

CONSIDERING THE IMPACT OF A FOUNDER'S OWN CHARACTERISTICS ON BUSINESS GROWTH STRATEGY

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Abstract: This paper reports on a research study that considers businesses transitioning through the Initial Public Offering (IPO) stage when share ownership changes from private to public. There are many important considerations that need to be managed at this stage in the development of a business, including ensuring the best leadership team is in place to reassure potential investors that it represents a good investment. Whereas it might be expected that a professional CEO would oversee decision making at this stage, it is often the case that the original entrepreneurial founder of the business retains control. This paper considers if the personal characteristics of the founder-CEO have the potential to influence strategic decision-making related to the development of an appropriate business growth strategy. The research indicates that if the founder-CEO has an output functional background, and/or a high education level, then a research and development growth strategy is more likely, whereas a founder-CEO with a throughput functional background, a lower level of education, and/or well-developed external relationships, is more likely to support a lower-risk growth strategy based upon mergers and acquisitions.

Keywords: entrepreneurship; research and development; mergers and acquisitions; strategy; decision-making; corporate governance.

1 Introduction

Corporate strategy encompasses the comprehensive plan and approach that governs a company's actions and decisions, aimed at accomplishing its long-term goals and objectives (Porter, 1995; Andrews, 1997a; Andrews, 1997b; Weissenberger-Eibl *et al.*, 2019). It entails evaluating the company's environment, identifying opportunities and challenges, and formulating a set of strategies to establish, and maintain, a competitive advantage over an extended period (Porter, 1995; Andrews, 1997a; Andrews, 1997b; Weissenberger-Eibl *et al.*, 2019). This advantage can be generated in the form of cost leadership, product differentiation, innovation of products and processes, and/or superior customer service (Porter, 1995). In essence, corporate strategy serves as a guiding roadmap for a company's actions, investments, and the allocation of resources, with the ultimate aim of achieving sustainable growth, profitability, and long-term success in a dynamic business environment (Wright, 2023).

The Initial Public Offering (IPO) process entails the transition of a company's ownership from privately held to publicly traded shares (Daily and Dalton, 1992). Companies undertake an IPO to obtain a capital infusion from new investors, which can be utilized to stimulate growth (Daily and Dalton, 1992). During the IPO, the original founder of the company is likely to maintain a significant ownership stake and may continue to hold a top executive position following the

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public offering (Daily and Dalton, 1992). Consequently, the founder's ability to create and deliver strategic initiatives that capitalize on opportunities, and leverage resources, becomes crucial for the organization's success.

Because ownership and control in large publicly traded firms is separated, this enables potential conflicts of interest between senior management and new shareholders to emerge (Jensen and Meckling, 1976). Shareholders are primarily concerned with maximizing the firm's long-term profitability, whilst management may also support this objective, they may additionally consider their personal wealth and job security, as well as that of their staff (Jensen and Meckling, 1976). Consequently, company executives may exhibit reluctance to concentrate on new research and development (R&D), not only due to the high failure rates associated with such investments, but also because R&D activities do not yield immediate performance outcomes. In contrast, executives often prefer projects that generate measurable short-term returns over the high-risk, long-term and potentially high-return R&D investments that shareholders may advocate for.

According to agency theory, managers may be motivated to expand the firm beyond its optimal size to enhance personal utility derived from status, power, compensation, and prestige (Jensen and Meckling, 1976; Jensen, 1986). Since managerial empire building often leads to the pursuit of mergers and acquisitions (M&As) as a growth strategy, monitoring such managerial behavior becomes challenging for shareholders (Stulz, 1990).

Whilst the characteristics of CEOs are most closely associated with strategy and structure in smaller organizations (Miller *et al.*, 1982; Miller and Toulouse, 1986), entrepreneurial companies at the IPO stage are not exempt from the influence of CEO traits (Liu and Polkinghorne, 2023). Given the complexity of factors influencing strategic choices, previous research has explored the processes of strategic decision-making, particularly focusing upon the impact and influence that senior executives may have when it comes to the future shaping of organizational outcomes. This study aims to examine how the characteristics of a company's founder may impact upon the selection of growth strategy after the IPO.

2 Strategic Perspective

In a comprehensive analysis of strategic management and new venture research, Cooper (1979) proposed that the initial ideas of an entrepreneur can shape the future development of a firm and influence its competitive positioning. Consequently, the founder's initial ideas and personal characteristics are likely to impact the firm's strategy and, consequently, its performance. Scholars in the field of social science argue that these initial ideas are influenced by the entrepreneur's background and their prior experiences within organizations (Cooper, 1979; Andrews, 1997a). Hambrick and Mason (1984) suggest that these factors contribute to enduring differences in cognitive processes and perceptions over time. Finkelstein and Hambrick (1990) propose that executive cognitions, perceptions, and subsequent strategic choices are all derived from the beliefs, knowledge, assumptions, and values that decision-makers bring into the organizational context. For example, Thomas *et al.* (1994) found that top managers' interpretation of strategic issues influenced the product/service offerings of their organizations. Day and Lord (1992) discovered that CEOs with technical backgrounds were able to solve strategic problems 50% faster than novices. D'Aveni and MacMillan (1990) further suggested a link between top managers' strategic interpretation of issues and firm success. Additionally, Kimberly (1979) demonstrated the significance of the personality, ambitions, and capabilities of deans in shaping the strategy and structure of medical schools.

These empirical studies establish a strong association between executive cognitions and perceptions and organizational outcomes. Consequently, Thomas *et al.* (1994) argue that managerial cognition is understanding an organization's actions, strategy, and outcomes. It is therefore important to comprehend the factors that influence executives' cognitions and

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perceptions (Chattopadhyay *et al.*, 1999; Walker, 1985; Ireland *et al.*, 1987; Walsh, 1988; Hambrick *et al.*, 1993; Liu *et al.*, 2018).

Although various dimensions of personality can be considered, previous literature suggests that three dimensions are particularly relevant to strategy and structure, these being experience (Starbuck and Milliken, 1988; Houghton and Neubaum, 1994; Waller *et al.*, 1995; Chattopadhyay *et al.*, 1999), age (Barker and Mueller, 2002), and share ownership (Sanders and Carpenter, 1998; Balkin *et al.*, 2000). Each of these dimensions is expected to have distinct associations with executive cognition and ultimately with growth strategy.

3 Founder Experience and Company Growth Strategy

The study of executive experience, which enables them to acquire valuable information and strategic expertise, has long been explored within Hambrick and Mason's upper echelon theory (1984). Previous research has examined the relationship between founders' experience and various demographic factors related to company executives, including education, age, and time at the company (Finkelstein and Hambrick, 1990; Hambrick *et al.*, 1996). Recent studies have placed particular emphasis on work experience and external ties, suggesting that these factors can provide valuable insights into external contexts and environmental changes (Pettigrew, 1992; Geletkanycz and Hambrick, 1997; Gulati and Westphal, 1999; Filatotchev, 2006). Executives gain important knowledge about the environment in which the firm operates through their external links.

Moreover, many researchers have investigated the impact of organizational founders' characteristics on business performance prior to the IPO stage (Greiner, 1972; Cooper and Gascon, 1992). Whilst founders may lead their organizations through the establishment phase of the business quite successfully, their ability to navigate the subsequent stages of growth are quite different, and therefore required diverse skills sets (Willard *et al.*, 1992; Hanks *et al.*, 1994). A surviving organization that is led by its founder, and is undergoing the transition from entrepreneurial to professional management, is referred to as being a threshold firm (Daily and Dalton, 1992). Zahra and Filatotchev (2004) suggest that this transition is challenging because the skills that have enabled the business to survive as a startup, become increasingly insufficient to meet the needs of the business in the next phase of the firm's life cycle. Entrepreneurial threshold firms must either develop new capabilities through organizational learning and knowledge management (Zahra and Filatotchev, 2004), or acquire external resources (Gedajlovic *et al.*, 2004) in order to succeed.

3.1 Founder's Functional Background

Functional background is recognized as being a significant indicator of the knowledge that an executive can offer. The upper echelon theory, as proposed by Hambrick and Mason (1984), has extensively examined how the cognitive orientations and perceptions of top managers are influenced by their functional background. According to psychologists such as Fiske and Taylor (1991), and Lord and Foti (1986), cognition and perception evolve through experience. This argument suggests that executives in a specific functional area are likely to be influenced by the understanding and resources that are relevant to that role, and the duration of their experience in each functional area amplifies the salience of the associated goals and processes (Chattopadhyay *et al.*, 1999).

Empirical studies by Janis and King (1954), and by Watts (1967), have found that individuals' roles can shape their cognitions and perceptions, aligning their personal beliefs with the demands of their roles. Additionally, research by Dearborn and Simon (1958) on managers' departmental identification indicates that functional experience selectively influences managers' perspective when solving complex problems (Walsh, 1988; Waller *et al.*, 1995; Beyer *et al.*, 1997). Research on human attention suggests that experienced individuals are

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more likely to gain information from events relevant to them, and management research emphasizes the consistency between organizational and individual behavior (Bebchuk and Roe, 1999). McGrath and Kelly (1986) suggest that individuals favor the application of using previously adopted methods when problem-solving.

Prior work experience has been found to have a significant influence on how individuals conceptualize their job function, and they then select appropriate behaviors through a process of socialization (Barker and Mueller, 2002; Bigley and Wiersema, 2002). Geletkanycz and Hambrick (1997, p.655) argue that decision-makers seek meaning from their counterparts, drawing on their experiences, definitions, and interpretations of similar contexts. Functional experience thus conveys information about the environment and its changing contingencies, shaping executives' frames of reference for understanding the external context. For example, Dearborn and Simon (1958) examined middle managers, and they argue that experience in a specific job function causes managers to perceive information in ways that are aligned to the related functional training they may have previously received.

An executive's perspective on the business is often influenced by their functional specialization. Therefore, executives with different career paths, and functional backgrounds, directly impact upon the definition of problems, cognitive processing, and strategic decision-making (Daft and Weick, 1984; Fiske and Taylor, 1991; Lyles and Schwenk, 1992). Consequently, executives bring critical knowledge to their roles that are largely shaped by their previous functional experiences (Herrmann and Datta, 2005).

Research often compares executives with experience in output functions (such as R&D/engineering and marketing/sales) to those in throughput functions (such as accounting/finance, production, administration, legal), suggesting that individuals within these functions develop distinct orientations toward growth strategies (Barker and Mueller, 2002). Hambrick and Mason (1984) propose that executives with output function experience emphasize growth, and the search for new opportunities, leading them to favor R&D strategies that foster incremental growth through the discovery of new products and markets. Conversely, executives with throughput function experience are often more inclined to focus upon improving organizational efficiency, and so are less interested in investing in high-risk projects.

Thus, the divergent strategic preferences amongst executives from output and throughput functional backgrounds can be attributed to different cognitive perceptions of risk. Constable (1986) argues that mergers and acquisitions are an alternative growth strategy that avoids risky R&D expenditure. In the context of an IPO, characterized by greater uncertainty and ambiguity, throughput experience intensifies concerns about efficiency, as mergers and acquisitions provide an immediate controlling presence in new and rapidly expanding markets. Conversely, R&D entails the gradual evolution of a new technical core with a higher failure rate, or the negotiation with a partner for the formation of an alliance (Caves, 1982; Capron *et al.*, 1998). Hence, it can be argued that a founder with a throughput functional background may seek to avoid the risks associated with long-term R&D strategies, and so be attracted to the lower risks and growth potential offered by mergers and acquisitions. Several studies support this argument, such as Thomas *et al.* (1991), who found that firms in the IT sector, pursuing market and product innovation strategies, had CEOs primarily experienced in output functions, whilst firms pursuing efficiency-oriented strategies had CEOs predominantly from throughput functions.

3.2 Founder's External Directorships

Numerous studies have demonstrated a link between the social contacts of top managers and the strategic adaptation of firms (Florin *et al.*, 2003). Social capital theory suggests that a social network holds value for its members as it provides access to embedded social resources (Seibert *et al.*, 2001). This notion is of particular relevance for entrepreneurial founders seeking

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funding from the stock market for the first time. Since high-growth entrepreneurial ventures are typically led by a small group of colleagues, they may lack the necessary breadth of market knowledge. Therefore, it is advantageous for entrepreneurial founders to establish external connections in order to draw upon a diverse range of experiences (Florin *et al.*, 2003). Geletkanycz and Hambrick (1997) propose that the external connections of top executives act as conduits for the sharing of information that informs their perspectives of the environment, and so contributes to establishing strategic options available when making decisions. From a resource independence perspective, the founder's interaction with external entities can provide valuable insights into the external context and environmental information (Pfeffer, 1972; Pfeffer and Salancik, 1978; Pfeffer, 1983). While there are numerous public sources of information regarding environmental changes, and trends (Aguilar, 1967), Geletkanycz and Hambrick (1997) contend that executives strongly prefer information from personal contacts.

Specifically focusing upon how the founder's external contacts may influence firm growth strategies, researchers suggest that mergers and acquisitions (M&As) are facilitated by interactions and knowledge exchanges involving diverse actors in interdependent situations. A founder's external contacts may create conditions favoring M&As over research and development (R&D). M&A activities allow firms to acquire valuable resources. Hennart and Reddy (1997) propose that in M&A transactions, surplus assets become mixed up with required assets, and the two are not easily separable. Consequently, mergers and acquisitions often result in the acquisition of unneeded assets. The first advantage of external contacts, from this perspective, lies in accessing precisely the resources that are required. External contacts can provide access to a wide range of pivotal sources of information, and also opportunities. Participation in networks enables founders to scan the environment for applicable technology and other resources. They also gain insights into the activities and plans of other firms (Geletkanycz and Hambrick, 1997; Geletkanycz *et al.*, 2001). Such information is critical because in cases when identifying non-desirable assets is not straightforward, the founder's external contacts allow the firm to access any desirable assets, whilst bypassing the undesirable ones.

The resource-based view (RBV) suggests that a firm possesses competitive advantage through the implementation of a value-creating strategy not being exploited by potential competitors (Barney, 1991). Such a strategy is typically not adopted by competitors due to insufficient resources. The RBV contends that this often occurs when required and valuable resources are scarce and lack direct substitution (Barney, 1991; Peteraf, 1993). Consequently, the trading and accumulation of resources are strategic imperatives for organizations lacking social capital and other resource types. However, some resources cannot easily be traded as they are intertwined, or embedded, within their host organizations (Chi, 1994). According to the RBV perspective, a founder's external contacts, such as external directorships, is often a source of competitive advantage as they can minimize uncertainty related to external resource dependencies, thereby enabling the firm to secure critical resources (Geletkanycz *et al.*, 2001). Founder's external contacts can be utilized to access resources from other firms, thus obtaining otherwise unavailable competitive advantage (Das and Teng, 2000). Consequently, firms with founders who possess a larger number of social contacts are more likely to adopt M&As to acquire external knowledge and resources.

In contrast, R&D is typically viewed as a discrete event, involving the development of technical solutions, and requiring expert knowledge and tangible forms of capital. Recent research suggests that R&D not only involves the generation of new technology, but also reflects a firm's ability to exploit and combine existing resources such as information. The extent of R&D investment depends upon the CEOs capability for recognizing the value of knowledge, the frequency and intensity of interaction, and the willingness of firms to share information (Dyer and Singh, 1998; Yli-Renko *et al.*, 2001). In other words, a founder's social capital enables the acquisition of knowledge, and its subsequent exploitation, enabling the firm to develop absorptive capacity to exploit knowledge from the environment. Given that young

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entrepreneurial IPO firms face various material disadvantages (e.g., inability to diversify risk across a portfolio of new products and financial constraints in funding long-term R&D), it follows that the greater the number of social contacts a founder possesses, the more likely the firm is to establish a strong network of external contacts, with external sources of expertise and advice, and the less likely it is to choose risky R&D as its growth strategy.

3.2 Founder's Education

Research in the field of corporate strategy highlights the significance of knowledge as a critical factor influencing cognitions and perceptions (Bantel and Jackson, 1989; Wiersema and Bantel, 1992). Bantel and Jackson (1989) argue that knowledge has a central role in shaping cognition, and individuals with high levels of knowledge often perform better in creative problem-solving situations. It can be assumed that higher levels of education contribute to broader knowledge and capabilities, which in turn, facilitate problem identification, formulation, and the evaluation of feasible solutions (Hitt and Tyler, 1991; Wally and Baum, 1994). Education equips entrepreneurs with technical competence to effectively utilize analytical tools, whilst also stimulating creativity and imagination related to innovation. Barker and Mueller (2002) emphasize that highly educated executives possess greater cognitive complexity, enabling them to absorb new ideas, and exhibit a higher propensity for accepting innovations.

Empirical studies have consistently found that organizations characterized by higher levels of innovation are led by CEOs, or management teams, with elevated educational qualifications (Kimberly and Evanisko, 1981; Bantel and Jackson, 1989). These studies indicate that executives with higher levels of education tend to exhibit preferences for increased investment in research and development (R&D), and demonstrate a greater receptiveness to innovation. Additionally, executive education is associated with social capital, as Finkelstein (1992) argues, education serves as an indicator of social prestige and class status. In line with the argument emphasizing R&D as a process of interaction, and information/resource exchange, it is reasonable to expect that higher educational attainment would facilitate the adoption of R&D as a growth strategy.

As mentioned earlier, executives with higher levels of education possess greater information-processing capacity, and are more open to change, compared to those with lower educational qualifications. Building on this rationale, executives with limited technical competence and cognitive complexity face disadvantages in utilizing internal and external resources and information for conducting R&D projects, leading them to prefer mergers and acquisitions (M&As) as an alternative strategy.

Furthermore, substantial evidence indicates that educational attainment influences personalities, attitudes, and cognitive styles. For example, Barker and Mueller (2002) suggest that MBA programs tend to attract less risk averse students, whilst emphasizing analytical skills to mitigate losses in risky investments. Consequently, MBA programs may be perceived as contributing little to the development of innovative or risk-taking abilities (Hambrick and Mason, 1984). In contrast, a Ph.D. degree provides individuals with a more comprehensive understanding of technology and/or the theoretical foundations of innovation. Based upon this assertion, founder-CEOs with a PhD degree, and relevant training, are more likely to exhibit a preference for high levels of R&D expenditure.

4 Founder Age and Company Strategic Choices

Hitt and Tyler (1991) argue that risk orientation is a crucial factor to consider in the study of strategic decision-making. Wally and Baum (1994) also highlight the significance of risk tolerance in understanding the pace of strategic choices, as a high tolerance for risk is associated with an increased ability to cope with ambiguity, and an appetite for taking risks.

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The tolerance for risk is influenced by both physical and psychological factors (Hambrick and Mason, 1984). Studies have indicated that older top managers often adopt low-risk growth strategies (Child, 1974). Hambrick and Mason (1984) propose that older age executives often encounter greater challenges in embracing new ideas and adapting to new behaviors. Consequently, perceived risk plays a role in shaping the relationship between mergers and acquisitions (M&A) and the commitment of the firm to research and development (R&D).

Managers may perceive R&D as a high-risk endeavor because of the low probability of success, and the extended period required for innovations to generate sufficient returns (Hitt *et al.*, 1990). Hill and Snell (1989) emphasize the high-risk associated with R&D due to the substantial failure rate. For instance, Mansfield (1969) reported that as many as 88% of innovations fail to yield adequate returns on investment. Hence, Hitt *et al.* (1990) argue that although shareholders may favor innovation, managers tend to allocate fewer resources to R&D when subjected to resource limitations, or when other more appealing investment alternatives are available. M&A, as argued by Hitt *et al.* (1990), may serve as an appealing alternative to R&D because it provides immediate entry into new markets or a larger market share in the firm's existing market. Whilst risk still exists in M&A, the outcomes are perceived to be more certain, and can be forecasted with a greater degree of accuracy compared to internal development. Consequently, older founder-CEOs may prefer low-risk M&A over high-risk R&D.

Apart from risk considerations, older CEOs may be less inclined to allocate funds to R&D due to differing incentives compared to younger CEOs (Barker and Mueller, 2002). R&D expenditures divert resources from current profitability, and the potential payoff typically occurs in the long term. For instance, Biggadike (1979) found that new business ventures typically can take eight years to achieve profitability, and twelve years to generate reliable cash flows. Given that older CEOs may have only a few years remaining until retirement, the benefits of R&D spending may not personally accrue to them. This perspective is supported by research indicating that older CEOs tend to decrease R&D spending (Barker and Mueller, 2002). In contrast, younger CEOs, who have a longer time horizon, concerning their careers and financial security, may exhibit a greater propensity for risk-taking and increase R&D expenditures (Bantel and Jackson, 1989).

5 Founder Ownership and Company Growth Strategies

Agency theorists propose that by separating ownership and control in organizations, two types of agency problems can be created, these being conflicting goals and divergent risk attitudes. The separation allows senior management in publicly held firms to make decisions that optimize their personal welfare (Jensen and Meckling, 1976). Shareholders and managers typically have different goals and varying attitudes towards risk. Managers, as documented by Eisenhardt (1989), tend to be more risk-averse than shareholders. The underlying behavioral assumptions of agency theory propose that principals and agents are rational, self-interested, and risk averse (Jensen and Meckling, 1976). The rational for self-interest and risk aversion creates the potential for conflict, i.e., individuals may prioritize outcomes such as compensation without exerting effort towards risky projects. This argument is premised on the high failure rates (Deutsch, 2005), and lack of short-term returns, (Graves and Langowitz, 1993) typically associated with R&D projects.

Whilst shareholders can mitigate their risk through index investment strategies, agents may experience income and employment instability due to greater risk exposure (Bloom and Milkovich, 1998). Given the significance of principal-agent conflicts, researchers have examined how share ownership influences managers' incentives and risk attitudes. For instance, Clinch (1991), Smith and Watts (1992), Gaver and Gaver (1993; 1995), and Baber *et al.* (1996) determined a positive relationship between investment opportunities and compensation. Bryan *et al.* (2000), and Ryan and Wiggins (2001, 2002), discovered a positive

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relationship between R&D investment and executive share ownership, but a negative relationship between R&D and restricted stock awards. These studies suggest that restricted stock ownership exposes managers to downside risk, motivating them to avoid risky investments (Ryan and Wiggins, 2002). Based on this discussion, stock ownership ensures executives' long-term incentives and effectively aligns the interests of principals and agents towards risky and long-term investment projects. Thus, a positive relationship may exist between founder's share ownership and their inclination towards risk-taking behaviors, such as favoring R&D investment.

Furthermore, entrepreneurs or founders are responsible for devising new combinations and innovations of products and services. Risk-taking is considered one of the distinctive characteristics of entrepreneurial founders, as creating a new venture itself carries inherent risks (Brockhaus, 1980). Founders often hold a significant proportion of shares and occupy leadership positions following an initial public offering (IPO) (Daily and Dalton, 1992). This personal investment, and the desire for fulfillment motivated entrepreneurs to adopt high-risk, provides an opportunity for high-return R&D strategies. Given the substantial stakes involved in creating new ventures, it is not surprising that risk-taking lies at the core of entrepreneurial behavior (Kang and Shivdasani, 1997).

6 Founder-CEO and Company Strategic Choices

Agency theorists argue that the divergence in risk diversification policies can create conflicts of interest between executives and shareholders. Amihud and Lev (1981) suggest that professional managers may implement risk-reducing diversification policies. Mergers and acquisitions often serve as opportunities for incumbent managers to pursue their self-interests, potentially at the expense of shareholders who can diversify their portfolios by investing in other companies. Mergers and acquisitions provide managers with perceived reductions in employment risk (Amihud and Lev, 1981), and a growth in company size can be advantageous for their compensation (Gomez-Mejia *et al.*, 1987). As highlighted by Mosen and Downs (1965), in firms where owners and managers are separate entities, there can be a divergence of interests, leading to a strong inclination towards product diversification, especially through mergers.

Owner-managers, with a financial stake in a firm, are less likely to adopt such policies as diversification through mergers, as they often offer a lower rate of return on their investments. Therefore, professional managers exhibit a greater propensity for mergers and acquisitions that reduce risk (Amihud and Lev, 1999). However, the behavior of a founder-CEO in an IPO firm may differ from that of professional CEOs in mature firms. Some entrepreneurship scholars argue that founders have stronger financial incentives to maximize shareholder value compared to professional managers. For instance, Villalonga and Amit (2006), Palia *et al.* (2007), and Fahlenbrach (2009), all find a positive relationship between founder-CEOs and company performance. Morck *et al.* (1988) find that a founding family member is linked with higher Tobin's Q in younger firms, but the opposite was observed in older firms. Thus, the attitudes of a founder-CEO towards risky corporate policies cannot be solely explained by agency conflicts.

IPO start-ups present opportunities for gaining new knowledge (Zahra and Filatotchev, 2004) and social relationships (Bamford *et al.*, 2006). Founders of entrepreneurial firms are crucial, not only for their initial leadership, but also for the expertise, reputation, and relationships they establish within the industry. Such social capital plays a significant role in many aspects of business, i.e., with suppliers, customers, employees, and even in respect of regulations (Bamford *et al.*, 2006). Hence, the presence of a founder-CEO profoundly impacts the newly listed company as it directly relates to the organization's social capital. Managers with relevant expertise and social capital can exert considerable influence over specific strategic choices (Carpenter, 2002; Carpenter *et al.*, 2004; Carpenter and Fredrickson, 2006). The more

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founders have developed strong networks within the work environment, the better their ability to handle the unexpected, and exploit opportunities, by influencing company strategy after the IPO.

R&D activities involve the development of social interactions and should integrate tangible resources with intangible forms of capital, particularly social capital (Landry *et al.*, 2000). Research suggests that if the organizational knowledge and skills become inadequate to meet the challenges of the firm's next life cycle phase, a newly listed company should enhance its cognitive capacity by importing knowledge from external sources to ensure long-term survival (Filatotchev and Wright, 2005). Therefore, when a new IPO firm seeks to retain its founder as the CEO, it is envisaged, from a social capital perspective, that the organization is confident that it possesses sufficient social resources to offset the potential loss of having a professional CEO.

7 Conclusion

This study examines whether the personal characteristics of a founder, specifically when assuming the role of CEO during the IPO, are likely to influence the selection of the subsequent business growth strategy. The findings indicate that if the founder-CEO possesses an output functional background and/or a high level of education, there is a greater likelihood of considering a research and development (R&D) growth strategy (Table 1). Conversely, if the founder-CEO has a throughput functional background, a lower level of education, and/or well-established external relationships, they are more inclined to support a growth strategy based upon mergers and acquisitions (M&A). This factor holds significant importance for businesses undergoing the IPO stage, as it can have a notable impact on a company's future valuation, and on its capacity to capitalize on growth opportunities.

Table 1. Relationship Between Founder-CEO Characteristics and Business Growth Strategy

	Founder's Characteristics	Implications for Business Growth Strategy
Positive Relationships	Founder's Previous Directorships	Positively linked to Mergers and Acquisitions - the more previous directorships that the founder has held, the more likely the company will select to grow through Mergers and Acquisitions after the IPO.
	Founder's Throughput Orientation	Positively linked to Mergers and Acquisitions - if the founder's previous work experience is in a throughput background, it is more likely that the company will select to grow through Mergers and Acquisitions after the IPO.
	Founder's Level of Education	Positively linked to Research and Development - the higher the founder's level of education, the more likely the company will grow through Research and Development after the IPO.
Negative Relationships	Founder's Age	Negatively linked to level of Mergers and Acquisitions intensity - the older the founder is, the less likely the company will select to grow through Mergers and Acquisitions after the IPO.
	Founder's Share Ownership	Negatively linked to Research and Development - the more shares the founder holds in the company, the less likely the company will grow through Research and Development after the IPO.
	Dual Founder-CEO	Negatively linked to Research and Development - if the founder takes on the role as CEO, it is less likely the company will grow through Research and Development after the IPO.
	Founder's Output Orientation	Negatively linked to Mergers and Acquisitions - if the founder's previous work experience is in an output background, it is less likely that the company will select to grow through Mergers and Acquisitions after the IPO.

Source: authors' own work

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It is crucial for businesses in the IPO stage to recognize the influence of founder-CEOs' personal characteristics on the selection of the growth strategy. The study highlights that founder-CEOs with an output functional background, such as expertise in production or operations, are more inclined to pursue an R&D growth strategy. This may be attributed to their familiarity with product development and innovation processes, as well as their inclination toward leveraging internal resources to drive growth.

Additionally, founder-CEOs with a higher education level are more likely to consider an R&D growth strategy. Their advanced education may equip them with the necessary knowledge and skills to evaluate and implement innovative growth opportunities effectively. The emphasis on R&D reflects their inclination to invest in internal capabilities and technological advancements.

Conversely, founder-CEOs with a throughput functional background, such as expertise in marketing or sales, are more inclined to support a growth strategy centered around M&A. Their functional background may shape their preference for leveraging external resources, such as acquiring complementary businesses, or entering new markets, through strategic alliances and acquisitions.

Furthermore, founder-CEOs with a lower level of education may exhibit a greater inclination towards M&A as a growth strategy. Their decision-making may be influenced by their reliance on external expertise and resources, as well as their desire to rapidly expand the business through acquisitions rather than investing in internal R&D activities.

Moreover, founder-CEOs with well-developed external relationships, such as strong networks with industry partners or investors, are more likely to support an M&A growth strategy. These relationships provide access to external opportunities and resources, making M&A an attractive avenue for growth.

Overall, the personal characteristics of founder-CEOs, such as their functional background, education level, and external relationships, play a crucial role in shaping the selection of the growth strategy during the IPO stage. The awareness of these factors empowers businesses to make informed decisions that align with their unique circumstances and maximize their growth potential. By aligning the selection of the growth strategy with the founder-CEO's personal characteristics, businesses can optimize their growth trajectory and enhance their competitive position in the market.

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