood of exit for the
18 different exit options across the two power conditions using t-statistics (see Table 11). The
19 results show that founder power at IPO significantly and negatively affects the likelihood of
20 full exit (*mean difference = 1.806, p < 0.001, Cohen's d effect size = 1.088*). The effect of
21 founder power at IPO on managerial partial exit is also negative and significant (*mean*
22 *difference = 0.929, p = 0.001, Cohen's d effect size = 0.519*) but significantly weaker (*by*
23 *52.30%, p < 0.001*) than the effect of power on full exit. Finally, founder power does not
24 significantly affect partial financial exit (*mean difference = -0.228, p = 0.315, Cohen's d*
25 *effect size = -0.150*) and is significantly weaker (*by 113.79%, p < 0.001*) than the effect of
26 power on full exit. The pattern of results in the experiment is consistent with the pattern of
27 results from the secondary data.

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Insert Table 11 about here

Second Experiment

The second experiment replicated the design of the first experiment but had the additional aim to test whether frustration mediated the relationship between power and full exit. We measured frustration with a seven-item scale selected from Spector's (1975) item list for organizational frustration. We selected items that had face validity for the current context of founders at the time of IPO: "I would find that every time I try to do something at work I run into obstacles," "I would feel thwarted in my efforts to be creative," "I would feel that I am accomplishing something worthwhile at work" (reverse coded), "I would enjoy my work" (reverse coded), "I would feel trapped in the work," "I would feel my work is not at all fulfilling," and "I would feel frustrated at work." We collected responses on a six-point scale (-3 = disagree completely to +3 = agree completely). We find the scale to be reliable with a Cronbach's alpha of 0.86. After reading the scenario of high or low power (the scenarios remained the same as in the first experiment), participants were asked to report on how they would feel about the situation using the above frustration scale. Subsequently, they indicated the likelihood that they would exit the described firm with a full exit, a managerial partial exit, and a financial partial exit using the same scales as in the previous experiment.

We recruited 190 participants enrolled in an MBA program at a London-based business school. The participants were managers taking a concentration course in entrepreneurship and were aspiring, nascent, or active entrepreneurs. Of the participants, 15.79% had previously set up at least one business, 63.16% were male, and the mean age was 30.86 years (S.D. = 7.34). We randomly assigned participants to one of the two power conditions. As shown in Table 12, there is no significant difference in participants' gender, age, or entrepreneurial experience across the two conditions. We first used t-tests to test the relationship between power and frustration as well as the likelihood of different exit routes (see Table 12). The results show

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3 that founder power has a significant and negative impact on the likelihood of full exit (*mean*
4 *difference* = 1.562, $p < 0.001$, *Cohen's d effect size* = 0.945) and a significant and negative
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6 *difference* = 1.562, $p < 0.001$, *Cohen's d effect size* = 0.945) and a significant and negative
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8 impact on the likelihood of managerial partial exit (*mean difference* = 1.083, $p < 0.001$,
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10 *Cohen's d effect size* = 0.585). The effect of founder power on managerial partial exit is
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12 significantly weaker (*by 38.10%*, $p = 0.015$) than the effect of power on full exit. Power has
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14 no significant impact on the likelihood of financial partial exit (*mean difference* = -0.001, $p =$
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16 *0.995*, *Cohen's d effect size* = -0.001), which is significantly weaker (*by 100.11%*, $p < 0.001$)
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18 than the effect of power on full exit. These results are consistent with the first experiment and
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20 with the regression analysis.
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24 Furthermore, participants in the low-power condition at IPO reported significantly
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26 greater frustration than those in the high-power condition (*mean difference* = 1.827, $p < 0.001$,
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28 *Cohen's d effect size* = 1.680). In the bivariate correlation analysis presented in Table 13, we
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30 observe that frustration is significant and positively associated with full exit ($r = 0.49$,
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32 $p < 0.001$) and managerial partial exit ($r = 0.21$, $p = 0.003$) but is not significantly associated
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34 with financial partial exit ($r = 0.01$, $p = 0.842$).
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39 Insert Tables 12 and 13 about here
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42 We used regression analysis to test the mediation effect of frustration on the
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44 relationship between power and full exit following the three-step procedure outlined by Baron
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46 and Kenny (1986). As shown in Table 14 and consistent with previous t-tests, the low-power
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48 condition has a significant positive association with the likelihood of full exit ($\beta = 1.625$, p
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50 < 0.001) and frustration ($\beta = 1.846$, $p < 0.001$). In addition, when frustration is included in
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52 the full exit model, it has a significant and positive association with the likelihood of full exit
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54 ($\beta = 0.462$, $p < 0.001$), whereas the effect of power on the likelihood of full exit is reduced
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56 ($\beta = 0.773$, $p = 0.028$), which indicates partial mediation. We also applied a bootstrapping
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3 technique to confirm the mediating effect of frustration (Preacher & Hayes, 2004). The results
4 also show a significant indirect effect of power on the likelihood of full exit through frustration
5 ($\beta = 0.852, p < 0.001$). These findings provide support for Hypothesis 2. We also note that
6 the regression analyses did not indicate a significant relationship between frustration and partial
7 exits (managerial or financial).
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16 Insert Table 14 about here
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19 **Robustness Checks for Study 2**

20 We note that in the experiments, we asked participants to evaluate the probability of
21 making each one of the possible decisions rather than forcing them to choose one of the
22 alternatives (as in the observational data). Hence, we had a slightly different operationalization
23 of the dependent variable in Study 2 than in Study 1. To create a one-to-one comparison
24 between the two studies, we developed a robustness check. We reconstructed the dependent
25 variable in the experiments as a categorical variable (continuation, full exit, managerial partial
26 exit, financial partial exit) based on the highest likelihood in the participants' answers. We used
27 a two-step process. First, we identified a participant's highest score (capturing the likelihood
28 of exiting) among the following alternatives: (1) full exit, (2) managerial partial exit, and (3)
29 financial partial exit. Second, we coded the focal respondent with respect to a four-option
30 categorical dependent variable. If the highest likelihood was 4 or larger (on a seven-point scale),
31 then we assumed that the participant would exit via this focal route. If the highest likelihood
32 for an option was 3 or lower, we coded the participant in the continuation category. To have a
33 more conservative and "cleaner" coding process, we excluded participants (27 in the first
34 experiment and 23 in the second experiment) whose highest score appeared for more than one
35 exit route. Analyses using this measure of exit route produced results consistent with those
36 reported for the main analyses above.
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3 Moreover, it is possible that frustration could predict exit only after it exceeds a certain
4 level. To test for this possibility, we coded frustration as a binary variable in two alternative
5 ways: a) above the mean versus below the mean and b) above 75% versus below 75%. In both
6 these estimations with a binary (categorical) measure of frustration, we found no substantive
7 change in the mediation analysis results.
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12 In sum, given the experimental manipulation of founder power and the random
13 assignment of participants to the two conditions, the two laboratory experiments provide
14 evidence of the direction of causality and help rule out some alternative explanations. We also
15 set founder exit as a voluntary decision in the experiments, thus overcoming the empirical
16 limitation of the secondary data (of Study 1) that founders may not choose managerial partial
17 exit. Moreover, the second experiment allowed us to test Hypothesis 2 regarding frustration as
18 a mechanism underlying the relationship between power and exit.
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30 **DISCUSSION AND CONCLUSION**

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32 IPOs create a great deal of uncertainty for entrepreneurial ventures and their founding
33 teams and are characterized by changes in ventures' control and direction (Fischer & Pollock,
34 2004; Pagano, Panetta, & Zingales, 1998; Pollock, Rindova, & Maggitti, 2008). IPOs represent
35 opportunities for founders to raise funds to grow their businesses and offer them the chance to
36 exit. Interestingly, our results show that while most founders continue to be fully involved with
37 their firms after IPO (59.75%), a substantial proportion uses an IPO as an exit route. Of the
38 founders in our sample, 24.60% fully exited their ventures within 24 months after the lock-up
39 period, 10.22% exited from management but kept their shares, and 5.43% sold their shares but
40 remained in their firms as employed managers. The main aim of our study was to theorize and
41 test the association of founders' power at the time of IPO with their likelihood of exiting their
42 ventures via IPO with a full exit, a managerial partial exit, and a financial partial exit.
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58 Consistent with our model, the results show that founders with less power at the time
59 of IPO are more likely to fully exit via IPO than maintain involvement with their ventures. This
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3 finding is robust across models and studies, and the results hold for multiple dimensions of
4 power—namely, structural, ownership, expertise, and prestige power. Based on our
5 experimental design, we also find that founders' frustration mediates the relationship between
6 founders' lack of power and the decision to fully exit from the venture. Furthermore, we find
7 that power is more influential on full exits than partial exits, and it appears that power is more
8 influential on managerial partial exits than on financial partial exits. Indeed, we find that
9 founder power has a non-significant relationship with financial partial exits.

19 Overall, we can portray the effect of founder power on exit via IPO along a continuum.
21 A full exit is strongly related to power, managerial partial exit has a weak association with
22 power, and financial partial exit does not appear to be related to power. We theorized that if
23 the focal actors lack power over their projects, they would become frustrated and disassociate
24 from them. Thus, full exit is a vigorous response to frustration, and this response is a possible
25 reason why full exit is strongly related to low founder power at IPO. Managerial partial exit
26 could also be a more moderate response. Withdrawing from one's managerial role provides
27 immediate relief from the day-to-day issues arising from low power while maintaining
28 ownership shares still links the founder to the venture.

40 Although not hypothesized, we also find that founders' partial exits are associated with
41 founder and financial factors unrelated to power. Specifically, managerial partial exits are
42 positively related to founders' age and experience as a serial entrepreneur. These relationships
43 suggest possible career motivations for managerial partial exits. For example, perhaps older
44 founders are tired of running their businesses and wish to retire from management while
45 retaining their ownership shares. Serial entrepreneurs could choose managerial exit to allow
46 them to redeploy their managerial attention to other new ventures. In contrast, financial partial
47 exit is positively related to hot periods in the IPO market, which points to a financial motivation
48 for this form of partial exit. Financial partial exits are also related to gender (males are more
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3 likely to use a financial partial exit), which could be explained by findings showing that men
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5 are more motivated to make money than women on average (Cromie, 1987).
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8 A more detailed view of the results reveals that while, in some of the models, lack of
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10 structural power is related to managerial partial exit and ownership power is related to financial
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12 partial exit, expertise power is not significantly related to partial exit but is significantly related
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14 to full exit. Interestingly, this evidence supports our assumption that partial exits are
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16 independent choices from full exit as opposed to full exit simply being the union of managerial
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18 and financial partial exits. Future research can explore how and why different dimensions
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20 impact the type and likelihood of exit differently and in combination (e.g., interactions and
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22 configurations). Although there is more work to be done, this paper's findings provide a
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24 number of theoretical contributions, to which we now turn.
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28 **Theoretical Contributions**

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30 The above model and findings provide a number of insights into the exit literature
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32 specifically and the entrepreneurship literature more broadly. First, entrepreneurship research
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34 has largely focused on founders creating (De Carolis, Litzky, & Eddleston, 2009; Eesley, 2016;
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36 Haveman, Habinek, & Goodman, 2012; Newbert & Tornikoski, 2012) and growing their
37
38 ventures (Davidsson, 1991; Delmar & Wiklund, 2008; McKelvie & Wiklund, 2010), but less
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40 scholarly attention has focused on founders exiting their ventures (DeTienne, 2010; DeTienne,
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42 et al., 2015). The little research on founder exit has focused on involuntary exit (under
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44 conditions of high performance [Wasserman, 2003] and low performance [Laitinen, 1992;
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46 Wiklund, et al., 2010]) and exit to avoid bankruptcy (Gimeno et al., 1997; Thorburn, 2000;
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48 Wennberg et al., 2010). We extend this research to founders' voluntary exits from their
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50 ventures via IPO and, in doing so, begin to address calls for research on why founders decide
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52 to leave their successful ventures (DeTienne & Wennberg, 2016). Specifically, by explaining
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54 why founders decide to exit their high-potential ventures (i.e., those going public [Hochberg,
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3 et al., 2007; Shane & Stuart, 2002]), we gain new insights into the entrepreneurial decision-
4 making process leading to an important action—exit—based on low founder power.
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8 Second, whether about exit strategies (Bruce & Picard, 2006; Ryan & Power, 2012),
9 exit modes (DeTienne, et al., 2015; Wennberg, et al., 2010) or the likelihood of exit (Cefis &
10 Marsili, 2012; DeTienne et al., 2008; Gimeno et al., 1997), research on founder exit has largely
11 focused on full exit as the outcome. The implicit assumption of this exit research is that
12 founders' options are to either fully exit from or fully continue with their ventures. However,
13 we find that exit is more nuanced than this dichotomous categorization—there are instances
14 when founders neither fully exit nor fully continue with their ventures but rather partially exit.
15 Founders partially exit by withdrawing managerially or financially from their ventures, and
16 these partial exits differ from full exits in terms of the role of power: power is more influential
17 in the latter than in the former. More research is needed to explain the antecedents and
18 consequences of the different forms of partial exit vis-à-vis each other, full exit, and
19 continuation.
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35 Third, although the literature has acknowledged the role of power in exit (Jain & Tabak,
36 2008; Pollock et al., 2009), power has largely been explored from the decision-making
37 perspective of stockholders who “force out” individuals from the CEO position (some of whom
38 are also founders [Wasserman, 2003]). We explore power from a different perspective—the
39 founder's perspective. In this study, we provide new insights into how founders' power
40 influences their full exit via IPO. Indeed, taking the founder's perspective enables insights into
41 the mechanisms linking power to exit. Specifically, we introduce an emotional component to
42 the exit decision by highlighting how founders' frustration mediates the relationship between
43 power and exit. In doing so, we also meet calls for more entrepreneurship research to
44 investigate the role of various emotions in the entrepreneurial decision-making process (Baron,
45 2008; Cardon, Foo, Shepherd, & Wiklund, 2012), to which we now turn.
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3 Fourth, the entrepreneurship literature, in general, has begun to highlight the important
4 role of emotions at various stages of the entrepreneurial process (Baron, 2008; Cardon et al.,
5 2005). For example, research has highlighted the importance of passion in the creation and
6 emergence of new organizations (Cardon et al., 2009; Uy et al., 2017), positive emotions in
7 sustaining the effort needed to manage an entrepreneurial venture (Foo, Uy, & Baron, 2009;
8 Gielnik, Uy, Funken, & Bischoff, 2017), and entrepreneurs' grief over the "death" of their
9 businesses (Shepherd, 2003; Shepherd, et al., 2009). We extend this emerging stream of
10 research by theorizing and finding that frustration is a key mechanism underlying the power-
11 exit relationship. Future research might find that frustration is an important mediator (or
12 moderator) of other key relationships in different stages of the entrepreneurial process. For
13 example, perhaps frustration is an important mechanism explaining the breakdown of social
14 relationships critical to the success of entrepreneurial teams, the success of acquisitions and
15 mergers as part of growth strategies, and customers as sources of innovation. With a better
16 understanding of frustration, entrepreneurs are likely to be better positioned to avoid, manage,
17 or regulate this emotion when making decisions about exiting their ventures.

18
19 Finally, our theorizing and findings on frustration also contribute to power theory
20 (Finkelstein, 1992; Finkelstein & Hambrick, 1996; Nakauchi & Wiersema, 2015) by changing
21 the way we think about the mechanisms by which managerial power impacts exit. The exit
22 literature on power has argued that managers' lack of power leads to involuntary dismissal via
23 a coercive mechanism—that is, managers are forced out of their jobs by powerful stakeholders
24 (Allen & Panian, 1982; Boeker, 1992; Ocasio, 1994; Weisbach, 1988). In this study we
25 highlight an alternative emotional mechanism (i.e., frustration) to explain how power
26 influences managers' (in our context, founders') *decision* to exit from their high-potential
27 ventures. Also, we put forward the novel thesis that this frustration mechanism is stronger for
28 full exits than for partial exits. The reported weak or non-significant effects of power on partial
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3 exits are an integral part of our theoretical contribution because they demonstrate the boundary
4 conditions of the frustration mechanism. The latter is emotional, and we show that while it
5 applies for full exits (a vigorous withdrawal response to frustration), it is less relevant for partial
6 exits, which, because of their nature (the founder keeps an association with the venture), are
7 less emotional decisions (at least in terms of frustration).
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14 **Practical Implications**

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16 We echo Wasserman's (2008) message that founders face a "rich versus king" dilemma.
17 If staying in the business and remaining influential (i.e., being the king) is a personal goal for
18 the founder, then reducing power to obtain investment is likely to be a poor decision. Our
19 results show that given the founder's goals, reduced power would cause frustration to lead to
20 exit. In contrast, those founders who accept that their main goal is to become wealthy might be
21 more prepared to share power with investors without becoming so frustrated and could exit the
22 business consciously (often partially) to improve venture performance (Wasserman, 2017) or
23 achieve other life goals. The main message from our results for entrepreneurs is that if they
24 clarify their goals and recognize the implications of their strategies, they can better manage
25 their emotions and make sound exit decisions.
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39 Moreover, our findings have implications for investors, who need to realize that
40 reducing the power of founders may cause frustration and lead them to fully exit their firms.
41 When the founder's involvement is no longer needed for venture success, full exit might be a
42 good outcome for investors. However, if some founder involvement is beneficial to the firm,
43 then investors could work with the founder to help find a suitable partial exit. Indeed, the effect
44 of the exact role played by founders after partial exits on future venture performance is an
45 important area for further research. For example, what are the implications when a founder
46 who engages in a managerial partial exit still exerts influence on board decisions via large
47 ownership?
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60 **Limitations and Future Research**

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3 This paper advances knowledge on the relationship between power and exit but has
4 certain limitations. In our first study, as in other studies using secondary sources of data to
5 investigate exit, it is difficult to pinpoint the exact mechanisms underlying founder exit. For
6 example, we cannot distinguish between cases of founders whose decision to exit influenced
7 their structural power at IPO from cases of founders whose structural power at IPO influenced
8 their subsequent exit decision. In our defense, the power dimensions, apart from structural
9 power, could be considered exogenous to the IPO event: founder ownership is mostly
10 determined by valuations, while expertise and prestige are built over the long term and are not
11 necessarily related to the IPO event. Our experiments (Study 2) were a major empirical step
12 toward resolving issues of causality, thus complementing our findings from Study 1. Also, we
13 focused only on IPOs on the LSE and are conscious that generalizing our results to different
14 geographies and IPO markets requires replications and perhaps theoretical extensions.
15 Additionally, although we investigated power through its dimensions and as an index, we find
16 that founder power is not a monolith (e.g., technical expertise power is negatively associated
17 with ownership and prestige power). Future research can explore the inter-relationship of the
18 power dimensions (including their configurations) and their relationships to both founder
19 frustration and exit. Finally, in this study, we did not consider how financial gain might tie into
20 frustration. Founders may be more or less willing to deal with frustration if they stand to gain
21 a substantial amount by exiting or staying at their company. Future research could provide a
22 more thorough consideration of how financial upside or gain might interact with frustration to
23 drive founder exit.

51 **Conclusion**

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53 In this paper, we set out to understand why and how founders' power impacts their
54 decisions to exit their ventures via IPO. We learned that low founder power likely leads to a
55 full exit and that this relationship is mediated by frustration. This power-frustration-exit
56 relationship contributes to our understanding of (1) entrepreneurial exit by extending
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3 knowledge of why founders leave their high-potential ventures (i.e., those going public), (2)
4 power and leader succession by taking the perspective of the founder and his or her reasons for
5 exit, and (3) entrepreneurial decision making by introducing the mediating role of founder
6 frustration (an important emotion) in the power-exit relationship. We hope that these new
7 insights trigger additional research to further advance our understanding of founder exit.
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Table 1. Entrepreneurial Exit Routes after IPO (N = 313)

	Selling Out Shares	No	Yes
Leaving TMT			
No		Continuation (59.75%)	Partial financial exit (5.43%)
Yes		Partial managerial exit (10.22%)	Full exit (24.60%)

Table 2. Descriptive Statistics and Correlation Matrix

Variables	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	
1 Founder fully exits the business	0.25	0.43																						
2 Founder financially exits the business	0.05	0.23	-0.14*																					
3 Founder managerially exits the business	0.10	0.30	-0.19***	-0.08																				
4 CEO/chairperson status	0.43	0.54	-0.10+	-0.02	-0.07																			
5 Ownership relative to the largest shareholder	0.64	0.37	-0.15**	-0.04	-0.02	0.20***																		
6 Inventor/main product developer	0.14	0.34	-0.16**	0.11*	-0.04	-0.11*	-0.16**																	
7 Experience in related industries	13.39	9.83	-0.16**	-0.03	0.02	0.04	-0.09	0.10+																
8 Directorships in other businesses	7.31	9.39	-0.11*	0.03	-0.03	0.19***	0.16**	-0.22***	-0.05															
9 News mentioned the founder before IPO ^a	1.44	1.21	-0.07	-0.12*	-0.03	0.21***	0.02	0.03	-0.05	0.04														
10 Serial entrepreneur	0.29	0.45	-0.01	-0.03	0.16**	0.14**	0.13*	-0.07	0.01	0.17**	0.00													
11 Founder's age	46.32	8.66	0.08	-0.11*	0.07	0.03	-0.15**	0.11*	0.30***	0.07	0.03	0.08												
12 Female entrepreneur	0.07	0.25	-0.03	-0.06	0.12*	-0.09+	0.04	0.08	-0.02	-0.01	0.02	-0.06	0.01											
13 Board size	5.80	1.60	-0.12*	-0.09+	0.12*	-0.09	-0.15**	0.02	-0.01	0.02	0.20***	-0.06	0.08	0.04										
14 Board seats by other founders (%)	0.36	0.17	-0.03	-0.06	0.04	-0.12*	0.01	-0.16**	0.00	0.09	-0.01	-0.07	0.00	0.00	-0.14*									
15 Ownership holdings by other founders	0.14	0.14	-0.11*	-0.07	0.08	-0.24***	0.14**	-0.13*	-0.06	0.04	-0.05	-0.02	-0.02	0.08	0.14**	0.55***								
16 Ownership holdings by institutional investors	0.23	0.22	0.04	-0.05	-0.09+	-0.07	-0.62***	0.28***	0.13*	-0.16**	0.07	-0.12*	0.15**	-0.05	0.15**	-0.20***	-0.37***							
17 Average market value of the business ^a	2.87	1.35	-0.15**	-0.03	0.05	0.02	-0.26***	-0.01	0.14*	-0.01	0.22***	0.00	0.13*	-0.01	0.39***	0.05	0.08	0.26***						
18 Business turnover growth before IPO	2.94	17.46	-0.08	-0.03	0.00	0.03	0.08	-0.01	-0.04	-0.01	0.00	0.02	-0.08	0.01	-0.05	-0.05	-0.01	-0.04	-0.03					
19 Firm age (month)	56.08	32.38	-0.05	-0.01	-0.03	-0.00	0.08	-0.08	0.13*	-0.06	0.23***	-0.12*	0.04	0.00	0.11+	-0.18**	-0.09	-0.02	0.12*	-0.01				
20 Hi-tech firm	0.20	0.40	0.04	0.05	0.01	-0.05	-0.13*	0.19***	0.10+	-0.06	-0.07	0.04	0.06	0.05	0.02	-0.19***	-0.21***	0.18***	-0.06	-0.04	-0.03			
21 IPO in the hot period	0.52	0.50	0.03	0.15**	-0.06	-0.04	0.02	0.09	-0.01	-0.05	0.11*	-0.06	0.03	0.08	-0.10+	0.03	0.03	-0.07	-0.04	-0.07	0.13*	0.11+		
22 Length of lock-up period	13.09	3.69	-0.00	0.07	-0.09+	0.02	0.07	0.18**	-0.05	-0.07	0.14**	-0.04	0.04	0.05	-0.06	0.04	0.04	-0.01	-0.04	-0.03	-0.06	0.08	0.16**	

^a In log form, + $p < .10$, * $p < .05$, ** $p < .01$, *** $p < .001$

Table 3. Descriptive Statistics for Different Exit Routes

	<i>Continuation</i>	<i>Full Exit</i>	<i>Partial Managerial Exit</i>	<i>Partial Financial Exit</i>
Structural power: Founder is the CEO	35.29%	22.08%	18.75%	17.65%
Structural power: Founder is the chairman of the board	9.09%	9.09%	12.5%	5.88%
Structural power: Founder holds a combination title of CEO and chairman of the board	2.14%	1.30%	0	11.76%
Founder's ownership proportion	17.93%	10.53%	14.76%	14.82%
Ownership power: Founder's ownership relative to the ownership of the largest shareholder	68.35%	53.91%	66.61%	57.55%
Expertise power: Founder is the inventor or main developer	17.11%	3.90%	9.38%	29.41%
Expertise power: Founder's experience in related industries	14.58	10.58	13.84	12.12
Prestige power: Founder's directorships in other businesses	8.09	5.49	6.50	8.53
Prestige power: News mentioning the founder before IPO	15.20	12.00	8.41	5.24
Serial entrepreneur	26.20%	28.57%	50.00%	23.53%
Founder's age	45.84	47.60	48.13	42.29
IPO in the hot period	49.73%	54.55%	43.75%	82.35%

Table 4. Association of Founder Power at IPO with Full Exit

Variables	Full Exit from the Business within 24 Months after the Lock-Up Period	
Serial entrepreneur	-0.041 (0.191)	0.044 (0.201)
Founder's age	0.016 (0.010)	0.027* (0.012)
Female entrepreneur	-0.233 (0.320)	-0.212 (0.324)
Board size	-0.071 (0.069)	-0.108 (0.077)
Board seats by other founders (%)	-0.253 (0.729)	-0.575 (0.766)
Ownership holdings by other founders	-0.408 (0.856)	-1.069 (1.007)
Ownership holdings by institutional investors	0.244 (0.488)	-0.311 (0.580)
Average market value of the business ^a	-0.148+ (0.081)	-0.178* (0.075)
Turnover growth within three years before IPO	-0.159* (0.072)	-0.142+ (0.075)
Firm age	-0.001 (0.003)	-0.001 (0.003)
Hi-tech firm	0.110 (0.259)	0.182 (0.275)
Length of lock-up period	-0.010 (0.025)	0.012 (0.024)
IPO in the hot period	0.041 (0.191)	0.038 (0.200)
Structural power: Founder's CEO/chairman status		-0.293+ (0.162)
Ownership power: Founder's ownership relative to the largest shareholder		-0.907** (0.295)
Expertise power: Founder is the inventor or main developer		-1.402*** (0.382)
Expertise power: Founder's experience in related industry		-0.028** (0.009)
Prestige power: Founder's directorships in other businesses		-0.026** (0.010)
Prestige power: News mentioning the founder before IPO ^a		0.024 (0.078)
Constant	-0.231 (0.677)	0.860 (0.774)
Pseudo R-squared	0.081	0.217
Observation	313	313

^a In log form, + p < .10, * p < .05, ** p < .01, *** p < .001

Table 5. Multinomial Regression on Entrepreneurial Exit

Variables	Full Exit	Partial Managerial Exit	Partial Financial Exit
Structural power: Founder's CEO/chairperson status	-0.558 ⁺ (0.304)	-0.635 (0.484)	-0.203 (0.478)
Ownership power: Founder's ownership relative to the largest shareholder	-1.694** (0.569)	-1.010 (0.820)	-0.895 (0.824)
Expertise power: Founder is the inventor or main developer	-2.649** (0.921)	-0.764 (0.886)	0.751 (0.766)
Expertise power: Founder's experience in related industry	-0.056*** (0.016)	-0.022 (0.024)	-0.031 (0.032)
Prestige power: Founder's directorships in other businesses	-0.049** (0.019)	-0.038 (0.026)	0.038 (0.027)
Prestige power: News mentioning the founder before IPO ^a	-0.023 (0.143)	-0.083 (0.188)	-1.000* (0.450)
Serial entrepreneur	0.319 (0.368)	1.345** (0.438)	0.032 (0.693)
Founder's age	0.056* (0.023)	0.052* (0.026)	-0.059 (0.054)
Female entrepreneur	-0.142 (0.596)	1.320* (0.660)	-12.459*** (0.620)
Board size	-0.151 (0.143)	0.246 ⁺ (0.150)	-0.583* (0.266)
Board seats by other founders (%)	-0.611 (1.335)	1.265 (1.438)	-3.079 (2.075)
Ownership holdings by other founders	-2.537 (1.822)	-1.983 (2.178)	-1.062 (2.440)
Ownership holdings by institutional investors	-1.040 (1.182)	-3.291* (1.559)	0.445 (1.562)
Average market value of the business ^a	-0.312* (0.132)	-0.000 (0.179)	0.304 (0.214)
Business turnover growth within three years before IPO	-0.292 ⁺ (0.153)	-0.015 (0.016)	-0.127 (0.162)
Firm age	0.002 (0.006)	-0.003 (0.008)	-0.004 (0.008)
Hi-tech firm	0.486 (0.520)	0.460 (0.636)	-0.133 (0.902)
Length of lock-up period	0.020 (0.041)	-0.106 (0.093)	0.052 (0.085)
IPO in the hot period	0.152 (0.376)	-0.164 (0.457)	1.916** (0.781)
Constant	1.443 (1.508)	-2.573 (1.974)	3.707 ⁺ (1.942)
Pseudo R ²			0.224
Observation	313		

^a In log form, + p < .10, * p < .05, ** p < .01, *** p < .001

Table 6. The Relationship between Founder Power Index and Full Exit

Variables	Fully exit from the business
Founder's power index	-0.188*** (0.034)
Serial entrepreneur	0.102 (0.206)
Age of founder	0.021* (0.010)
Female entrepreneur	-0.291 (0.320)
Size of the board	-0.088 (0.067)
Board seats by other founders (%)	-0.207 (0.705)
Ownerships holding by other founders	-1.265 (0.879)
Ownership holding by institutional investors	-0.514 (0.562)
Average market value of founder holding shares ^a	-0.070+ (0.040)
Total assets of business ^a	-0.053 (0.054)
Turnover growth within 3 years before IPO	-0.134* (0.065)
Firm age	-0.001 (0.004)
Hi-tech firm	0.034 (0.277)
Length of lock-up period	0.011 (0.025)
IPO in a hot period	0.029 (0.197)
Constant	0.751 (1.060)
Pseudo R-squared	0.188
Observations	313

^a In log form + p < .10, * p < .05, ** p < .01, *** p < .001

Table 7. The Relationships between Founder Power Index at IPO and Multiple Exit Routes

Variables	Full Exit	Partially Managerial Exit	Partially Financial Exit
Founder's power index	-0.351*** (0.068)	-0.283** (0.111)	-0.083 (0.135)
Serial entrepreneur	0.485 (0.370)	1.272** (0.449)	0.142 (0.617)
Age of founder	0.036+ (0.019)	0.054+ (0.029)	-0.059 (0.050)
Female entrepreneur	-0.322 (0.613)	1.321+ (0.700)	-13.612*** (1.563)
Size of the board	-0.107 (0.121)	0.257* (0.129)	-0.263 (0.291)
Board seats by other founders (%)	-0.151 (1.216)	1.746 (1.343)	-0.581 (1.913)
Ownerships holding by other founders	-2.390+ (1.528)	-2.336 (2.088)	-2.118 (3.100)
Ownership holding by institutional investors	-1.338 (1.132)	-2.958+ (1.693)	0.938 (1.520)
Average market value of founder holding shares ^a	-0.263* (0.087)	0.050 (0.172)	-0.399** (0.133)
Total assets of business ^a	-0.100 (0.095)	0.050 (0.145)	0.003 (0.177)
Turnover growth within 3 years before IPO	-0.261* (0.134)	-0.015 (0.016)	-0.117 (0.230)
Firm age	-0.002 (0.007)	-0.002 (0.007)	-0.003 (0.009)
Hi-tech firm	0.110 (0.521)	0.485 (0.620)	0.345 (0.739)
Length of lock-up period	0.015 (0.043)	-0.092 (0.082)	0.080 (0.093)
IPO in a hot period	0.191 (0.372)	-0.088 (0.474)	1.394+ (0.803)
Constant	3.417 (2.214)	-6.371* (2.889)	6.062+ (3.198)
Pseudo R ²			0.211
Observation	313		

^a in log form, + p < .10, * p < .05, ** p < .01, ***p<.001

Table 8. Margin Effect Comparison of Founder Power on Different Exit Routes

	Decrease in Power by	Full Exit	Managerial Exit	Financial Exit	Full Exit vs. Managerial Exit	Full Exit vs. Financial Exit
Structural power: Founder CEO/ chairperson	1 unit in the scale	6.20%	3.79%	0.08%	2.41%	6.13%
Ownership power: Founder's ownership relative to the largest shareholder	1 standard deviation	7.62%	1.50%	0.61%	6.12% +	7.02% *
Expertise power: Founder inventor/ main developer	1 unit in the scale	24.69%	2.49%	-7.12%	22.20% **	31.81% ***
Expertise power: Founder's experience in related industries	1 standard deviation	6.88%	0.39%	0.59%	6.49% *	6.29% **
Prestige power: Founder's directorships in other businesses	1 standard deviation	6.10%	1.88%	-2.16%	4.23%	8.26% **
Prestige power: News mentioning the founder ^a	1 standard deviation	-1.20%	0.45%	5.07%	-1.65%	-6.27% ⁺
Power Index	1 standard deviation	11.05%	3.85%	-0.77%	7.45% *	11.82% ***

^a In log form, + $p < .10$, * $p < .05$, ** $p < .01$, *** $p < .001$

Table 9. Association of Founder Power after the Lock-Up Period with Full Exit

Variables	Full Exit from the Business after the Lock-Up Period
Structural power: Founder's CEO/chairperson status	-1.241*** (0.357)
Ownership power: Founder's ownership relative to the largest shareholder	-1.996*** (0.438)
Expertise power: Founder is the inventor or main developer	-1.585** (0.601)
Expertise power: Founder's experience in related industries	-0.036** (0.014)
Prestige power: Founder's directorships in other businesses	-0.022+ (0.013)
Prestige power: News mentioning the founder before IPO ^a	0.189 (0.143)
Serial entrepreneur	0.362 (0.304)
Founder's age	0.037* (0.018)
Female entrepreneur	0.352 (0.370)
Ownership holdings by institutional investors	-0.554 (0.679)
Total assets of the business ^a	-0.342*** (0.095)
Business turnover growth	-0.066 (0.073)
IPO in the hot period	0.162 (0.275)
Constant	2.354 (1.443)
Log-likelihood	-195.393
Observations	1092

^a In log form, + $p < .10$, * $p < .05$, ** $p < .01$, *** $p < .001$

Table 10. Multinomial Regression on Entrepreneurial Exit (after the Lock-Up Period)

Variables	Full Exit	Partial Managerial Exit	Partial Financial Exit
Structural Power: Founder's CEO/chairperson status	-1.379*** (0.377)	-1.606*** (0.423)	-0.006 (0.438)
Ownership power: Founder's ownership relative to the largest shareholder	-2.325*** (0.576)	-0.124 (0.692)	-10.152*** (3.196)
Expertise power: Founder is the inventor or main developer	-1.958** (0.698)	0.190 (0.542)	-0.124 (0.650)
Expertise power: Founder's experience in related industries	-0.045** (0.017)	0.001 (0.022)	0.005 (0.028)
Prestige power: Founder's directorships in other businesses	-0.028+ (0.015)	-0.006 (0.018)	-0.009 (0.034)
Prestige power: News mentioning the founder ^a	0.121 (0.160)	-0.136 (0.175)	0.038 (0.221)
Serial entrepreneur	0.658+ (0.368)	1.191** (0.405)	1.228* (0.570)
Founder's age	0.056** (0.022)	0.036 (0.025)	0.013 (0.032)
Female entrepreneur	0.128 (0.498)	0.471 (0.563)	-12.462*** (0.775)
Ownership holding by institutional investors	0.321 (0.878)	0.619 (1.067)	-1.570 (1.033)
Total assets of the business ^a	-0.388*** (0.112)	0.093 (0.118)	-0.314+ (0.177)
Business turnover growth	-0.081 (0.088)	0.004 (0.054)	-0.052 (0.051)
IPO in the hot period	0.232 (0.321)	-0.179 (0.384)	1.265* (0.518)
Constant	2.791 (1.763)	-5.248* (2.286)	3.648 (3.006)
Pseudo R2			0.231
Observations	1049		

^a In log form, + $p < .10$, * $p < .05$, ** $p < .01$,
*** $p < .001$

Table 11. Scenarios and Results (T-Test) for the First Experiment

High-Power Scenario		Low-Power Scenario		
You are the cofounder of an entrepreneurial venture. After five years of hard work, you have just completed an initial public offering (IPO). You feel that despite the turmoil of the IPO process, you ended up with a position of power in the firm. You are the CEO and a member of the board of directors, you own a substantial proportion of the equity, and your technical and managerial expertise is needed for the company to progress. You are also a high-profile founder sitting on the board of other firms and often appearing in the media.		You are the cofounder of an entrepreneurial venture. After five years of hard work, you have just completed an initial public offering (IPO). You feel that in the turmoil of the IPO process, you ended up with a low-power position in the firm. You are not the CEO or the chairperson of the board, you own a relatively small proportion of the equity, and your technical and managerial expertise is not enough anymore for the company to progress. You are also a low-profile founder with few external board seats or appearances in the media.		
Condition	N	Full Exit	Partial Managerial Exit	Partial Financial Exit
Low power at IPO	88	4.386	4.67	2.159
(S.D.)		(1.790)	(1.747)	(1.294)
High power at IPO	93	2.581	3.742	2.387
(S.D.)		(1.527)	(1.829)	(1.707)
Difference		1.806***	0.929***	-0.228
(t-statistics)		(7.313)	(3.489)	(-1.008)

* p < .05, ** p < .01, ***p < .001

T-Test for Control Variables

Condition	N	Age	Female	Experienced Entrepreneur
Low power at IPO	88	29.193	0.420	0.398
(S.D.)		(7.144)	(0.496)	(0.492)
High power at IPO	93	29.065	0.355	0.452
(S.D.)		(7.074)	(0.481)	(0.500)
Difference		0.129	0.066	-0.054
(t-statistics)		(0.122)	(0.903)	(-0.730)

* p < .05, ** p < .01, ***p < .001

Table 12. T-Tests for the Second Experiment

Condition		Frustration	Full Exit	Partial Managerial Exit	Partial Financial Exit
Low power at IPO	87	0.823	4.494	4.597	2.241
(S.D.)		(1.145)	(1.649)	(1.985)	(1.414)
High power at IPO	103	-1.004	2.932	3.515	2.243
(S.D.)		(1.037)	(1.658)	(1.731)	(1.382)
Difference	190	1.827***	1.562***	1.083***	-0.001
(t-statistics)		(11.534)	(6.487)	(4.017)	(-0.007)

T-test for Control Variables				
Condition		Age	Female	Experienced Entrepreneur
Low power at IPO	87	30.310	0.333	0.195
(S.D.)		(6.503)	(0.474)	(0.399)
High power at IPO	103	31.320	0.398	0.126
(S.D.)		(7.978)	(0.492)	(0.334)
Difference	190	1.010	0.065	-0.069
(t-statistics)		(0.945)	(0.919)	(-1.302)

* $p < .05$, ** $p < .01$, *** $p < .001$

Table 13. Descriptive Statistics and Correlation Matrix for the Second Experiment

Variables	Mean	S.D.	1	2	3	4	5	6	7
1 Full exit	3.65	1.82							
2 Partial managerial exit	4.01	1.92	0.23***						
3 Partial financial exit	2.24	1.39	0.08	-0.06					
4 Low-power condition	0.46	0.50	0.43***	0.28***	-0.00				
5 Frustration	-0.17	1.42	0.49***	0.21**	0.01	0.64***			
6 Age	30.86	7.34	0.12+	-0.08	-0.02	-0.07	0.01		
7 Female	0.37	0.48	-0.03	0.09	0.17*	-0.07	0.07	-0.26***	
8 Experienced entrepreneur	0.16	0.37	0.04	0.04	0.02	0.09	0.16*	0.14+	-0.00

+ $p < .10$, * $p < .05$, ** $p < .01$, *** $p < .001$

Table 14. Mediation Analysis for the Effect of Frustration

Variable	Frustration	Full Exit		Partial Managerial Exit		Partial Financial Exit	
Age	0.016 (0.012)	0.041* (0.021)	0.034+ (0.019)	-0.010 (0.020)	-0.011 (0.021)	0.004 (0.016)	0.005 (0.016)
Female	0.409* (0.167)	0.179 (0.257)	-0.010 (0.254)	0.381 (0.301)	0.361 (0.318)	0.496* (0.211)	0.502* (0.212)
Entrepreneurial experience	0.346 (0.238)	-0.143 (0.339)	-0.303 (0.309)	0.073 (0.343)	0.056 (0.344)	0.054 (0.268)	0.058 (0.267)
Low power at IPO	1.846*** (0.160)	1.625*** (0.242)	0.773* (0.348)	1.093*** (0.280)	1.003** (0.354)	0.031 (0.205)	0.058 (0.250)
<i>Mediator</i>							
Frustration			0.462*** (0.118)		0.049 (0.128)		-0.014 (0.085)
C	-1.716*** (0.402)	1.589* (0.688)	2.381*** (0.674)	3.667*** (0.687)	3.750*** (0.742)	1.901*** (0.516)	1.877*** (0.539)
R-squared	0.445	0.208	0.279	0.092	0.092	0.028	0.028
N	190						

* $p < .05$, ** $p < .01$, *** $p < .001$

Appendix: A Brief Description of the Exploratory Interviews

We conducted nine qualitative interviews with founders in 2016 and 2017—seven men and two women. Seven individuals had exited and two had continued with their firms. Our aim was to understand why founders exit via IPO and, more specifically, to explore whether and how lack of power leads to exit. The interviews were semi-structured and lasted 60–90 minutes. In general, we asked interviewees to recall and reflect on why they exited (or not), to explain their thinking process and the practicalities of the exit (or continuation) decision, and to describe how they felt before and after the decision to exit (or continue).

The interviews revealed a frustration-based mechanism for the relationship between lack power and full exit. We used this insight and tested the frustration mechanism with an experimental design. We do not claim that the interviews followed a formal qualitative methodology. The “sample” was based on convenience; we first managed to convince four IPO founders in our list to talk to us and then used their contacts to snowball to other founders that became available.

We use anecdotal quotes from the exploratory interviews to bring life to our theoretical claims. The technique was used in other papers (see Pontikes & Barnett, 2017; Wasserman, 2003). The interviews offer complementary material to our theoretical arguments and also provide some evidence of the practical importance of the topic. The cases are briefly presented in the table below:

Case number (name)	Industry of the Venture	Founder's Role at the Time of Exit Decision	Decision/Type of Exit	Founder's Role Subsequent to Exit Decision
1	Pharmaceuticals	CEO	Managerial exit	Set up new startup
2	Chemicals	CTO	Full exit	Set up new startup
3	Energy	CTO	Financial exit	CTO
4	Media	CEO	Full exit	Set up new startup
5	IT/Digital media	CEO	Continued	CEO
6	Media	CEO	Managerial exit	Spend more time with family
7	IT	CEO	Full exit	Angel investor
8	Media	CEO	Full exit	Angel investor
9	Manufacturing	CEO	Continued	CEO

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