Founder Teams and Firm Value in Young Public Firms: An Analysis of the Moderating Effect of Founders' Ownership Power and Team Size

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Abstract

Manuscript Type: Empirical

Research Question/Issue: Building on prior work on the relationship between founder ownership and firm value in young public firms, we test the moderating influence of the presence of cofounders, distinguishing between dyads and teams of three or more founders.

Research Findings/Insights: We test our hypotheses on a unique sample of 7,162 observations from 959 US firms that have been public for less than 20 years and retained their founders. We show that the presence of one or more cofounders has distinct moderating effects on the relationship between main founder ownership and firm value, depending on the number and relative ownership power of the founders. Firm value benefits the most when there is ownership power symmetry in dyads of founders and ownership power asymmetry in teams of three or more founders.

Theoretical/Academic Implications: We make two contributions to the corporate governance literature. First, we take a more nuanced look at founders and their ownership power in young public firms and show that the presence of cofounders has an effect on firm value. Second, we show that this effect depends on the number of founders and on whether there is ownership power symmetry or asymmetry among founders. Overall, our study supports the view that founders continue to matter even after IPO.

Practitioner/Policy Implications: By shedding light on the effect of founders retaining ownership power on firm value after IPO, our findings may guide founders in their decisions to exit their business fully or partially and investors in their decisions whether to invest in public firms that retain their founders.

Keywords: Corporate Governance; Founder; Cofounder; Ownership Power; Firm Value.

INTRODUCTION

Corporate governance literature has traditionally focused on large, mature, publicly listed firms (Garg, 2020). However, these represent a small proportion of all listed firms and are often older. For example, the average age of the typical S&P 500 firm is 67.4 years (Basu, Paeglis, & Rahnamaei, 2015). Because of this, concerns have been raised that relying on large, established public firms may provide a narrow perspective and limit the generalizability of corporate governance literature (Filatotchev, Toms, & Wright, 2006; Walters, Kroll, & Wright, 2010). In turn, this has led scholars to call for greater attention on young public firms as an area that “is ripe for further study” (Walters et al., 2010: 572). These firms are “generally smaller, younger, and less structurally complex than more established public companies” (Lungeanu & Zajac, 2019: 491) and, as such, represent a setting in which traditional agency assumptions may be less applicable than other theoretical frameworks more prevalent in the stewardship or power literature (Federo, Ponomareva, Aguilera, Saz-Carranza, & Losada, 2020; Walters et al., 2010).

The growing stream of corporate governance studies on young public firms has to date mostly focused on the relationship between the board of directors and firm strategy and performance, considering for example board turnover (Garg, Li, & Shaw, 2018), board leadership structure (Garg, Li, & Shaw, 2019), and directors’ expertise (Lungeanu & Zajac, 2019). However, there has been limited attention paid to another key focus of the corporate governance literature that addresses “how firm owners influence firm–level outcomes” (Boss, Connelly, Hoskisson, & Tihanyi, 2013: 246), and specifically the role that founders may continue to play in young public firms. This is surprising seeing that one third to half of all ventures go through an initial public offering (henceforth IPO) with founders in CEO positions (Jain & Tabak, 2008) and the presence of such founders limits the chances of post–IPO change of control (Gao & Jain, 2012). This in turn implies that founders may often remain involved in the firm beyond its IPO. Furthermore, founders, who remain involved in their firm after it goes public, continue to have a powerful influence over it (Garg et al., 2018) and see such influence continue over time (Nelson, 2003).

One such source of power, on which our study focuses, is ownership power[i] that arises from the equity founders hold in the business (Finkelstein, 1992; Zhang, Ji, Tao, & Wang, 2011). This type of power gives founders influence in an ownership capacity over the firm both formally, via equity ownership, and informally, via the status as founder retaining equity in the firm and maintaining power through continued and long–term interactions with board members and other key stakeholders (Daily & Johnson, 1997; Finkelstein, 1992). A recent study addressing this gap in the literature found a convex relationship between founder ownership and firm value in young public firms. In particular, the authors found that firm value was higher when founder ownership is high and lower when founder ownership is at intermediate levels, due to stewardship and agency effects prevailing, respectively (Dawson, Paeglis, & Basu, 2018).

Another limitation of prior research is that studies on founders and firm value have paid little attention to the presence of cofounders. Although we often read about the entrepreneur, their characteristics, how they identify opportunities, and so on, in reality, "[t]he 'entrepreneur' is more likely to be plural, rather than singular." (Gartner, Shaver, Gatewood, & Katz, 1994: 6). In fact, over half of new ventures are started by two or more people (Davidsson & Honig, 2003; Klotz, Hmieleski, Bradley, & Busenitz, 2014), as are an even larger proportion of high–performing ventures (Beckman, 2006; Chowdhury, 2005; Steffens, Terjesen, & Davidsson, 2012). Yet, prior research on the largest public firms has often lumped together so–called founder firms without distinguishing whether they have one or more founders (e.g., Cannella, Jones, & Withers, 2015; Jaskiewicz, Block, Combs, & Miller, 2017; Miller, Le–Breton Miller, & Lester, 2010). This is an important oversight because, far from being 'lone heroes', firms are often led by entrepreneurial teams who start a business together and have significant financial interest in the venture (Cooney, 2005; Kamm, Shuman, Seeger, & Nurick, 1990). The sustained presence of such teams may affect the firm's performance differently and even beyond IPO than the presence of single founders (Cooney, 2005; Kamm et al. 1990; Lechler, 2001).

In this paper, we contribute to corporate governance literature by addressing the above limitations and taking research on the relationship between founders and firm value in young public firms one step further. We begin by defining the main founder as the founder with the largest equity stake. We then ask the following research questions: What is the moderating effect of the presence of cofounders on the relationship between the main founder's ownership and firm value in young public firms? And how does it vary depending on founder team size? To address these questions, we draw on the literature on ownership power (Finkelstein, 1992) and power balance in dyads and small groups (Friedkin & Johnsen, 2011; Mannix, 1993). Based on this literature, we hypothesize that the presence of cofounders will moderate such relationship differently depending on whether there are two cofounders (founder dyad) or more than two cofounders (founder team) and on whether there is ownership power balance or imbalance between or among cofounders, respectively. To test our hypotheses, we created and analyzed a unique, hand–collected sample of 959 US public founder firms, which we followed from the time of their IPO for up to 19 years thereafter, as long as the founder remained with the firm.

We make two key contributions to the corporate governance literature. First, our findings extend research on the relationship between founder presence and firm value by filling a gap in the literature that has studied the effect of founder presence on firm value at various stages of a firm's lifecycle – i.e., at startup (e.g., Jayaraman, Khorana, Nelling, & Covin, 2000), at IPO (e.g., Bruton, Filatotchev, Chahine, & Wright, 2010; Wasserman, 2003) and in larger and older public firms (e.g., S&P 500 in Anderson & Reeb, 2003; or Fortune 500 in Adams, Almeida, & Ferreira, 2009; and Villalonga & Amit, 2006) – but has paid less attention to young public firms (e.g., Dawson et al., 2018), where founders are much more present and active compared to the S&P 500 or Fortune 500 firms. As such, our study supports the idea that founder teams matter not only at startup but even after the firm goes public (Abebe, Li, Acharya, & Daspit, 2020; Nelson, 2003). At the same time, by contributing to the conversation on young public firms, we answer calls in the corporate governance literature to move beyond its predominant focus on large, mature public firms (Filatotchev et al., 2006; Garg, 2020), which limits generalizability of findings to earlier stage firms in which founders tend to be more powerful influences (Garg et al., 2018; Lungeanu & Zajac, 2019). Second, drawing from the literature on ownership power (Emerson, 1962; Finkelstein, 1992; Mannix, 1993) and on power balance in dyads and small groups (Friedkin & Johnsen, 2011; Mannix, 1993), we show that the relationship between the ownership stake held by the main founder and firm value is moderated by the presence of cofounders, and that this moderating effect depends on the size of the founding team and on whether there is ownership power symmetry or asymmetry among founders. Thus, we offer a more nuanced insight into founders' ownership power showing different effects on firm value depending on the number of founders and their respective ownership power, rather than considering the founder team as a single entity.

The remainder of the paper is structured as follows. First, we review relevant literature in order to formulate hypotheses. Second, we illustrate our sample, variables, and methodology. Third, we present empirical results. Fourth, we discuss our findings, draw theoretical and practical implications, highlight limitations of the study, and suggest future research directions. Finally, we offer concluding remarks.

THEORY AND HYPOTHESES

Ownership Power of Founders

Power is an individual's potential or ability to influence the behavior of a person or group (Pfeffer, 1981). It is "the capacity of individual actors to exert their will" (Finkelstein, 1992: 506) and can be viewed as the inverse of dependence in social exchange relationships, because an individual exerts power over another if the latter is dependent on the former for their outcomes, in particular when they are valued (Emerson, 1962; Mannix, 1993). Power is not an attribute of an individual, rather it is a property of a social relation between or among individuals (Emerson, 1962), implying a "two–sided, mutually contingent and mutually rewarding process involving 'transactions' or simply 'exchange'" (Emerson, 1976: 336). The corporate governance literature has addressed relative power distribution between the CEO and the board of directors (Ocasio, 1994; Pollock, Fischer, & Wade, 2002) and within top management teams (Smith, Houghton, Hood, & Ryman, 2006). Furthermore, prior studies on founding teams have often considered them as a unit, with little attention being given to power balance within founding teams and its effect on firm value (Jin, Madison, Kraiczy, Kellermanns, Crook, & Xi, 2017). As a result, hierarchical asymmetry in founding teams has not been researched much (Coad & Timmermans, 2014), especially in young public firms, leaving questions unanswered about its relationship with firm value.

Here we consider ownership as a key source of founder power, based on the equity founders hold in the business (Finkelstein, 1992; Zhang et al., 2011). Especially at startup, founders have "extraordinary power" as owners when they hold large absolute or relative ownership stakes, and even relatively low ownership percentages may allow them to have "significant influence over firm affairs" (Nelson, 2003: 710). At later stages of the firm's lifecycle, such ownership position, with its attendant control rights, confers power to founders in their principal-agent relationship with managers as well as through the interaction with, and implicit control of, the board (Finkelstein, 1992; Miller et al., 2011). Founders may exert control through their ownership to maintain the firm's strategic direction and influence the choice of individuals for key management roles in the firm (Nelson, 2003). Even if they are no longer active in the management or supervision of the firm, they may continue to exercise their influence through "soft power", through "subtle influence mechanisms" (Santos & Eisenhardt, 2009: 663; Souitaris, Zerbinati, Peng, & Shepherd, 2020). Thanks to their role as owners, and through their long-term interactions with some members of the board, they may exert implicit control over them (Finkelstein, 1992), even "in the selection and retention of one of their co–cofounders as CEO" (Nelson, 2003: 714). Ownership confers not only formal influence, through equity and voting power, but also informal influence through founder/owner status not only in small firms (Daily & Johnson, 1997) but also in larger and older public corporations, where they may become entrenched even with small ownership stakes (Morck, Shleifer, & Vishny, 1988) and typically control more board seats relative to their ownership (Anderson & Reeb, 2003). Ownership by founders is characterized by "a strong preference for control preservation". Founders often see the board as an extension of themselves, manifesting itself "through several board governance features, such as less board independence, high director turnover, and greater owner board representation" (Federo et al., 2020: 362). Stock ownership gives financial incentives in public firms to monitor executives more effectively and provides voting power in decision making concerning the replacement of executives (Zhang et al., 2011).

When founders remain as owners in the business even beyond the IPO, they are generally well respected and continue to be influential (Bruton et al., 2010; Garg et al., 2018; Wasserman, 2003). Founders continue to influence firms over time as they become part of the upper echelon as owners, managers, or directors (Nelson, 2003) and may continue to be powerful after IPO. For example, founders in CEO positions have been found to play an important role in the success of corporate turnarounds in public (Fortune 500) firms, thanks to their continued organizational commitment and psychological attachment to the business (Abebe & Tangpong, 2018). Prior literature has studied what happens to the value of a firm when the founder remains actively involved in the business, with founders typically having a positive effect on value for larger and older firms (e.g., S&P 500 in Anderson & Reeb, 2003; Fortune 500 in Villalonga & Amit, 2006). However, founders are far less prevalent or influential in such firms than in their young public counterparts. In fact, founding families are present in 35% of firms and own about 18% of the firm's equity for the sample in Anderson and Reeb (2003), compared to being present in 70% of firms and owning about 39% of the firm's equity at the time of IPO (e.g., Dawson et al., 2018). In young public firms, where founders can still exert greater influence (Garg et al., 2018), the relationship between founder ownership and firm value has been found to be convex, depending upon the founder's equity stake. Firm value is higher when founder ownership is high and lower when founder ownership is at intermediate levels, due to stewardship and agency effects prevailing, respectively (Dawson et al., 2018).

However, any examination of the presence of the main founder that does not take into account the presence of cofounders in young public firms may be an incomplete one because prior research suggests that the presence of more than one founder may impact firm value differently from when there is only one founder throughout the lifecycle of a firm. Right from their creation, ventures are by definition social entities as entrepreneurs often start with a business partner or a team, or turn to other individuals for help early on during the founding process. Even when founders start an enterprise alone, they are implicitly making a decision not to cooperate with others in the founding process (Ruef, Aldrich, & Carter, 2003). Having more than one founder has a positive effect on new venture performance, as confirmed by a meta–analysis focusing on entrepreneurial team composition (Jin et al., 2017). This is because, in forming founding teams, individuals choose other people they already have strong relationships with and whom they can trust, and typically avoid strangers (Ruef et al., 2003). Cofounders contribute knowledge, skills and financial capital, as well as prior experience and access to their networks of contacts at start–up (Becker, 1975; Bruton & Rubanik, 2002; Coleman, 1988, Delmar & Shane, 2006; Kor, Mahoney, & Michael, 2007; Roure & Maidique, 1986). This allows the venture to reduce transaction costs by solving problems of coordination and aiding flows of information (Bolino, Turnley, & Bloodgood, 2002) and also to achieve increased levels of productivity (Wasserman, 2017). High–growth ventures are typically started by founder teams because such teams offer complementary skills (Cooper & Bruno, 1977), greater capacity to process complex information and to deal with strategic complexity (Jin et al., 2017; Sanders & Carpenter, 1998), and faster decision making (Eisenhardt & Schoonhoven, 1990). However, the presence of cofounders has not been studied in young public firms, although such advantages may persist even after IPO, given the above discussion on the evidence of such effects in the earlier (startup and IPO) stages of a firm’s lifecycle.

Ownership by the Main Founder and Firm Value

To build up our analysis of the moderating effect of cofounder presence, we first illustrate the main effects relationship between the main founder’s ownership and firm value. As indicated earlier, past research on young public firms shows that the relationship between the ownership of the main founder and firm value is convex–shaped depending upon the main founder's equity stake, with higher firm value at low and high levels of ownership and lower value at intermediate levels of ownership (Dawson et al., 2018). When the main founder owns a low percentage of the firm's equity, they have limited ownership power and the market for corporate control limits undue agency costs, which may be caused by founders acting in their self–interest. This can occur through the threat of hostile takeovers, voluntary mergers, leveraged buyouts, and so on (Dalton, Hitt, Certo, & Dalton, 2007; Jensen, 1986). When the main founder owns a high percentage of the firm's equity, they are likely to act in the best interest of the organization, i.e. as stewards, because they experience psychological ownership over the business and have strong identification with and extraordinary commitment toward it (Davis, Schoorman, & Donaldson, 1997; McNulty & Nordberg, 2016; Nelson, 2003). Because of this psychological attachment to the firm, it is also likely that founders will act in the best interest of the firm leading to higher firm value because of their reputational stake (Jayaraman et al., 2000) and financial attachment, as founders' personal fortunes continue to be tied to those of their firms (Oswald & Jahera, 1991). At intermediate levels of ownership, the main founder experiences a decoupling process due to loss of control over their business. As a result, they will act more as an agent than a steward because they no longer feel a strong sense of psychological ownership, and will entrench themselves, using their ownership power for their own benefit at the expense of minority shareholders. This pursuit of their self–interest will, in turn, result in lower firm value (Pierce, Kostova, & Dirks, 2003; Wasserman, 2006).

Hypothesis 1. In firms with one founder, there is a convex relationship between the founder's ownership and firm value, with higher firm value occurring when the founder *has low or high levels of ownership and lower firm value occurring when the founder has intermediate levels of ownership.*

Moderating Effects of Cofounder Presence

To take into account the moderating effect of additional founders' presence, we take the main founder's ownership stake as a reference point as they are the 'individual with the greatest ownership power'. We posit that the convex nature of the relationship between the main founder's ownership and firm value put forward in Hypothesis 1 may change when one or more cofounders are present and that this will depend on the number of founders, as well as the relative ownership distribution among all founders. We distinguish between founder dyads (two founders) and founder teams (more than two founders), seeing that dyads are the most common form of entrepreneurial team (Ruef et al., 2003). With regard to dyads, power literature has indicated that dyads with unequal power balance behave more competitively than those with power symmetry. This is because in dyads individuals feel most comfortable communicating with each other when they have relatively equal power as they believe that expressing themselves honestly will not result in excessively negative outcomes (Dunbar, 2004). In general, individuals in dyads are more likely than those in larger groups to end up in extreme positions compared to their initial ones (Friedkin & Johnsen, 2011). When two individuals have unequal power, there is greater pressure of having head–on conflict (Coad & Timmermans, 2014) because the individual with the higher power position has lower desire for negotiations and less flexible behavior (Mannix & Neale, 1993). In this case, individuals are more likely to have a narrow focus on individual, rather than mutual, outcomes because the individual with the greater power is more likely to exert their dominance, whilst the one with less power is likely to protect their own interests. This divergent emphasis makes it harder for the two individuals to focus on individual as well as common outcomes. In other words the two individuals may find it too cognitively complex to focus on this mixed–motive task (Mannix, 1993). As a result, they are less likely to reach so–called integrative agreements, i.e. high mutual gains agreements in which individuals cooperate to meet the interests of the entire group; instead they are more likely to compete and focus on distributive aspects and ultimately fail to achieve efficient and complete use of the resources at their disposal (Mannix, 1993; McAlister, Bazerman, & Fader, 1986).

With regard to ownership power, in founder dyads, we expect the main founder to be able to exert their dominance on the cofounder when they have either low or high levels of ownership stake, because in both cases the second cofounder's ownership is too small to influence the actions of the main founder. Specifically, when the main founder has a low level of ownership, the other cofounder owns an even lower, and therefore insignificant, share of equity; and, when the main founder has a high level of ownership, the main founder owns most of the firm and therefore has significantly more ownership power than does the cofounder. Instead, when the main founder is unable to exert dominance through ownership power, the two founders are more likely to reach high mutual gains agreements benefiting the entire group (Mannix, 1993; McAlister et al., 1986). In this situation – two founders having similar ownership power – we expect that there will be a positive effect in terms of firm value because the two founders will focus on reaching high mutual gain agreements, thanks to their ownership in the firm, whilst benefiting from the advantages of the presence of another founder–owner. These include a deep sense of trust and a strong relationship (Ruef et al., 2003) allowing them to benefit from complementary knowledge, skills, experience, financial capital, and networks of contacts (Becker, 1975; Bruton & Rubanik, 2002; Coleman, 1988; Cooper & Bruno, 1977; Delmar & Shane, 2006; Kor et al., 2007; Roure & Maidique, 1986). They may also benefit from a deep knowledge of the firm in their roles as stewards, experts, and strategic decision makers, which are likely to continue across the lifecycle of a firm including beyond an IPO (Abebe et al., 2020). In addition, when the second founder owns a similar ownership stake to that of the main founder, they will be able to monitor the latter more effectively than would minority shareholders who have limited ownership power and influence. At the same time, both cofounders together will be better able to monitor management (Jara–Bertin, López–Iturriaga, & López–de–Foronda, 2008). Therefore, we expect that the presence of a second cofounder in young public firms will reduce the likelihood that the main founder will act in self–interest and benefit themselves at the expense of minority shareholders, as they are more likely to do when they are the sole founder, as per Hypothesis 1.

This situation occurs when there is ownership power balance between founders. More specifically it occurs when the main founder has a share of equity similar to that of the other cofounder, i.e. at intermediate ranges of the main founder's ownership. This is because, as stated above, when the main founder holds low and high levels of ownership, the second cofounder's ownership is too small to have any significant influence. In other words, we expect the presence of a second cofounder to alter fundamentally the nature of the relationship between a single founder's ownership and firm value. In particular, we expect that the presence of a second cofounder will moderate the relationship between single founder ownership and firm value resulting in a concave relationship. When the main founder has low levels of ownership, we expect a similar firm value to the case of a single founder (as hypothesized in H1), because by definition the second cofounder has an even lower level of ownership. Although the main founder could dominate over the second cofounder, both founders have limited ownership power and the market for corporate control limits undue agency costs (Dalton et al., 2007; Jensen, 1986), resulting in a similar outcome in terms of firm value as in the case of a single founder. We expect higher firm value when the main founder has intermediate levels of ownership, with the main founder having a similar share of equity as the second cofounder and cooperating with them. Finally, we expect lower firm value when the main founder has a high ownership percentage, because they will dominate and compete with the second cofounder, as previously illustrated.

Hypothesis 2. In firms with founder dyads, the presence of a second cofounder moderates the convex relationship between the main founder's ownership and firm value such that it becomes a concave relationship, with lower firm value occurring when the main founder has low or high levels of ownership and higher firm value occurring when the main founder has intermediate levels of ownership.

We now turn to consider founder teams with more than two individuals. Larger teams are qualitatively different from dyads because the addition of at least a third individual alters the interpersonal interactions (Simmel, 1950, cited in Friedkin & Johnsen, 2011). Compared to dyads, larger groups have a less intimate context and more complex interpersonal relationships in which asymmetry, leadership, and dominance are more likely to occur, "fostered by the more complex interpersonal task–environment" (Friedkin & Johnsen, 2011: 140). In such situations, given that there are three or more individuals involved, there is a greater chance of having difficulties in the decision making process, attributable to the greater complexity of the situation compared to dyads (Friedkin & Johnsen, 2011) and higher coordination and integration costs (Ucbasaran, Lockett, Wright, & Westhead, 2003). In general, when three or more individuals have to make a joint decision, it is likely that at least two of them will seek mutual benefits by combining forces (Kahan & Rapoport, 2014). This is likely to result in the formation of coalitions. Coalitions are subgroups that encourage more competitive behavior, restricting access to resources by all group members, and are likely to lead to failure to utilize available resources efficiently and reach integrative agreements despite their advantages (Mannix, 1993).

However, contrary to this prediction, prior research focusing on top management teams has concluded that power inequality is positively associated with firm performance for two main reasons (Smith et al., 2006). First, top management teams by definition have one individual with more power than others – the CEO – and that individual plays a key role in the dominant coalition (Ocasio, 1994). Second, powerful team members, alone or in a coalition, can use their power to create fast and efficient decision–making processes. By establishing rules for constructive exchanges among team members and intervening to bring discussions to an end to make a decision, they can ultimately benefit firm performance (Smith et al., 2006). Founder teams are similar to top management teams because they are relatively small groups and, at the beginning and during the early stages of the life of the firm, they are, by definition, also the top management team: "A new venture team is a particular type of top management team" (Foo, Sin, & Yiong, 2006: 389). They also tend to have a leader who typically emerges to guide the business, especially in the difficult initial stages of the venture, and whose role is to identify common goals, monitor team discussions and manage conflict (de Jong, Song, & Song, 2013; Foo et al., 2006). This powerful individual within the founder team consequently provides guidance and direction to other, less powerful, founders. In general, founder teams are populated by high–power members and this is likely associated with high levels of conflict, power struggles and negative implications for team functioning. If one founder emerges as a leader, this individual can become a higher–power member in the team allowing the team overall to perform better, because a hierarchically differentiated team structure facilitates better team functioning

(Greer, 2014). In line with this, a study of Fortune 500 firms indicated that “one founder often plays a more dominant role than the others” in public firms (Adams et al., 2009).

Based on this reasoning, we expect groups of three or more founders to be associated with greatest firm value when there is ownership power imbalance within the founder group. Such a situation allows for one of the founders to emerge as a leader, whilst taking advantage of the benefits deriving from being part of a founder team. These benefits include, as illustrated above, trust, strong relationships (Ruef et al., 2003), complementary knowledge, skills, experience, financial capital, and networks (Becker, 1975; Bruton & Rubanik, 2002; Coleman, 1988; Cooper & Bruno, 1977; Delmar & Shane, 2006; Kor et al., 2007; Roure & Maidique, 1986) as well as deep knowledge of the firm and their roles as stewards, experts, and strategic decision makers that are likely to continue beyond an IPO (Abebe et al., 2020). With regard to ownership power, this occurs when the main founder has a relatively larger share of equity than do their cofounders and specifically when the main founder has high levels of ownership and thus owns an overwhelmingly dominant stake in the firm. For example, a situation in which three cofounders respectively have 20%, 15%, and 10% of the equity – a relatively equal ownership distribution – will not allow for any of them to emerge as a leader. This contrasts with a situation in which three cofounders respectively own 40%, 15%, and 10% equity stakes – a relatively unequal ownership distribution, with the first one prevailing over the other two. In other words, we expect that the presence of more than two founders will reinforce the relationship between main founder ownership and firm value. We expect the presence of a founder team to shift the critical point at which the relationship between main founder ownership and firm value changes from negative to positive and to steepen the firm value curve. This is because the main founder can emerge as a leader and benefit the firm when they own a smaller ownership stake than if they were the only founder, thanks to the additional equity stakes owned by the cofounders. This can occur whilst they reap the advantages of having a small team behind them, which can help them benefit firm value more than if they were the only founder, thanks to the advantages illustrated above. Thus, we predict a convex relationship that is steeper than the main effects relationship between single founder ownership and firm value, with the highest firm value occurring when the main founder has high levels of ownership relative to the cofounders, i.e. when the main founder has a relatively larger share of equity than do the other cofounders. Likewise, the lowest firm value occurs when the main founder has intermediate levels of ownership, i.e. similar to those of other cofounders. We expect the relationship to be steeper than the main effects relationship because, compared to having a single founder, when the main founder has high levels of ownership relative to the cofounders, the founder team will be more likely to reach integrative agreements (Mannix, 1993), have constructive exchanges and achieve fast and efficient decision–making processes (Smith et al., 2006), whilst reaping the benefits deriving from having a team. At low levels of main founder ownership, similar to that hypothesized for H1 and H2, we expect the market for corporate control to limit founders' power and any undue agency costs (Dalton et al., 2007; Jensen, 1986) and thus a similar firm value as in the two previous hypotheses. In summary, we expect that the increase in firm value will manifest itself more rapidly at higher levels of main founder's ownership compared to the case of a sole founder.

Hypothesis 3. In firms with founder groups, the presence of three or more founders accentuates the convex relationship between the main founder's ownership and firm value such that it becomes steeper, with the highest firm value occurring when the main *founder has low or high levels of ownership relative to the cofounders and the lowest firm value occurring when the main founder has intermediate levels of ownership.*

METHOD

Sample

Our sample includes firms that have been public for less than 20 years and retain at least one founder. These young public firms differ from both early stage firms and mature public firms. Compared to early stage, private firms, public firms have to report financial data on a regular basis and follow strict regulations dictated by the stock exchange (Liu, Hesterly, & Cannella, 2012). Greater access to financial resources goes hand in hand with increased focus on short term results and growing interest from external stakeholders. However, compared to mature public firms, young public firms are less likely to be monitored and scrutinized by financial analysts and institutional investors (Basu, Dimitrova, & Paeglis, 2009), allowing founders to continue exercising their influence and control on the firm (Morck et al., 1988). This is also made possible by the fact that, although young public firms are more structured and professionalized than are early stage firms through explicit and accountable board structures and other systems (Garg et al., 2018; Lynall, Golden, & Hillman, 2003), their internal organization tends to be underdeveloped compared to mature public firms (Filatotchev & Piesse, 2009). Furthermore, founders generally retain relatively high ownership in young public firms. In our sample, on average, the main founder still held 23.0% of the stock in the firm. Additionally, in 35% of firms there was more than one founder. Where present, the second cofounder owned on average 7.9%, the third 4.7%, the fourth 5.3%, the fifth 2.0%, and the sixth 1.0%. In summary, the young public firms in our sample are unique in having the dual benefit of active founder teams as well as a legal requirement to publicly disclose high quality information on their operations and ownership at regular intervals. From a research standpoint, this makes them the ideal laboratory to study founders' power, given the fairly high ownership of founders in such firms.

We started with the list of all US firms that went public between 1993 and 1996, obtained from the SDC/Platinum New Issues database. As is common practice in the IPO/public firm literature (e.g., Lowry and Schwert, 2004), we eliminated real estate investment trusts (REITs), closed–end funds, unit offerings, equity carve–outs, financial firms, utilities, foreign firms, leveraged buyouts, and roll–ups. Further, we required firms to be found in the Center for Research in Security Prices (CRSP) and COMPUSTAT databases. Finally, we removed firms for which CRSP and SDC showed different first date of trading. We were left with a total of 1,365 firms. We then excluded 406 firms in which founders were no longer present, leaving us with 959 firms in which founders were still present throughout the 19 year period. Of these 959 founder firms, 621 had a single founder, 238 had two cofounders, and 100 had more than two cofounders. The distribution of our sample by the number of founders is reported in Table 1.

Insert Table 1 about here

We then manually collected annual ownership data from proxy statements for all founders for each of these firms for 19 years after going public, as described below. Our final sample consists of 7,162 observations from 959 public firms with available ownership and accounting data. Of the 959 founder firms at the time of IPO, 41 survived until the 18th listing anniversary whilst retaining at least one of the original founders. Those that did not survive were delisted, merged with other firms, or went out of business; firms in which all founders exited also dropped out of our sample.

Definition of Main Founder and Cofounder

We identified sample firm founders using the information in the management sections of their IPO prospectuses. In most cases, the prospectus clearly mentioned that a particular person was a founder of the firm. When the IPO prospectus did not mention the term 'founder', in the vast majority of such cases these individuals were called founders in subsequent filings. These were often the CEO and/or Chair who had been with the firm since inception as founders and were explicitly referred to as founders shortly after the IPO. The data on founders' (and their family's[ii]) ownership was collected for each of the 19 years under consideration from the relevant prospectus and the subsequent annual proxy statements. We define the main founder as the one holding the largest ownership stake in the firm, as measured by the voting rights. We define a cofounder as a founder who has a smaller ownership stake in the firm, as measured by the voting rights, than does the main founder. Table 2 includes a list and definition of all variables.

Insert Table 2 about here

Dependent Variable

Following earlier studies on the relationship between ownership and performance (e.g., Morck et al., 1988; Villalonga & Amit, 2006), we use Tobin's q to measure firm value. Tobin's q is defined as the ratio of the sum of market value of equity and book value of assets less book value of equity and deferred taxes to the book value of assets. This proxy for a firm's valuation is higher when the firm's expected future performance is superior to that of comparable firms due to factors such as effective leadership that are not currently reflected in the financial statements (Badrinath & Lewellen, 1997; Morck et al., 1988).

Independent Variables

We define the ownership of a firm's main founder, i.e. the founder with the highest equity ownership, as the fraction of voting rights controlled by them (and their family). To allow for non–linearity in the relationship between ownership and firm value we also used squared main founder's ownership. To test for the influence in terms of ownership power of additional founders on the relationship between ownership of the main founder and firm value, we introduced a dummy variable (Cofounder dummy) that equals one if there was more than one founder with voting rights in the firm and zero otherwise. We then interacted this dummy with main founder's ownership and main founder's ownership squared. Further, since we have hypothesized that influence of cofounders on firm value depends on the total number of founders, we also created an additional dummy variable (Multiple cofounder dummy) that takes on a value of one if there are more than two founders present in the firm and equals zero otherwise. As before, we interacted this dummy with the two main founder ownership variables (level and square). For supplementary analyses, we introduced two more variables as alternative measures of ownership power symmetry, including the percentage of voting rights controlled by the second (Founder2 own) and third (Founder3 own) largest cofounder and their family. We also identified firm founders' positions as CEO and/or Chair of the Board, using the information in the annual proxy statements.

Control Variables

To control for the effect of firm and industry characteristics on firm value, we introduced the following eight control variables. To control for the potential influence of a dual class share structure, we used the wedge, defined as the difference between voting rights and cashflow rights controlled by the main founder (Gompers, Ishii, & Metrick, 2010). To control for potential differences in economies of scale and in the level of asymmetric information, we used firm size, defined as the natural logarithm of total assets (Anderson & Reeb, 2003). As an additional control for the differences in the level of asymmetric information, we used firm age, defined as the natural logarithm of one plus the number of years between either the year of incorporation or the start of operations, whichever is earlier, and the time of the proxy statement filing date (Ritter, 1984). We controlled for growth opportunities using sales growth, defined as the percentage change in sales over the previous year (Villalonga & Amit, 2006), and the ratio of R&D expenditure to net sales (Anderson & Reeb, 2003). To control for the influence of leverage on firm value, we used the ratio of book value of long term debt to total assets (Anderson & Reeb, 2003). To control for variation in the firm value across industries, we used the industry median market–to–book ratio, with industry defined using Fama & French (1997). Finally, we used year fixed effects to control for variation in firm value across years.

RESULTS

Table 3 shows descriptive statistics, including means and standard deviations of the variables and correlations among those variables. Tobin's q is relatively high (Mean = 2.44, S.D. = 1.41), which is not surprising given that our sample is made up of young public firms. The average (median) age of firms in the sample at time of IPO was 11.2 (11.5) years, which is much lower than the average age of, for example, the S&P 500 which is 67.4 (69.0) years (Basu et al., 2015). The average age of firms overall in the sample was 14.0 years and, on average, the main founder held 23% of the stock in the firm.

Insert Table 3 about here

Main Analyses

In the first column of Table 4 we present results of the pooled OLS with year fixed effects regression with Tobin's q as dependent variable; t–statistics are calculated using heteroscedasticity–adjusted (White) standard errors. The coefficient estimates on all control variables are significant. Sales growth, R&D, and industry Tobin's q have a positive and significant relationship with firm value (p <.01). Leverage, at the same time, has a negative and significant relationship (p <.01). Finally, the coefficient estimate of firm age is negative and significant (p <.01), suggesting fewer growth opportunities as firms become older (Evans, 1987). The coefficient estimate of founder ownership is negative (r = -0.90, p <.01), while that of founder ownership squared is positive (r = 1.48, p <.01). Consistent with Dawson et al. (2018), these results imply a statistically significant and convex relationship between founder ownership and firm value, thus supporting Hypothesis 1. The relationship between founder's ownership and firm value reaches its minimum at 30.4% ownership for firms with a single founder.

Moving on to the interaction relationship about founder dyads and ownership power, we find that the interaction term – the presence of a cofounder with an ownership stake in the firm – has a concave influence on the main effects relationship between main founder's ownership and firm value. The coefficient estimate of founder ownership * cofounder dummy is positive (r = 3.13, p <.01), while that of founder ownership squared * cofounder dummy is negative (r = -

4.56, p <.01). Since the concave influence of cofounder presence is, in absolute terms, significantly larger than the influence of a single founder, the overall relationship becomes concave (see Figure 1). In the presence of a cofounder, the relationship between ownership of the main founder and firm value reaches its maximum at 36.2% of main founder ownership. Thus, Hypothesis 2 is supported.

With regard to the hypothesized interaction relationship about founder teams and ownership power, to ascertain the overall influence of cofounder presence in the case of more than two founders, we need to add the coefficient estimates of main founder ownership and the two interactive dummies. We find that the overall effect of this interaction term is convex, as in the main effects relationship, but the moderator has the effect of moving the turning point of the curve and of steepening it, changing the overall shape of the main effects relationship. The coefficient estimate of founder ownership * multiple cofounder dummy is negative (r = -3.63, p <.01), while that of founder ownership squared * multiple cofounder dummy is positive (r = 8.68, p <.01). Thus, Hypothesis 3 is supported. In the case of more than two founders, the relationship reaches its minimum at 12.5% of main founder's ownership.

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Insert Table 4 about here

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Insert Figure 1 about here

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Supplementary Analyses

We ran a number of supplementary analyses to assess the robustness of our findings. So far, we have argued, and presented evidence consistent with the proposition, that, in founder dyads, the presence of a second cofounder will alter the relationship between single founder's ownership and firm value with the most significant and positive impact when the two founders have similar ownership stakes. We have reasoned that this should happen at intermediate levels of main founder's ownership. Our results, summarized in Figure 1, show that, in dyads of founders, the value of the firm reaches a maximum at a level of ownership for the main founder that is around 36.2%. Up to this point, we have conjectured that this marks the point where the second cofounder's ownership reaches a maximum and therefore results in the most symmetry in a dyadic power structure. In Table 5, Panel A, we directly address this issue. As can be seen, the peak ownership of the second cofounder reaches a maximum of 38.9% at around 35% to 40% ownership of the main founder. This ownership stake is similar to that of the main founder, as assumed in our reasoning.

In similar fashion, the results for the case of more than two founders are presented in Panel B of Table 5. Presence of more than two founders allows for the possibility that the ownership stakes of the second and third cofounders may add up to more than that of the main founder. The last column of Panel B of Table 5 reports the percentage of firm years, for each main founder's ownership bracket, in which the combined ownership of the second and third cofounders exceeds that of the main founder. This is the case in around 62% of cases until the main founder's ownership reaches 15% to 20% ownership bracket, and is zero for all main founder ownership brackets above 30%. As can be seen from Figure 1, the relationship between main founder's ownership and firm value in the case of more than two founders becomes rather steep after 25% ownership of the main founder, when the main founder has greater ownership than that of the other cofounders combined.

Insert Table 5 about here

To supplement our analysis further, we examined the direct influence of the ownership of the second largest and the third largest cofounder on firm value as alternative measures of ownership power symmetry in founder teams of various sizes. An increase in the second largest cofounder's ownership could be an alternative measure of symmetry in a dyadic ownership power structure. Empirically, a high level of ownership of the second largest cofounder, which by the very definition of the second largest cofounder implies smaller ownership than the main founder, for the most part implies the absence of any other cofounders and certain level of parity in the power of the first and second cofounder. Even in the rare case when there is a third cofounder in such a firm, their ownership is, in comparison, insignificant and thus the power structure more closely resembles a dyad with an even balance of power. Likewise, a moderately large ownership of a third cofounder implies that the two other founders each own a larger share of the firm yet one that is not too much larger. As a result, increasing ownership of the third cofounder is symptomatic of a balance of power among more than two founders. The results are reported in the second and third columns of Table 4. We find that the relationship between main founder ownership and firm value is increasing with the ownership of the second cofounder and decreasing with that of the third cofounder. These findings are consistent with our conjectures that firm value increases with ownership power symmetry in dyads of founders and decreases with power symmetry in teams of three or more founders.

As our third supplementary analysis, we ran further tests to take into account whether the founders retaining an ownership stake also play a key role in their firms, because owner–founders may not be formally involved in the management of the firm (Finkelstein, 1992). We did this in two ways. First, we eliminated from our sample all cases in which none of the founders were a member of the top management team or the board (371 firm-years). In unreported results, our findings remained significant and qualitatively the same. Second, we divided our sample into subgroups based on founders' positions. We considered positions that would confer founders additional power, namely structural power, which is based on formal organizational structure and hierarchical authority (Finkelstein, 1992). Individuals exert structural power by holding the top positions in the firm; they can also 'pull rank' thanks to their formal position and have indirect influence thanks to greater access to information or control over resources. Individuals with structural power can exert their influence over a firm's dominant coalition, thus shaping organizational outcomes (Finkelstein, 1992). The dominant coalition of a firm is typically led by the CEO, who has higher structural power than other organizational members (Finkelstein, 1992) because they are responsible for high–level decision making (Nelson, 2003) and have "overall responsibility for the conduct and performance of an entire organization" (Cannella, Finkelstein, & Hambrick, 2008). Boards of directors also fall within the scope of a firm's strategic leadership. While they are not involved in the everyday running of the firm, they are responsible for reviewing major policy decisions and can be considered as 'supra–top management teams' (Cannella et al., 2008) as they hold "additional positions of individual and joint command" (Nelson, 2003: 711). In particular, the Chair of the Board has structural power that is exercised through controlling the CEO by monitoring, evaluating and disciplining them (Krause, 2017). Therefore, we considered the positions of CEO and Chair of the Board as being the two most important positions of structural power (Hellmann & Wasserman, 2017; Lynall et al., 2003).

To test the robustness of our founder dyad results to the structural power positions held by the founders, we split our sample with two founders into the following five subsamples where: (a) one of the founders is CEO and Chair of the Board; (b) one of the founders is CEO and there is a non–founder Chair of the Board; (c) one of the founders is Chair of the Board and there is a non–founder CEO; (d) one of the founders is CEO and the other founder is Chair of the Board; (e) founders are neither CEO nor Chair of the Board. For the ease of exposition, we use a subsample approach with single founder firms serving as a comparison group. In particular, when testing for the robustness of our results to a particular structural power configuration, we use that particular founder dyad subsample and the sample of single founder firms. In Table 6 (columns 1 to 5) we present results of the pooled OLS regressions for each structural power configuration. We find that, in line with our hypothesis on founder dyads (H2), the second founder has a concave influence on the relationship between main founder's ownership and firm value in the two cases in which the founders retain structural power in the firm, namely in the case of (a) CEO duality (column 1) and when (d) one founder is CEO and the other is Chair of the Board (column 4). In other words, we observe this concave influence from the second founder when one or both the cofounders hold top positions in the firm. We note that most of the cases (658 or 44.2%) are of CEO duality, of which a vast majority (574 or 87.2%) are the first founder and 84 (12.8%) are the second founder.

To test the robustness of our founder team results to the structural power positions held by the cofounders, we split our sample with three cofounders into the same five structural power categories we used in the case of founder dyads. As above, we use a subsample approach with single founder firms serving as a comparison group. In particular, when testing for the robustness of our results to a particular structural power configuration we use that particular founder team subsample and the sample of single founder firms. In Table 6 (columns 6 to 10) we present results of the pooled OLS regressions for each structural power configuration. We find that, in line with our hypothesis on founder teams (H3), the presence of further founders has a convex influence on the relationship between main founder's ownership and firm value (a) if there is CEO duality (column 6), (b) when one of the founders is CEO and there is a non–founder Chair of the Board (column 7) and (c) when one of the founders is Chair of the Board and there is a non–founder CEO (column 8). As in the case of founder dyads, our results are confirmed when at least one of the founders holds one of the top positions in the firm. In the case of 'one founder is CEO and the other is Chair of the Board' (case d), the signs of the coefficient estimates are consistent with our prior results but lack statistical significance, which may be due to the low number of observations in this subsample. As above, most cases (212 or 45.9% of all cases) are of CEO duality, of which a vast majority (183 or 86.3%) are the first founder, 19 (9.0%) are the second founder, and 10 (4.7%) are the third founder.

Insert Table 6 about here

Finally, to assess the robustness of our results further, we used alternative measures of firm performance and explored the impact of founder ownership and presence on the return on assets (ROA) and return on sales (ROS) instead of Tobin's q. In order to address the fact that the impact of the co-founder's presence is likely to manifest itself through strategic decisions and long term changes in firm performance, we looked at changes in ROA and ROS several years into the future. Our unreported results indicate that ROA and ROS are impacted similarly to Tobin's q (albeit at lower levels of statistical significance) five to seven years into the future.

DISCUSSION

In this study we examine the relationship between founders' ownership power and firm value in young public firms. Our unique dataset includes 959 founder firms with 7,162 firm–year observations, which are relatively young (average age of firms in the sample is 14.0, much lower than the average age of, for example, the S&P 500 which is 67.4 years; Basu et al., 2015) and in which, on average, the main founder still holds 23% of the stock in the firm. In 35% of firms in our sample, there is more than one founder. We find that cofounder presence has a significant moderating influence and that it varies based on the size of the founding team and on ownership power symmetry/asymmetry among cofounders. Our findings overall indicate that firm value is highest when there is ownership power symmetry in dyads of founders and power asymmetry in teams of three or more founders.

Major Contributions

By taking a more nuanced look at cofounders and their ownership power, we make two key theoretical contributions to the corporate governance literature on young public firms. First, we contribute to this literature by addressing the important relationship between founder–owner presence and firm performance, to complement previous studies which have predominantly focused on the relationship between board of directors and firm performance (Garg et al., 2018; Garg et al., 2019; Lungeanu & Zajac, 2019). Young public firms are an appropriate setting for studying this relationship, seeing that founders may remain involved in their firm, after it goes public, and continue to have a powerful influence over it (Garg et al., 2018), more so than in larger, older public firms. As such, we answer calls for corporate governance literature to look beyond its traditional focus of large, mature firms (Garg, 2020). Specifically, we gain new insights on the determinants of firm value in young public firms (Dawson et al., 2018) by showing that, through their ownership power, founders continue to matter in this type of firm, where they may still be present and powerful because of the smaller size, younger age, and lower structural complexity compared to more established public companies (Lungeanu & Zajac, 2019). In so doing, we also challenge the common understanding that founders leave at IPO because their venture and its needs have outgrown the founders' managerial skills (Willard, Krueger, & Feeser, 1992). Instead, we support the view that founders can adapt to the growing complexities of their businesses (Willard et al., 1992) and that the founders who remain after an IPO are those who enjoy higher power conditions (Zerbinati, Peng, & Shepherd, 2020), as indicated by the relationship we find between founders' ownership power and firm value.

Second, we challenge the tendency of prior research to study founder teams as a whole, and instead focus on ownership power distribution among founders. This allows us to untangle the relationship between founder ownership power and firm value, based on the number of founders and their relative ownership power. When there are founder dyads in young public firms, we find that there are benefits of having more than one individual holding ownership power, although such power needs to be balanced out between the two founders. A possible explanation for this is that, when the main founder has most of the ownership power, it is likely that power imbalance will lead to more competitive behavior between founders, resulting in greater head–on conflict and overall lower gain agreements (Coad & Timmermans, 2014; Mannix, 1993; McAlister et al., 1986). Specifically, we find a positive effect of having two rather than one founder and that highest firm value occurs when the two cofounders have similar ownership power. In our sample this occurs when the main founder owns 36.2% of the firm and, as shown in a robustness test, this coincides with the second founder having an ownership stake of similar size – giving both cofounders an overall ownership stake that is well above majority. However, the firm benefits from having more than one founder and firm value is higher than in the case of a single founder only up to a certain point, namely when the main founder holds 65% of the ownership. At and beyond this level of main founder ownership, the second founder has, on average, much lower (less than 10%) ownership than the main founder. This suggests that, beyond this point, the main founder holds so much of the equity that they dominate over the other founder, foregoing the benefits of the presence of another cofounder. Our analysis also provides insight into the roles that founders hold in their firms, confirming a similar moderating effect of the presence of a second founder, when one or both of the cofounders holds top positions in the firm, and in particular when there is CEO duality and when one founder is CEO and the other is Chair of the Board. As such, our measure of ownership power seems to be well aligned with the founders' active status and structural power in the firm.

When there are teams of three or more founders, we find that it is increasingly beneficial to have higher levels of main founder ownership and, therefore, ownership power imbalance among cofounders. Through ownership dominance of the main founder, this seems to allow the team to reach integrative agreements and reap the benefits of combining founders' influence, as opposed to the case of a single founder. In sum, in the case of more than two founders, it is more beneficial for the firm when there is ownership power imbalance among founders. This is particularly evident when the main founder holds 30% or more of the ownership. At these ownership levels, the main founder tends to own more than the other founders combined, as shown in a robustness test. In other words, our findings suggest that a main founder with greater ownership power, which at or above 30% of ownership is quite substantial in a public firm, is more likely to lead the founder team. At main founder ownership of between 30% and 35%, the second largest cofounder owns on average 16.5% of the equity and the third largest owns a further 6.7%, giving the founders together a majority of the firm's ownership. Our analysis also provides insight into the roles that founders hold in their firms, confirming a similar convex relationship between main founder ownership and firm value when at least one of the founders holds the top positions in the firm, specifically when there is CEO duality and when one founder is either CEO or Chair of the Board. This finding suggests that our measure of ownership power is also aligned with the founders' active status and structural power in the firm in the case of founder teams.

In sum, we complement the literature on performance in young public firms that has mainly focused on governance through board of directors (Garg et al., 2018; Garg et al., 2019; Lungeanu & Zajac, 2019) by focusing on founder ownership. This allows us to shed light on their continued influence through ownership power. Moreover, we highlight the crucial importance of considering the number of cofounders and their relative ownership power. This allows us to reveal the importance of ownership power balance or imbalance for firm value in young public firms.

Our findings have practical implications both for founders who continue to be involved post–IPO in the firms they created and for other investors. While founders often exit their firm after it goes public, this study reveals the importance of the ownership power they may retain even after IPO in relation to firm value. This is relevant for founders, seeing that their wealth often continues to be tied up in their firm even after it has gone public. It is also relevant for investors to understand that firm value may be affected not only by how many founders remain but also by the ownership they retain. Therefore, our findings can guide investors to work with founders, seeing that their continued ownership involvement may be beneficial for firm value, or alternatively to help find appropriate (partial or full) ownership exits of such founders.

Limitations and Future Research

Like most research, this study has limitations, some of which suggest directions for future research. First, we consider ownership power as our antecedent. Although this is a legitimate measure of ownership power (Finkelstein, 1992), future research could utilize more sophisticated measures of power, for example measuring relative power of the founder(s) compared to that of the CEO or the board (e.g., Payne, Benson, & Finegold, 2009). It would also be interesting to take into account the relationship between equity distribution among founders and their perception of their contribution to the business to reflect on the perceived justice of such equity distribution, which may result in different levels of cooperation or conflict (Breugst, Patzelt, & Rathgeber, 2015). Or scholars may attempt to capture the impact of power differences by considering the relationship between power and (industry experience or personality) heterogeneity among founders (Pitcher & Smith, 2001). Scholars may also consider other factors that affect the relationship between founding team ownership power and firm value, including board monitoring or changes in the regulatory environment (Haynes, Zattoni, Boyd, & Minichilli, 2019).

Second, although we find that founder team size and relative ownership power are strong indicators of firm value, and may therefore capture some of the underlying decision making processes, we do not investigate the mechanisms that are at play within founder teams (Stathopoulos & Talaulicar, 2020). The mechanisms underlying power dynamics in founder teams may result from several factors including demographic characteristics, such as age and gender, as well as team members' social networks (Chowdhury, 2005; Reagans, Zuckerman, &

McEvily, 2004); the experience, knowledge and functional background of each team member (Beckman, Burton, & O'Reilly, 2007; Chowdhury, 2005; Dai, Roundy, Chok, Ding, & Byun, 2016; Delmar & Shane, 2006); founders' leadership approach and engagement level (Abebe et al., 2020); team norms (e.g., more or less cooperative) based on demographic heterogeneity (Chatman & Flynn, 2001); team process variables such as team comprehension – i.e. the collective understanding of what is driving the business – and team deftness – i.e. the emergence of a 'collective mind', improving the effectiveness of execution (Chowdhury, 2005); task position allocation among founders (Jung, Vissa, & Pich, 2017); and other socially situated mechanisms (Westphal & Zajac, 2013). Such underlying mechanisms merit being investigated with reference to firm value, in order to shed further light on power dynamics in founding teams.

Finally, although our sample includes firms that we tracked yearly for up to 19 years after IPO, our empirical design is a pooled, cross–sectional one. As such it does not consider changes over time in each firm and how such changes may be better analyzed by explicitly considering the changes to the relationship between ownership power and firm value that arise out of the evolution of the firm and the founder team over time. Future studies should take into account how founders become more experienced over time, for example by developing the cognitive process through which they identify and evaluate opportunities (Baron & Ensley, 2006); or, alternatively, how founders may not be the best managers as their firm continues to grow and requires new skills (Boeker & Karichalil, 2002). With regard to our sample being based in the US, this may also limit the generalization of our findings to other contexts that may present different institutional and legal settings and more concentrated ownership, affecting the nature and scope of agency conflicts, control mechanisms, and corporate governance more in general (Bruton et al., 2010).

CONCLUDING REMARKS

New ventures are often created by more than one entrepreneur and founding teams may continue to be involved in their business, even after it goes public. However the corporate governance literature has not paid much attention to the presence of more than one founder and the effect of their continued ownership on firm value in young public firms, where founders may still be present and influential. By investigating team size alongside ownership power, we propose and test a theoretical framework that suggests which combinations are more beneficial in terms of firm value, specifically ownership power symmetry in dyads of cofounders and ownership power asymmetry in teams of three or more cofounders. In so doing, we contribute to the corporate governance literature on founding teams and firm value in young public firms by extending knowledge of how cofounders affect firm value depending on their number and relative ownership power. We hope these insights will prompt future research to advance our understanding of founder ownership power further.

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Table 1. Distribution of Sample by Number of Founders

Number of founders	Number of firms	Number of firm–years
Single founder	621	5,211
Two founders	238	1,489
Three or more founders	100	462
Total	959	7,162

Table 2. List of Variables

Variables	*Definitions*
	Ownership variables
Founder own	Percentage of voting rights controlled by the main founder and their family
Cofounder dummy	Dummy variable that takes on a value of one if there is more than one founder present in the firm, and zero otherwise
Multiple cofounder dummy	Dummy variable that takes on a value if one if there are more than two founders present in the firm, and zero otherwise
Founder2 own	Percentage of voting rights controlled by the second largest cofounder and their family
Founder3 own	Percentage of voting rights controlled by the third largest cofounder and their family
	Dependent variable
Tobin's q	Ratio of the sum of market value of equity and book value of assets less book value of equity and deferred taxes to the book value of assets
	Control variables
Wedge	Difference between the percentage of voting and cash flow rights controlled by the main founder
Firm size	Natural logarithm of book value of total assets (in millions of $)
Firm age	Natural logarithm of one plus the number of years between either the year of incorporation or the start of operations, whichever is earlier, and the time of the proxy statement filing date
Sales growth	Percentage change in sales over the previous year
R&D	Ratio of R&D to firm sales (=0 if R&D expenditures were missing)
Leverage	Ratio of book value of long term debt to total assets
Industry median Tobin's q	Median Tobin's q for all COMPUSTAT firms in the same year and Fama–French 48 industry group
Year dummy	Dummy variable (1=if the observation belongs to a calendar year t; 0=otherwise)

Founder Teams and Firm Value

Table 3. Descriptive Statistics

		Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1	Tobin's q	2.44	1.41	1													
2	Founder own	0.23	0.23	-0.10	1												
3	Founder own squared	0.11	0.18	-0.08	0.95	1											
4	Cofounder dummy	0.27	0.45	0.12	-0.19	-0.20	1										
5	Multiple cofounder dummy	0.06	0.25	0.05	-0.12	-0.11	0.43	1									
6	Founder2 own	0.02	0.05	0.08	-0.01	-0.09	0.67	0.24	1								
7	Founder3 own	0.00	0.02	0.02	-0.06	-0.07	0.29	0.69	0.33	1							
8	Wedge	0.02	0.09	-0.10	0.51	0.61	-0.11	-0.06	-0.06	-0.04	1						
9	Firm size	4.50	1.57	-0.29	0.07	0.12	-0.09	-0.07	-0.11	-0.09	0.24	1					
10	Firm age	2.71	0.64	-0.32	0.22	0.21	-0.21	-0.15	-0.13	-0.12	0.17	0.37	1				
11	Sales growth	0.52	1.29	0.25	-0.08	-0.07	0.08	0.05	0.02	0.02	-0.04	-0.11	-0.33	1			
12	R&D	0.21	0.47	0.28	-0.26	-0.20	0.04	0.03	-0.06	-0.03	-0.09	-0.23	-0.23	0.20	1		
13	Leverage	0.15	0.21	-0.21	0.16	0.17	-0.06	-0.05	-0.05	-0.05	0.16	0.30	0.06	-0.02	-0.05	1	
14	Industry median Tobin's q	1.80	0.62	0.37	-0.25	-0.20	0.10	0.03	0.00	0.00	-0.1	-0.2	-0.2	0.13	0.52	-0.1	1

N = 7,162. *Note*: Correlations greater than 0.02312 or less than -0.0232 are significant at p <.05

Table 4. Results of OLS Regressions of Tobin's q on Main Founder Ownership

	(1)	(2)	(3)
Founder own	-0.900	-0.613	-0.645
	(3.99)***	(2.92)***	(3.07)***
Founder own squared	1.479	1.200	1.223
	(5.05)***	(4.30)***	(4.38)***
Founder own * Cofounder dummy	3.132		
	(4.94)***		
Founder own squared* Cofounder dummy	-4.562		
	(4.41)***		
Founder own * Multiple cofounder dummy	-3.631		
	(2.91)***		
Founder own squared * Multiple cofounder dummy	8.685		
	(4.76)***		
Cofounder dummy	-0.148		
	(2.09)**		
Multiple cofounder dummy	0.076		
	(0.59)		
Founder2 own		1.283	1.584
		(4.47)***	(5.19)***
Founder3 own			-2.945
			(3.54)***
Wedge	-0.566	-0.627	-0.618
	(3.37)***	(3.72)***	(3.65)***
Firm size	-0.053	-0.050	-0.051
	(4.15)***	(3.99)***	(4.06)***
Firm age	-0.223	-0.226	-0.230
	(8.29)***	(8.46)***	(8.60)***
Sales growth	0.121	0.122	0.121
	(8.69)***	(8.69)***	(8.65)***
R&D	0.214	0.218	0.215
	(4.87)***	(4.96)***	(4.88)***
Leverage	-0.900	-0.901	-0.904
	(11.13)***	(11.08)***	(11.13)***
Industry median Tobin's q	0.614	0.618	0.616
	(18.81)***	(18.96)***	(18.91)***
Constant	1.375	1.244	1.261
	(9.99)***	(10.33)***	(10.47)***
Observations	7162	7162	7162
Adjusted R-squared	0.30	0.29	0.30

*p < .1, **p < .05, ***p < .01
Note: Values in parentheses are t-statistics.

Table 5. Levels of Cofounder Ownership
Panel A. Two–Founder Firms

Main founder ownership	Number of firms	Mean second cofounder ownership	Minimum second cofounder ownership	Maximum second cofounder ownership
0 to 5%	346	1.6	0.1	4.8
5 to 10%	293	4.3	0.5	9.9
10 to 15%	198	7.9	0.5	14.6
15 to 20%	165	10.7	0.5	19.2
20 to 25%	125	14.6	1.6	24.9
25 to 30%	128	16.7	0.1	29.9
30 to 35%	70	15.1	3.0	34.6
35 to 40%	46	15.9	0.1	38.9
40 to 45%	25	12.5	0.1	35.1
45 to 50%	26	13.3	0.2	24.5
50 to 60%	26	12.3	1.4	20.0
60 to 70%	30	7.9	0.5	17.9
70 to 80%	8	8.6	0.5	13.6
above 80%	3	3.9	0.6	5.6

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Panel B. More Than Two Founder Firms

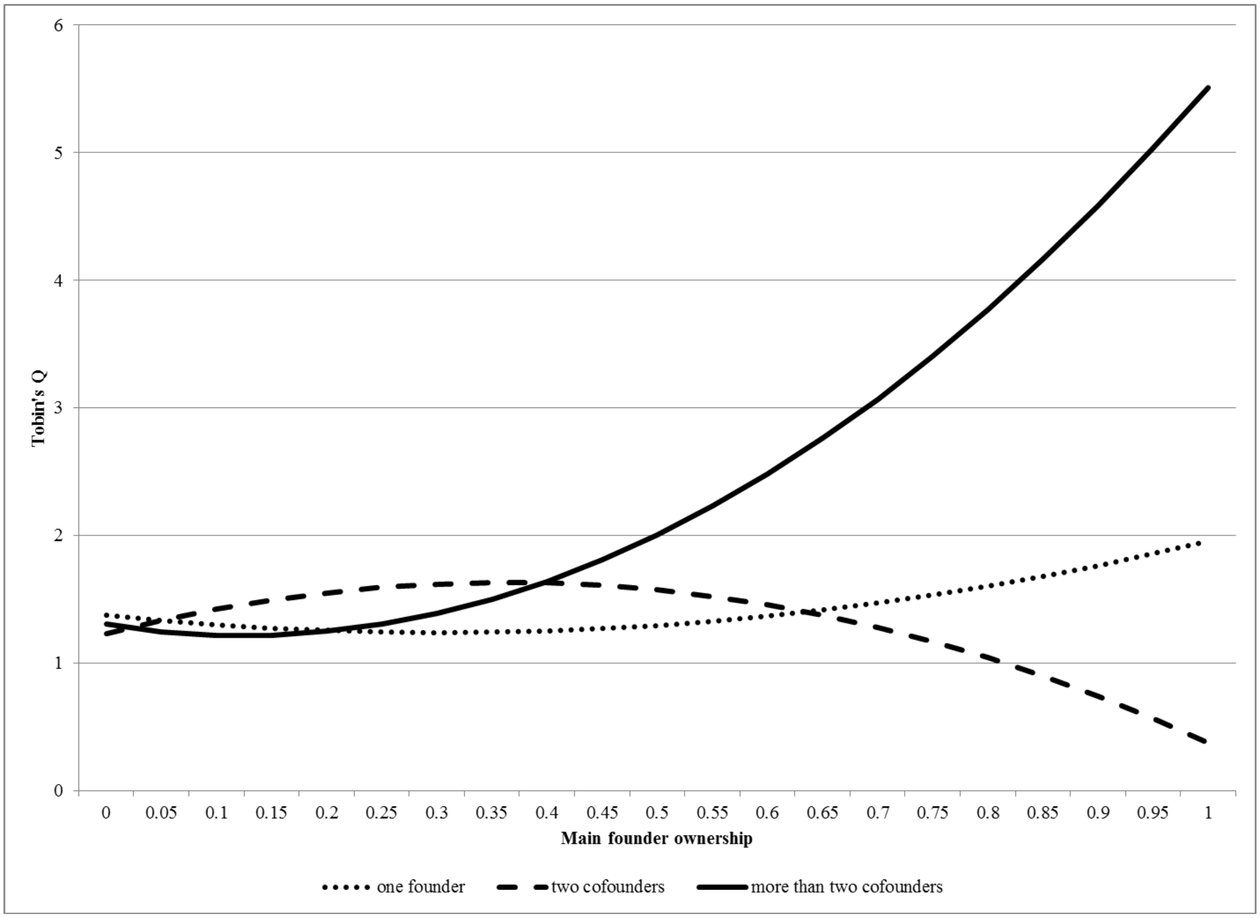
Main founder ownership	Number of firms	Mean second cofounder ownership	Minimum second cofounder ownership	Maximum second cofounder ownership	Mean third cofounder ownership	Minimum third cofounder ownership	Maximum third cofounder ownership	Second + third greater than main
0 to 5%	124	2.0	0.2	4.7	1.4	0.1	4.4	51.6%
5 to 10%	131	4.9	1.2	9.6	3.6	0.1	9.6	61.1%
10 to 15%	57	8.1	2.6	13.9	5.4	0.5	13.9	57.9%
15 to 20%	61	12.3	2.5	18.8	8.2	0.5	18.8	62.3%
20 to 25%	49	15.6	4.0	24.4	11.1	0.4	20.8	61.2%
25 to 30%	11	12.9	3.2	27.3	6.5	0.5	16.9	27.3%
30 to 35%	9	16.5	6.4	25.9	6.7	3.4	10.3	0.0%
35 to 40%	2	9.5	1.6	17.5	4.6	0.5	8.7	0.0%
40 to 45%	1	1.5	1.5	1.5	0.4	0.4	0.4	0.0%
45 to 50%	3	8.0	0.5	21.8	1.9	0.5	4.6	0.0%
50 to 60%	5	5.0	0.5	22.3	1.2	0.5	4.2	0.0%
60 to 70%	4	2.0	1.7	2.2	1.1	0.5	1.5	0.0%
70 to 80%	3	2.0	1.0	2.6	1.7	0.5	2.5	0.0%
above 80%	2	1.8	1.4	2.1	1.6	1.1	2.0	0.0%

Table 6. Results of OLS Regressions for Structural Power Subsamples

	Two cofounder (cof) firms					More than two cofounder (cof) firms				
	One of the cof is CEO and chair	One is CEO, non-founder chair	One is chair, non-founder CEO	One is CEO other is chair	Cof are neither CEO nor chair	One of the cof is CEO and chair	One is CEO, non-founder chair	One is chair, non-founder CEO	One is CEO other is chair	Cof are neither CEO nor chair
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Founder own	-0.922	-0.896	-0.836	-0.894	-0.892	-0.906	-0.911	-0.904	-0.915	-0.921
	(4.05)***	(3.92)***	(3.66)***	(3.91)***	(3.90)***	(4.01)***	(4.04)***	(4.01)***	(4.06)***	(4.08)***
Founder own squared	1.390	1.376	1.307	1.376	1.370	1.488	1.482	1.474	1.485	1.493
	(4.71)***	(4.65)***	(4.43)***	(4.66)***	(4.63)***	(5.07)***	(5.06)***	(5.04)***	(5.07)***	(5.10)***
Founder own * Cofounder dummy	2.512	-0.720	2.625	10.976	3.171	3.124	3.110	3.116	3.112	3.100
	(2.93)***	(0.45)	(2.31)**	(5.68)***	(1.58)	(4.92)***	(4.90)***	(4.91)***	(4.91)***	(4.89)***
Founder own squared* Cofounder dummy	-3.357	1.000	-2.120	-17.340	-5.142	-4.546	-4.529	-4.539	-4.533	-4.520
	(2.68)***	(0.40)	(1.04)	(6.14)***	(1.37)	(4.38)***	(4.37)***	(4.38)***	(4.37)***	(4.36)***
Founder own * Multiple cofounder dummy						-3.879	-18.524	-12.906	-20.871	11.113
						(2.29)**	(2.16)**	(1.98)**	(1.24)	(1.91)
Founder own squared * Multiple cofounder dummy						8.884	65.015	46.793	80.531	-27.372
						(3.93)***	(1.92)	(2.09)**	(1.14)	(2.03)**
Cofounder dummy	-0.084	-0.046	-0.101	-1.034	-0.077	-0.148	-0.147	-0.147	-0.146	-0.145
	(0.77)	(0.27)	(0.83)	(4.80)***	(0.53)	(2.09)**	(2.08)**	(2.08)**	(2.06)**	(2.05)**
Multiple cofounder dummy						0.152	0.527	0.201	1.052	-0.353
						(0.79)	(1.52)	(0.60)	(1.30)	(0.84)
Wedge	-0.227	-0.254	-0.207	-0.268	-0.213	-0.557	-0.533	-0.531	-0.532	-0.513
	(1.33)	(1.49)	(1.21)	(1.58)	(1.24)	(3.32)***	(3.21)***	(3.19)***	(3.20)***	(3.08)***
Firm size	-0.079	-0.074	-0.068	-0.075	-0.075	-0.054	-0.058	-0.057	-0.058	-0.063
	(5.73)***	(5.29)***	(4.82)***	(5.28)***	(5.27)***	(4.20)***	(4.49)***	(4.38)***	(4.47)***	(4.86)***
Firm age	-0.212	-0.246	-0.237	-0.230	-0.243	-0.233	-0.222	-0.224	-0.219	-0.224
	(7.54)***	(8.66)***	(8.36)***	(8.09)***	(8.43)***	(8.55)***	(8.16)***	(8.20)***	(8.04)***	(8.22)***
Sales growth	0.125	0.107	0.113	0.110	0.119	0.118	0.124	0.122	0.122	0.122
	(7.32)***	(6.03)***	(6.73)***	(6.24)***	(6.84)***	(8.21)***	(8.42)***	(8.18)***	(8.16)***	(8.14)***
R&D	0.172	0.160	0.177	0.175	0.152	0.212	0.205	0.208	0.204	0.192
	(3.40)***	(3.08)***	(3.50)***	(3.44)***	(3.02)***	(4.70)***	(4.52)***	(4.59)***	(4.45)***	(4.18)***
Leverage	-0.796	-0.805	-0.851	-0.794	-0.828	-0.900	-0.865	-0.875	-0.873	-0.866
	(9.16)***	(8.74)***	(9.23)***	(8.64)***	(8.99)***	(10.93)***	(10.53)***	(10.63)***	(10.55)***	(10.50)***
Industry median Tobin's q	0.613	0.619	0.632	0.620	0.617	0.608	0.614	0.614	0.615	0.620
	(16.87)***	(16.33)***	(16.88)***	(16.37)***	(16.40)***	(18.39)***	(18.33)***	(18.32)***	(18.24)***	(18.42)***
Constant	2.301	2.290	1.449	2.236	2.280	1.422	1.405	1.400	1.395	1.433
	(12.04)***	(13.32)***	(8.32)***	(12.91)***	(13.19)***	(10.24)***	(10.09)***	(10.07)***	(10.00)***	(10.28)***
Observations in subsample	658	232	287	110	202	212	104	76	27	43
Observations	5,869	5,443	5,498	5,321	5,458	6,912	6,804	6,776	6,727	6,743
Adjusted R-squared	0.29	0.29	0.30	0.29	0.29	0.30	0.30	0.30	0.30	0.30

*p < .1, **p < .05, ***p < .01

Figure 1. Influence of Presence of a Cofounder on the Relationship between Main Founder's Ownership and Firm Value



[i] Other sources of power include structural power, based on formal organizational structure and hierarchy; expert power, based on relevant expertise; and prestige power, based on status or reputation (Finkelstein, 1992).
[ii] We considered founders belonging to the same family as one block, based on family business literature according to which family members tend to behave in a cohesive and homogenous way, because of a shared family identity and in order to maintain the family's values, aspirations, and family wealth (e.g., Aronoff, 1998; Sharma, 2004).