Exit After Exit

Law Working Paper N° 963/2026
September 2026

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ECGI Working Paper Series in Law

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Abstract

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(Draft – September 14, 2026, forthcoming HARV. BUS. L. REV.)

Business law and finance scholarship has long treated the initial public offering (IPO) as a clean exit for venture capital. Under the prevailing account, venture capitalists supply capital and governance in the private phase, exit shortly after the IPO, and yield their position to public markets and dispersed shareholders. This assumption underlies doctrinal frameworks and contemporary debates about firms staying private longer and going public with dual-class stock.

This Article shows that this exit paradigm no longer reflects how many venture-backed startups transition to the public markets. Using a dataset of U.S. venture-backed IPOs, we document sustained venture capital ownership, voting power, and board involvement well beyond the lock-up period. Venture capitalists frequently remain significant governance actors during a company's early public life, often participating in governance with founders or, in some cases, replacing founders as primary stewards of growth firms. Further, we find that retained VC voting power is positively associated with same-year shareholder returns.

Building on these findings, the Article theorizes venture capital's role in post-IPO firms as a governance institution that mediates the shift from private to public markets. Continued VC involvement can provide transitional governance while also supporting privately ordered founder-led arrangements. This perspective reframes concerns about minority controllers by showing how contingent, coalition-based control arrangements complicate the assumption of unilateral founder control. It also suggests that the debate over dual-class sunset provisions focuses too heavily on a fixed passage of time and overlooks the governance shift that occurs as venture capital involvement unwinds and founder control consolidates. We contribute a new account of venture capital's post-IPO role, with implications for corporate doctrine, securities regulation, and governance design for newly public firms.

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INTRODUCTION

The venture capital exit story has been one of the most stable narratives in business law and finance. Venture capitalists invest in private firms, supply capital and governance during periods of extreme uncertainty, and then exit when the firm is acquired or goes public.[1] Startup "exit" symbolically marks the end of venture capital's role.[2] While mergers and acquisitions (M&A) exits are more frequent, the initial public offering (IPO) has traditionally been viewed "as the gold standard for a successful VC investment."[3] As the story goes, after a short lock-up period, venture capitalists sell their shares and give way to public-market institutions.[4] Ownership disperses, the balance of control shifts, and the firm enters a new phase of its life governed by public market discipline.[5]

This account of the IPO as a clean exit spans law and theory. It appears in finance models that treat IPOs as terminal liquidity events,[6] in corporate and securities law that pivots sharply on public-company status,[7] and in governance debates that assume a rapid transition from private ordering to public oversight.[8] Yet while this account has remained conceptually stable, the institutional reality of venture-backed firms has shifted in fundamental ways. Over the last two decades, startups have raised unprecedented amounts of private capital while

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[1] *See, e.g.*, Ronald J. Gilson, *Engineering a Venture Capital Market: Lessons from the American Experience*, 55 STAN. L. REV. 1067, 1068 (2003) (identifying "the core of the U.S. venture capital contracting model" including staged financing, control, compensation, and exit, in conditions of uncertainty, information asymmetry, and agency costs).

[2] *See, e.g.*, Mark A. Lemley & Andrew McCreary, *Exit Strategy*, 101 B.U. L. REV. 1, 6 (2021) ("From the very outset of a startup's life, venture capitalists (and the startups they fund) are focused on an 'exit strategy': a way to turn the VCs' equity into liquid cash.").

[3] *Id.* at 7, 17; *see also* Bernard S. Black & Ronald J. Gilson, *Venture Capital and the Structure of Capital Markets: Banks Versus Stock Markets*, 47 J. FIN. ECON. 243 (1996) (arguing that a well-developed stock market that permits venture capitalists to exit through IPO is critical to a vibrant venture capital market); Bernard S. Black & Ronald J. Gilson, *Does Venture Capital Require an Active Stock Market?*, 11 J. APPLIED CORP. FIN. 36 (1999) (theorizing that successful venture capital exits will take place disproportionately through IPOs).

[4] *See, e.g.*, Brian Broughman, Matthew Wansley & Sam Weinstein, *No Exit*, 100 N.Y.U. L. REV. 1481, 1483 (2025) (describing the traditional venture capital cycle in which venture capitalists exit via IPO, sell their shares after lockup, and cede governance to public-market institutions).

[5] *See, e.g.*, FRANK H. EASTERBROOK & DANIEL R. FISCHEL, THE ECONOMIC STRUCTURE OF CORPORATE LAW (1991) (conceptualizing public companies as governed by market-based discipline); Holger Spamann, *Indirect Investor Protection: The Investment Ecosystem and Its Legal Underpinnings*, 14 J. LEGAL ANALYSIS 16 (2022) (describing the ecosystem around public corporate securities).

[6] *See, e.g.*, Jay R. Ritter, *Initial Public Offerings: Updated Statistics* (updated Jan. 1, 2026), https://site.warrington.ufl.edu/ritter/files/IPO-Statistics.pdf (reflecting the standard empirical treatment of IPOs as exit events); Josh Lerner, *Venture Capitalists and the Decision to Go Public*, 35 J. FIN. ECON. 293 (1994); Pierre Giot & Armin Schwienbacher, IPOs, *Trade Sales and Liquidations: Modelling Venture Capital Exits Using Survival Analysis*, 31 J. BANKING & FIN. 679 (2007); Douglas J. Cumming & Jeffrey G. MacIntosh, *A Cross-Country Comparison of Full and Partial Venture Capital Exits*, 27 J. BANKING & FIN. 511 (2003).

[7] Elisabeth de Fontenay & Gabriel Rauterberg, *The New Public/Private Equilibrium and the Regulation of Public Companies*, 2021 COLUM. BUS. L. REV. 1199, 1205-06 (2021) (synthesizing "a large and sprawling literature that addresses the public/private divide" and how "public and private markets now provide two widely different ecologies for firms").

[8] *See, e.g.*, Michael Klausner, *The "Corporate Contract" Today*, *in* THE OXFORD HANDBOOK OF CORPORATE LAW AND GOVERNANCE (Jeffrey N. Gordon & Wolf-Georg Ringe eds.) (discussing literature on the contractarian theory of private ordering of governance at time of IPO).

staying private longer,[9] and have entered the public markets with governance structures that diverge from traditional public-company norms.[10] These developments have generated extensive debate about the rise of private markets and declining number of public firms, and the governance mechanisms such as dual-class stock that founders use to preserve control after listing.[11] Regulators, exchanges, proxy advisors, and institutional investors have responded with scaled disclosure regimes, index-exclusion rules, and voting policies designed to encourage firms to go public and to promote one-share-one-vote governance.[12]

These debates share a critical assumption that venture capitalists exit quickly after the IPO and do not meaningfully participate in post-IPO governance.[13] As a result, the central governance questions are framed as questions about founders and public shareholders, with venture capitalists appearing, at most, as historical actors who shape the firm's pre-IPO capital structure but then fade from view.[14]

This Article argues that this assumption is often wrong, and that its persistence has distorted how scholars and policymakers understand the spectrum of modern public corporations. In the traditional dichotomy, on one side lies the private firm, characterized by concentrated ownership including venture capital, negotiated rights, and active investor supervision. On the other lies the public firm, characterized by dispersed ownership and market-based discipline.[15] This account of venture capital in a private/public dichotomy has always been stylized. Venture capitalists have rarely sold all of their shares at the IPO itself.

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[9] Michael Ewens & Joan Farre-Mensa, *The Deregulation of the Private Equity Markets and the Decline in IPOs*, 33 REV. FIN. STUD. 5463, 5466 (2020); Michael Ewens & Joan Farre-Mensa, *Private or Public Equity? The Evolving Entrepreneurial Finance Landscape*, 14 ANN. REV. FIN. ECON. 271 (2022).

[10] *See* Dhruv Aggarwal, Ofer Eldar, Yael Hochberg & Lubomir Litov, *The Rise of Dual-Class Stock IPOs*, 144 J. FIN. ECON. 122 (2022).

[11] *See, e.g.*, Elisabeth de Fontenay, *The Deregulation of Private Capital and the Decline of the Public Company*, 68 HASTINGS L.J. 445 (2017) (observing that the deregulation of securities laws facilitated the rise of private markets); Ewens & Farre-Mensa, *supra* note 9 (linking IPO decline to expanded private capital and noting other contributing factors to a decline in IPOs); Craig Doidge, Kathleen M. Kahle, George Andrew Karolyi & René M. Stulz, *Eclipse of the Public Corporation or Eclipse of the Public Markets?*, 30 J. APP. CORP. FIN. 8 (2018) (arguing that public markets are not well suited for young, high intangible-asset firms); Zohar Goshen & Assaf Hamdani, *Corporate Control and Idiosyncratic Vision*, 125 YALE L.J. 560, 590 (2016) (describing dual-class structures as means for entrepreneurs to hold "uncontestable and indefinite control" that can protect idiosyncratic vision but exposes investors to agency costs).

[12] *See, e.g.*, Carlos Berdejó, *Going Public After the JOBS Act*, 76 OHIO ST. L.J. 1 (2015) (describing scaled disclosure regime under the JOBS Act of 2012); Scott Hirst & Kobi Kastiel, *Corporate Governance by Index Exclusion*, 99 B.U. L. REV. 1229 (2019) (describing governance responses by index providers to rising use of dual-class structures).

[13] *See, e.g.*, Peter Iliev & Michelle Lowry, *Venturing Beyond the IPO: Financing of Newly Public Firms by Venture Capitalists*, 75 J. FIN. 1527, 1527 (2020) (describing, and rebutting, the conventional wisdom that venture capitalists exit shortly after IPO); Broughman, Wansley & Weinstein, *supra* note 4, at 1491 (describing the traditional narrative).

[14] *See, e.g.*, Lucian A. Bebchuk & Kobi Kastiel, *The Untenable Case for Perpetual Dual-Class Stock*, 103 VA. L. REV. 585, 589 (2017) (analyzing costs and risks to public shareholders from founder control); Jill E. Fisch & Steven Davidoff Solomon, *Dual-Class Stock*, *in* OXFORD HANDBOOK OF CORPORATE LAW AND GOVERNANCE (Jeffrey N. Gordon & Wolf-Georg Ringe eds., 2d ed. 2025) (framing the dual-class debate as a tension between protecting founders' long-term entrepreneurial vision and the agency-cost and accountability concerns associated with departures from one-share-one-vote governance).

[15] *See* Robert P. Bartlett III, *Venture Capital, Agency Costs, and the False Dichotomy of the Corporation*, 54 UCLA L. REV. 37 (2006) (critiquing the "traditional dichotomy" between public and private companies on the basis that it obscures how firms often face the same agency problems).

Lock-up agreements delay sales, typically for the first 180 days after the stock is publicly traded.[16] Distributions to limited partners occur over time.[17] Board seats sometimes persist beyond listing, particularly during the firm's early years as a public company.[18] Traditionally, however, these features were treated as short-term frictions rather than as analytically important features of public-company governance.

Over time, those frictions have become structural. Today, venture capitalists frequently retain substantial equity stakes well beyond the IPO.[19] They often remain on boards for years, sometimes as the largest or most sophisticated shareholders. They may hold voting power disproportionate to their economic ownership through dual-class stock or contractual rights. In some firms, venture capitalists are the primary drivers of the decision to go public and the principal architects of post-IPO governance, particularly where founders have exited or stepped back from active involvement. As we explore, in many instances, the IPO functions not as a bright-line exit, but as the beginning of a time of transition in which venture capitalists stay involved.[20]

Yet the exit story persists, and it sits at the foundation of several of the most important contemporary debates in business law. Consider first the debate over firms staying private longer. Much of the literature explains the decline in IPOs by pointing to regulatory costs, disclosure burdens, litigation risk, economies of scope, or the increased availability of private capital.[21] These accounts typically assume that venture capitalists are exit-driven actors who

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[16] *See* Christine Hurt, *Moral Hazard and the Initial Public Offering*, 26 CARDOZO L. REV. 711, 719-23 (2005) (describing use of lock-up periods to prevent venture capitalists from selling at the time of IPO); Abraham J.B. Cable, *Time Enough for Counting: A Unicorn Retrospective*, 39 YALE J. ON REG. BULL. 23, 28 (2021) (noting that the customary sale restrictions on investors and employees in venture-backed startups, known as the "lock-up period," is 180 days).

[17] *See* Robert Bartlett, & Paolo Ramella, *The Disappearance of the Ten-Year Fund*, Rock Center for Corporate Governance at Stanford University Working Paper No. 267, https://ssrn.com/abstract=6664338 (documenting the timing of distributions to LPs from a large sample of PE and VC funds); MAHENDRA RAMSINGHANI, THE BUSINESS OF VENTURE CAPITAL: THE ART OF RAISING A FUND, STRUCTURING INVESTMENTS, PORTFOLIO MANAGEMENT AND EXITS (3d ed.) (describing how venture capital funds work and how they make distributions to limited partners).

[18] Ugur Celikyurt, Merih Sevilir & Anil Shivdasani, *Venture Capitalists on Boards of Mature Public Firms*, 27 REV. FIN. STUD. 56 (2014).

[19] Finance scholars have documented the pattern of venture capitalists liquidating their stock over several years after IPO, and have begun exploring various other post-IPO impacts and forms of involvement of venture capitalists including how they fund public companies, how their continued presence impacts dividend initiation, bond issuances, and acquisitions. *See* Imants Paeglis & Parianen Veeren, *Speed and Consequences of Venture Capitalist Post-IPO Exit*, 22 J. CORP. FIN. 104 (2013) (finding that venture capitalists often take several years post-IPO to fully exit and arguing that the speed at which they exit depends on the company's ownership structure and liquidity); C.N. V. Krishnan, Vladimir I. Ivanov, Ronald W. Masulis & Ajai K. Singh, *Venture Capital Reputation, Post-IPO Performance, and Corporate Governance*, 46 J. FIN. & QUANT. ANALYSIS 1295 (2011) (studying venture capital shareholdings and directorships at IPO and for three years after, finding more reputable venture capitalists have significant positive associations with long-run performance measures); Iliev & Lowry, *supra* note 13 (finding that approximately 15% of venture-backed firms raise additional venture capital funding in the five years post-IPO); Shima Amini, Abdul Mohamed, Armin Schwienbacher & Nicholas Wilson, *The Impact of Venture Capital Holding on the Firms' Lifecycle: Evidence from IPO Firms*, 74 J. CORP. FIN. 102224 (2022) (finding that venture capital presence post-IPO extends the growth phase of the firm by delaying paying dividends, raising financing through corporate bonds, and using external growth strategies through acquisitions).

[20] *See infra* Part II.

[21] *See supra* note 11; *see also* Xiaohui Gao, Jay R. Ritter & Zhongyan Zhu, Where Have All the IPOs Gone?, 48 J. FIN. & QUANT. ANALYSIS 1663 (2013) (hypothesizing that economies of scope explain the decline in IPOs);

push firms toward IPOs to realize returns, and that founders resist public-company status to preserve control.[22] But if venture capitalists can retain governance influence for years after listing, the tradeoff and potential basis for conflict looks different. The IPO no longer represents a sharp loss of control or a full exposure to public-market discipline. Instead, it becomes one step in a longer process through which venture capitalists can stage their exit while preserving influence during critical growth periods.[23]

Now consider the dual-class debate. Here, the literature is polarized between agency-cost critics and proponents of founder-centric governance. Critics emphasize the dangers of separating economic ownership from managerial control and warn against the entrenchment of small-minority controllers.[24] Proponents stress the importance of shielding visionary founders from short-term market pressures and argue that investors price governance structures ex ante.[25] Despite their differences, both camps share an implicit two-player model of post-IPO governance. Bargaining occurs between founders and public shareholders at the IPO.[26] Once public, founders in dual-class firms are often assumed to operate largely alone, constrained by fiduciary duties and any sunset provisions, while disparate public shareholders are overpowered by the founder's control.

That model is incomplete. As we show, venture capital involvement takes several forms during the early post-IPO years. In most dual-class firms, venture capitalists hold high-vote stock alongside founders.[27] They serve as potential partners who can support or constrain founders depending on performance and circumstances.[28] In single-class firms, venture capitalists may effectively run the show for a significant period post-IPO, before eventually liquidating.[29] In both dual and single-class firms, venture capitalists may exercise influence even without formal control through board representation, information advantages, and reputational power.[30]

Mark J. Roe & Charles C. Y. Wang, *Half the Firms, Double the Profits: Public Firms' Transformation, 1996-2022*, 8 J. LAW, FIN. & ACCTG. 211 (2025) (exploring industrial organization and economies of scope explanations for decline in IPOs). *See also* Yifat Aran, *The RSU Time Bomb: Regulating Startup Equity Compensation in the Unicorn Era, in* RESEARCH HANDBOOK ON THE STRUCTURE OF PRIVATE EQUITY AND VENTURE CAPITAL (Brian Broughman & Elisabeth de Fontenay eds., 2026) (arguing that deregulation of equity-based compensation enabled firms to remain private longer); Brian Broughman & Yifat Aran, *Venture Unraveled* (working paper on file with the authors) (examining the institutional changes that have made exit optional for venture-backed firms, and the implications of that optionality).

22 *See, e.g.*, Ewens & Farre-Mensa, *supra* note 9 (describing a structural conflict between founders' preference to retain control and delay exposure to public-company regulation, and venture capitalists' incentive to pursue an IPO or sale as a mechanism for exiting early-stage investments).

23 *See infra* Part III.

24 *See, e.g.*, Lucian A. Bebchuk & Kobi Kastiel, *The Perils of Small-Minority Controllers*, 107 GEO. L.J. 1453 (2019).

25 Goshen & Hamdani, *supra* note 11.

26 *See* Aggarwal, Eldar, Hochberg & Litov, *supra* note 10, at 141 (providing an empirical study of the variance of dual-class structures among firms at IPO and arguing that a founder's bargaining power affects the "wedge" between cash-flow and voting/control rights).

27 Yifat Aran, Brian J. Broughman & Elizabeth Pollman, *CEO Turnover at Dual-Class Firms*, ECGI Law Working Paper No. 839/2025, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=5063277 (forthcoming J. LEGAL STUD.) (observing that the founder-CEO's dual-class wedge is often modest because VC investors also often hold high-vote shares, and that VC investors collectively hold a larger percentage of the voting power following the IPO than the CEO on average in both single-class and dual-class firms).

28 *See id.* (finding that founder-CEO turnover at dual-class firms is highly sensitive to performance).

29 *See infra* Part II.

30 *Id.*

More broadly, venture capital persistence after the IPO reflects a deeper structural shift. Public and private markets are no longer cleanly separated.[31] Public firms increasingly retain governance features traditionally associated with private ordering.[32] Private firms increasingly adopt mechanisms that mimic aspects of public-market liquidity and discipline.[33] Venture-backed IPOs sit at the center of this hybridization. When these firms go public, they often do not fully shed their private governance structures. They carry many of them forward, at least temporarily, with venture capitalists remaining embedded in the firm's governance architecture and shaping decisions about strategy and leadership.[34] These patterns produce a wide array of hybrid governance arrangements in public markets that do not map neatly onto existing categories in corporate law.

This Article documents and theorizes these arrangements. Drawing on a comprehensive dataset of venture-backed IPOs from 2002 to 2020, we find sustained venture capital ownership, voting power, and board representation well beyond the lock-up period, challenging the conventional assumption of rapid post-IPO exit. At the IPO, venture capitalists collectively hold approximately one-third of the voting power in both single- and dual-class firms in our sample. Two years after the IPO, VC investors still hold at least a 5% equity stake in 71% of single-class firms and 59% of dual-class firms, and VC-affiliated directors often continue to hold board seats for years, sometimes even after they have sold their financial stakes. We also find that retained VC voting power is positively associated with same-year shareholder returns. We do not attempt to identify a causal mechanism for this finding, but observe the possibility that venture capitalists may contribute to value-enhancing governance, remain invested in firms they privately expect to perform well, or both. Our principal contribution is to show how venture capitalists stay involved in governance arrangements after IPO, and to explore how this contributes to variation in public-company governance and the implications that follow.

The remainder of the Article proceeds as follows. Part I sets out existing paradigms and debates. Part II presents data on venture capital involvement after the IPO. Part III develops a theory of post-IPO venture capital governance and the resulting hybrid arrangements. It also considers the implications for corporate law, securities regulation, and governance policy.

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[31] *See, e.g.*, Michelle Lowry, *The Blurring Lines Between Private and Public Ownership*, *in* HANDBOOK OF CORPORATE FINANCE (David J. Denis ed., 2024) (arguing that private companies "increasingly resemble their public counterparts" and "there is growing overlap between the sources of capital employed by private and public firms").

[32] Gladriel Shobe & Jarrod Shobe, *The Dual-Class Spectrum*, 39 YALE J. ON REG. 1286 (2022); Gabriel V. Rauterberg, *The Separation of Voting and Control: The Role of Contract in Corporate Governance*, 38 YALE J. ON REG. 1124 (2021); Jill E. Fisch, *Stealth Governance: Shareholder Agreements and Private Ordering*, 99 WASH. U. L. REV. 913 (2021).

[33] Elizabeth Pollman, *Information Issues on Wall Street 2.0*, 161 U. PA. L. REV. 179 (2012) (discussing the rise of secondary trading in private company stock); Brian J. Broughman & Matthew T. Wansley, *Risk-Seeking Governance*, 76 VAND. L. REV. 1299, 1352-55 (2023) (discussing why venture capitalists allow founders secondary sales).

[34] *See infra* Parts II-III.

I. EXISTING PARADIGMS AND DEBATES

This Part situates our contribution within three foundational bodies of scholarship that structure how law and finance scholars understand venture-backed firms and their transition to the public markets. The first concerns venture capital contracting and startup governance. The second concerns the dominant "going public" paradigm, which treats the IPO as a sharp institutional and governance boundary. The third concerns the extensive contemporary debate over dual-class stock and founder control.

Across these literatures, a shared assumption persists of venture capital as a pre-IPO governance institution whose relevance largely dissipates once a firm becomes public. Even where scholars disagree, they tend to rely on a two-player model of post-IPO governance, with founders on one side and public shareholders on the other. Venture capitalists appear, if at all, as background actors whose influence occurs in an earlier stage of the firm's life cycle. This Part explores these paradigms and identifies the conceptual limitations they share.

A. VENTURE CAPITAL CONTRACTING AND STARTUP GOVERNANCE

Academic literature on venture capital contracting begins from a relatively stable set of premises. Venture capitalists finance startups characterized by extreme uncertainty, limited operating history, high growth potential, and substantial information asymmetries.[35] These firms typically lack tangible collateral and predictable cash flows, rendering traditional debt financing ineffective or inefficient.[36] Equity financing, structured through convertible preferred stock and supplemented by contractual and governance rights, emerges as the dominant solution to this financing problem.[37]

Within this framework, venture capitalists are envisioned as playing three interrelated roles: financiers, collaborators, and overseers. They provide capital as well as strategic guidance, industry expertise, reputational capital, and access to networks of customers, employees, and follow-on investors.[38] Governance is central to how venture capital mitigates agency costs and allocates control under conditions of uncertainty.[39]

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[35] *See generally* Gilson, *supra* note 1 (situating venture capital contracting as a response to uncertainty, information asymmetry, and agency costs); PAUL GOMPERS & JOSH LERNER, THE VENTURE CAPITAL CYCLE (2d ed. 2004) (exploring the role of venture capitalists financing innovative startups).

[36] Elizabeth Pollman, *Startup Failure*, 73 DUKE L.J. 327, 335-36 (2023).

[37] *See, e.g.*, Steven N. Kaplan & Per Strömberg, *Financial Contracting Theory Meets the Real World*, 70 REV. ECON. STUD. 281 (2003) (surveying venture capital financings and finding they allow venture capitalists to separately allocate cash flow rights and control rights); Paul Gompers & Josh Lerner, *The Venture Capital Revolution*, 15 J. ECON. PERSPS. 145 (2001) (describing venture capital contracting practices); Elizabeth Pollman, *Startup Governance*, 168 U. PA. L. REV. 155 (2019) (explaining venture capital contracting for financial and governance rights over the startup lifecycle); Will Gornall & Ilya A. Strebulaev, *The Contracting and Valuation of Venture Capital-Backed Companies*, *in* HANDBOOK OF THE ECONOMICS OF CORPORATE FINANCE VOL. 1: PRIVATE EQUITY AND ENTREPRENEURIAL FINANCE (B. Espen Eckbo et al., eds. 2023) (discussing contracting issues with the evolution of cash flow and control rights in venture-backed startups).

[38] *See, e.g.*, Gilson, *supra* note 1; TOM NICHOLAS, VC: AN AMERICAN HISTORY (2019) (detailing history and role of venture capital).

[39] *See, e.g.*, William A. Sahlman, *The Structure and Governance of Venture-Capital Organizations*, 27 J. FIN. ECON. 473 (1990) (classic account of venture capitalists as active financiers, monitors, and strategic collaborators); Pollman, *Startup Governance*, *supra* note 37, at 160 (discussing venture capital contracting and governance role); Broughman & Wansley, *supra* note 33, at 1312-13 (explaining venture capital monitoring).

A defining feature of venture capital contracting is its dynamic character. Rather than allocating capital and control once and for all at the time of initial investment, venture capital contracts are designed to stage investment and rebalance power over time. Control shifts as information is revealed and additional capital is deployed.[40]

Early in a firm's life, founders typically retain significant operational authority.[41] Venture capitalists may hold minority board representation or shared control arrangements, often alongside independent directors.[42] Yet staged financing ensures that this initial balance is provisional. By committing capital incrementally, venture capitalists preserve the option to abandon or renegotiate underperforming investments while exerting continuous influence through the threat of withholding follow-on funding.[43] As financing rounds progress, venture capitalists frequently acquire additional board seats, veto rights, and economic preferences.[44] Downside protections, such as liquidation preferences, anti-dilution adjustments, tag-along and drag-along provisions, redemption rights, and other protective provisions, become increasingly salient if performance falters.[45]

Startup and venture capital literature emphasizes that governance in venture-backed firms is characterized by continuous rebargaining across stages of the firm's development.[46] In some firms, founders retain effective control throughout the private phase, using venture capital mainly to secure funding and signal market credibility.[47] In others, venture capitalists gain control over time, particularly when firms underperform or require repeated infusions of capital.[48] In many cases, governance is shared, with no single actor holding unilateral

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[40] *See* Kaplan & Strömberg, *supra* note 37 (documenting staged financing and contingent allocations of control rights); D. Gordon Smith, *The Exit Structure of Venture Capital*, 53 UCLA L. REV. 315 (2005) (analyzing exit-related contractual rights and the shifting allocation of board control over time); Pollman, *Startup Governance*, *supra* note 37 (exploring governance change over the life-cycle of venture-backed startups).

[41] Pollman, *Startup Governance*, *supra* note 37, at 196-98.

[42] *Id.* at 181-82; Michael Ewens & Nadya Malenko, *Board Dynamics Over the Startup Life Cycle*, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3640898 (forthcoming J. FIN.); Brian Broughman, *The Role of Independent Directors in Startup Firms*, 2010 UTAH L. REV. 461, 462 (2010).

[43] *See, e.g.*, Paul A. Gompers, *Optimal Investment, Monitoring, and the Staging of Venture Capital*, 50 J. FIN. 1461 (1995).

[44] Pollman, *Startup Governance*, *supra* note 37, at 181-82.

[45] *See* Philippe Aghion & Patrick Bolton, *An Incomplete Contracts Approach to Financial Contracting*, 59 REV. ECON. STUD. 473 (1992) (theorizing contingent control allocation as a response to non-contractibility); William W. Bratton, *Venture Capital on the Downside: Preferred Stock and Corporate Control*, 100 MICH. L. REV. 891 (2002) (emphasizing governance leverage embedded in preferred stock even absent formal majority control); SCOTT KUPOR, SECRETS OF SAND HILL ROAD: VENTURE CAPITAL AND HOW TO GET IT 140-188, 232-46 (2019) (explaining venture capital terms and downside scenarios).

[46] Pollman, *Startup Governance*, *supra* note 37, at 176-200; Elizabeth Pollman, *Dynamic Views of Startup Governance and Failure*, in the RESEARCH HANDBOOK ON THE STRUCTURE OF PRIVATE EQUITY AND VENTURE CAPITAL (Edward Elgar Publishing, Elisabeth de Fontenay & Brian Broughman eds., 2026).

[47] *See* NOAM WASSERMAN, THE FOUNDER'S DILEMMAS: ANTICIPATING AND AVOIDING THE PITFALLS THAT CAN SINK A STARTUP (2012) (discussing how a small fraction of founders can maintain control over the lifecycle of the startup).

[48] *See* Kaplan & Strömberg, *supra* note 37, at 282 ("In general, board rights, voting rights, and liquidation rights are allocated such that if the firm performs poorly, the VCs obtain full control. As performance improves, the entrepreneur retains/obtains more control rights. If the firm performs very well, the VCs retain their cash flow rights, but relinquish most of their control and liquidation rights."); Alvaro Pereira, *The Law of Contingent Control in Venture Capital*, 2023 COLUM. BUS. L. REV. 675, 679 (2023) ("By making control contingent on performance,

authority.[49] Importantly, this literature recognizes that venture capitalists often exercise influence at critical moments in a startup's life, particularly in downside or transitional states.[50]

What unites these accounts is their focus on the private firm. Venture capital governance is analyzed as a system of private ordering, operating within private companies with concentrated ownership and customized agreements.[51] Exit is treated as the ultimate objective and conclusion to venture governance.[52] That presumption carries forward into how scholars conceptualize the transition to public markets.

B. The Going Public Paradigm

The dominant theoretical account of the IPO treats it as marking a private/public divide. On one side are closely held companies, contractually governed and subject to active investor oversight.[53] Contracts substitute for markets, and control is exercised through boards, veto rights, and staged commitments.[54] On the other side are public firms with widely held and liquid stock, subject to market discipline rather than negotiated control.[55] Governance relies on indirect mechanisms such as mandatory disclosure, share price signals, takeover threats, and fiduciary duties enforced ex post.[56]

Within this framework, the IPO marks the moment when a firm moves from one regime to the other. The firm's capital structure generally flattens as preferred stock converts

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VCs not only protect their interests, but also alleviate problems of incomplete contracting and moral hazard, preserving the right incentives at critical moments and contributing to companies' successes.").

49 Kaplan & Strömberg, *supra* note 37, at 288; Bratton, *supra* note 45, at 899-901; Brian Broughman, *Independent Directors and Shared Board Control in Venture Finance,* 9 REV. L. & ECON 41, 41-42 (2013).

50 *See, e.g.*, WASSERMAN, *supra* note 47, at 301 (discussing CEO turnover in venture-backed startups); José M. Padilla, *What's Wrong with a Washout? Fiduciary Duties of the Venture Capitalist Investor in a Washout Financing*, 1 HOUS. BUS. & TAX L.J. 269, 276-78 (2001) (discussing venture capitalists' motivations and actions in washout financings).

51 *See, e.g.*, Broughman & Wansley, *supra* note 33, at 1307-22 (discussing the traditional monitoring model of startup governance).

52 *See* GOMPERS & LERNER, *supra* note 35 (discussing the venture capital cycle of fundraising, investing, and exiting, concluding with an examination of IPO lockups); Gornall & Strebulaev, *supra* note 37 ("As startup investors, including VC funds, typically sell their stake in the startup at or soon after a liquidity event, they consider such events as exits."); *see also* Bartlett, *supra* note 15 (critiquing the sharp public–private governance divide in venture-backed firms).

53 Elisabeth de Fontenay, *Private Equity's Governance Advantage Requiem*, 99 B.U. L. REV. 1095 (2019); Ewens & Farre-Mensa, *supra* note 9.

54 Bob Zider, *How Venture Capital Works*, HARV. BUS. REV. (Nov.-Dec. 1998), https://hbr.org/1998/11/how-venture-capital-works.

55 *See* Mark J. Roe, *A Political Theory of American Corporate Finance*, 91 COLUM. L. REV. 10, 10-13 (1991) (coining the term "Berle-Means corporation" and exploring the "fragmented ownership of the large public corporation"); Brian R. Cheffins, *The Rise and Fall(?) of the Berle-Means Corporation*, 42 SEATTLE U. L. REV. 445, 445-48 (2019) (exploring the prominence of the Berle-Means corporation in corporate governance theory of the twentieth century and into the twenty-first century despite developments such as the rise of institutional investors and shareholder activism).

56 *See* FRANK H. EASTERBROOK & DANIEL R. FISCHEL, THE ECONOMIC STRUCTURE OF CORPORATE LAW (1991) (describing mandatory disclosure, stock prices, tender offers and the market for corporate control, fiduciary duties and shareholder litigation as key corporate governance devices); Spamann, *supra* note 5 (describing the market mechanisms policing public companies)

to common,[57] and venture capitalists sell their stakes and relinquish governance rights.[58] Public market discipline replaces engaged private investor monitoring and governance.[59] Disclosure obligations, liability regimes, and governance expectations turn on whether a firm is public or private.[60] Empirical scholarship similarly treats IPOs as endpoints, coding firms as having "exited" venture capital once they list.[61]

The principal acknowledged exception to this paradigm is the dual-class firm. Where founders retain high-vote stock, the clean transition from private to public governance is disrupted. Control does not disperse and instead is generally understood to remain concentrated in the hands of a founder even as the firm accesses public capital.[62]

Dual-class structures are therefore often treated as deviations from the canonical public-company model that require justification.[63] Much of the contemporary governance debate is framed around whether, and under what conditions, such deviations are desirable. Sunset provisions, ownership-based conversion triggers, equal treatment agreements, and enhanced fiduciary scrutiny are proposed as mechanisms to contain the risks posed by persistent founder control.[64]

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[57] William W. Bratton & Michael L. Wachter, *A Theory of Preferred Stock*, 161 U. PA. L. REV. 1815, 1875 (2013) (explaining that on the upside, a startup goes public, and "the venture capitalist converts its preferred into common, sells into the offering, and makes a killing"); Bernard S. Black & Ronald J. Gilson, *Venture Capital and the Structure of Capital Markets: Banks Versus Stock Markets*, 47 J. FIN. ECON. 243, 261 (1998) ("Typically, the terms of the convertible securities held by the venture capital fund require conversion into common stock at the time of the IPO . . .").

[58] Black & Gilson, *supra* note 57, at 261 ("[T]he venture capital fund's special control rights end at the time of an IPO . . . Control becomes vested in the entrepreneur, who often retains a controlling stock interest and, even if not, retains the usual broad discretion enjoyed by chief executives of companies without a controlling shareholder."); Bratton & Wachter, *supra* note 57, at 1875 (explaining that at IPO, "[t]he venture capitalist's counterparty, the 'entrepreneur,' shares the jackpot and resumes control of the company in the wake of the venture capitalist's sale").

[59] Michael C. Jensen, *Eclipse of the Public Corporation*, HARV. BUS. REV. (Sept.-Oct. 1989).

[60] de Fontenay & Rauterberg, *supra* note 7.

[61] *See supra* note 6.

[62] *See generally* Albert H. Choi, *Concentrated Ownership and Long-Term Shareholder Value*, 8 HARV. BUS. L. REV. 52 (2018); Paul A. Gompers, Joy Ishii & Andrew Metrick, *Extreme Governance: An Analysis of Dual-Class Firms in the United States*, 23 REV. FIN. STUD. 1051, 1053-56 (2010).

[63] The effect of dual-class stock on firm value has been extensively studied, but the empirical literature is inconclusive. Fisch & Solomon, *Dual-Class Stock*, *supra* note 14 (summarizing the empirical literature and observing it is "inconclusive" with several "conflict strand[s] of research" and methodological limitations); *see also* Bobby V. Reddy, *More than Meets the Eye: Reassessing the Empirical Evidence on U.S. Dual-Class Stock*, 23 U. PA. BUS. L.J. 955, 964 (2021) (reviewing the empirical literature on dual-class stock and attempting to rationalize the divergences between the findings of different performance measure studies).

[64] *See, e.g.*, Bebchuk & Kastiel, *supra* note 14, at 620-34 (proposing use of time-based sunset provisions or other limitations on dual-class stock structures); Jill Fisch & Steven Davidoff Solomon, *The Problem of Sunsets*, 99 B.U. L. REV. 1057 (2019) (arguing against time-based sunsets and in favor of other private ordering solutions); Andrew Winden, *Sunrise, Sunset: An Empirical and Theoretical Assessment of Dual-Class Stock Structures*, 2018 COLUM. BUS. L. REV. 852 (2018) (providing a hand-collected data set of dual-class sunset provisions); Caley Petrucci, *Equal Treatment Agreements: Theory, Evidence & Policy*, 40 YALE J. ON REG. 620 (2023) (examining equal treatment agreements in dual-class firms).

Notably, paradigmatic dual-class firms are typically conceptualized as founder-controlled firms.[65] In this account, the relevant actors are founders and public shareholders. The governance question becomes whether founders should be permitted to retain control, and for how long. Venture capitalists largely disappear from the analysis at this stage. They are assumed to have exited or at least to have ceded meaningful influence.[66] Even where scholars acknowledge that venture capitalists supported or negotiated dual-class structures at the IPO stage, they are rarely treated as ongoing governance participants once the firm is public.

C. DUAL-CLASS DEBATES AND THE TWO-PLAYER MODEL

The rise of dual-class IPOs over the past two decades has generated an extensive and polarized literature. At its core lies a familiar tension between the value of concentrated control and the risks of agency costs.[67]

One side of the debate emphasizes the dangers of separating ownership from control. Scholars in this camp focus on the risks posed by controllers who retain voting power disproportionate to their economic stake.[68] They emphasize agency costs arising through entrenchment, distorted corporate decision-making, self-dealing, misallocated resources, and the erosion of accountability.[69]

Particular concern is directed at small-minority controllers, founders who retain control while holding a relatively small fraction of the firm's equity.[70] From this perspective, dual-class structures threaten a core premise of public company governance, namely that those who bear the residual risk of the firm should control it.[71] These critiques often advocate limits on dual-class stock, including mandatory sunsets, restrictions on vote differentials, or enhanced fiduciary review of controller actions.[72] A variation on this line of argument focuses on the "social" costs of dual-class stock arising from founders' ability to impose externalities on society.[73]

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[65] *See* Choi, *supra* note 62, at 75-83 (discussing the literature debating dual-class stock); Fisch & Solomon, *supra* note 1463 (summarizing the policy debate over dual-class stock).
[66] *See supra* note 58.
[67] We focus on the debate in the U.S. context, while appreciating that jurisdictions around the world have engaged in similar debates. *See, e.g.*, BOBBY V. REDDY, FOUNDERS WITHOUT LIMITS: DUAL-CLASS STOCK AND THE PREMIUM TIER OF THE LONDON STOCK EXCHANGE 70-113 (2021) (discussing the debate and approaches to dual-class stock in the U.K., mainland Europe, Hong Kong, Singapore, Tokyo, China, and India).
[68] *See* Ronald Masulis, Cong Wang, & Fei Xie, *Agency Problems at Dual-Class Companies*, 64 J. FIN. 1697, 1715-20 (2009) (discussing agency cost-related issues as the "wedge" increases between cash flow and voting/control rights).
[69] *See* Bebchuk & Kastiel, *supra* note 24, at 1460, 1465-71.
[70] *Id.*
[71] *See* HENRY HANSMANN, THE OWNERSHIP OF ENTERPRISE 11-23 (1996) (theorizing the firm's "owners" share the formal right to control and the right to the firm's profits or residual earnings).
[72] *See, e.g.*, Bebchuk & Kastiel, *supra* note 24, at 1503-11 (exploring means to limit the wedge or otherwise protect investors in companies with minority controllers such as sunset provisions, limits on the vote ratio, limits to the issuance of nonvoting shares, and enhanced judicial scrutiny and process protections under fiduciary law); Hirst & Kastiel, *supra* note 12, at 1242-50.
[73] Gregory H. Shill, *The Social Costs (and Benefits) of Dual-Class Stock*, 75 ALA. L. REV. 221 (2023); Vittoria Battocletti, Luca Enriques & Alessandro Romano, *Dual-Class Shares in the Age of Common Ownership*, 48 J. CORP. L. 541 (2023).

The opposing camp stresses the benefits of founder control or founder-led governance. Drawing on theories of idiosyncratic vision, long-term value creation, and market myopia, these scholars argue that public markets may undervalue innovative strategies or impose short-term pressures inconsistent with long-term growth.[74] In this view, durable or concentrated control enables entrepreneurial leaders to pursue ambitious or unconventional strategies that public investors may doubt or misunderstand.[75] Control is defended as a way to preserve decision-making authority long enough for contested strategies to mature and for their expected payoffs to be revealed.[76] Dual-class structures thus function as tools for protecting founders' vision rather than as devices for insulating insiders from accountability as such. If public shareholders disapprove of founder control, they can discount the offering or refrain from investing.[77]

A related line of defense emphasizes the limits of public-market governance.[78] Public shareholders are often transient, diversified, and mediated through institutions whose governance priorities may not align with firm-specific long-term value creation.[79] From this perspective, dual-class structures reallocate authority away from the "corporate governance

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74 *See* Goshen & Hamdani, *supra* note 11, at 565-70 (exploring the rationale of founders' idiosyncratic vision); David Berger, *Why Dual-Class Stock: Brief Response to Commissioners Jackson and Stein*, HARV. L. SCH. FORUM ON CORP. GOV. (Feb. 22, 2018), https://corpgov.law.harvard.edu/2018/02/22/why-dual-class-stock-a-brief-response-to-commissioners-jackson-and-stein/ (exploring the rationale of founders seeking to "push back against the financialization and short-term focus of the public markets"); *see also* Zohar Goshen & Richard Squire, *Principal Costs: A New Theory for Corporate Law and Governance*, 117 COLUM. L. REV. 767, 770-72 (2017) (arguing that dual-class firms are at "one end of the spectrum" and give [] controlling owner-managers complete and incontestable control" as part of a tradeoff to minimize "total control costs, which are the sum of principal costs and agent costs").

75 The Google co-founders famously highlighted this point in their 2004 IPO prospectus, which explained that they "will not shy away from high-risk, high-reward projects because of short term earnings pressure" and their corporate structure was being "designed for stability over long time horizons" such that "investing in Google" would be "placing an unusual long term bet on the team, especially Sergey and [Larry], and on [their] innovative approach." Larry Page & Sergey Brin, *Founders' IPO Letter: "An Owner's Manual for Google's Shareholders* (2004), https://abc.xyz/investor/founders-letters/ipo-letter/default.aspx.

76 Goshen & Hamdani, *supra* note 11, at 576-83.

77 *See* Daniel R. Fischel, *Organized Exchanges and the Regulation of Dual Class Common Stock*, 54 U. CHI. L. REV. 119, 147 (1987) ("The price of a security when a firm goes public reflects the value of that security to investors. Investors only purchase a security when they estimate that the value of whatever rights and cash flows it carries equals or exceeds its price."). A different argument regarding dual-class structures is that nonvoting stock can be used to make corporate governance more efficient by allowing companies to divide voting power between informed shareholders who value voting rights and uninformed shareholders who do not. Dorothy S. Lund, *Nonvoting Shares and Efficient Corporate Governance*, 71 STAN. L. REV. 687, 694-96 (2019); *see also* Bernard S. Sharfman, *A Private Ordering Defense of a Company's Right to Use Dual Class Share Structures in IPOs*, 63 VILL. L. REV. 1 (2018) (providing a private ordering argument for dual-class structures).

78 *See* David J. Berger, *Why Dual Class Stock? A Response to CII's Petition to Nasdaq for Mandatory Sunset Provisions* (Mar. 28, 2019), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3365154 (arguing that "it should come as no surprise that some of our most innovative and entrepreneurial leaders, as well as those who support them, seek a better way to elect directors" than by "a small group of institutional investors and activist fund managers").

79 *See* Adi Libson & Sharon Hannes, *The Dual-Class Stock Revolution*, Bar Ilan Univ. Faculty of Law Research Paper No. 5755065 (Nov. 17, 2025), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=5755065 (exploring dual-class stock as a protection against pressures from institutional investors and proxy advisors toward hostile takeovers and shareholder activism); *see also* Dorothy S. Lund & Elizabeth Pollman, *The Corporate Governance Machine*, 121 COLUM. L. REV. 2563, 2627 (2021) ("Startups with visionary leaders and market leverage have pushed for dual- or multiclass structures to insulate themselves from the corporate governance machine.").

machine,"[80] and toward visionary leaders with firm-specific knowledge and innovative ideas. Insulating leadership from certain forms of market pressure may preserve mission, company culture, and investment in moonshot technology that would otherwise be difficult to sustain under fully contestable control.[81] The alternative to a dual-class IPO may not be a single-class one, but rather staying private indefinitely.[82]

More recent work further complicates the standard contractarian account that dual-class stock reflects finely tailored bargaining at the IPO stage. On this view, governance form is often secondary to performance and mission alignment in actual investor behavior.[83] Dual-class structures persist not because they are bespoke solutions precisely calibrated to firm-specific needs, but because they have become socially validated and professionally standardized responses associated with successful growth firms. Governance terms are frequently shaped by precedent, lawyer-driven templates, and market norms rather than individualized negotiation.[84] Some further emphasize that "the spectrum of founder control mechanisms" may extend beyond dual-class structures and may include "complex combinations of shareholder agreements, charter provisions, director designation rights, and contractual arrangements."[85] The continued acceptance of dual-class arrangements is thus at least partly explained by shared beliefs about their role in supporting long-term value creation than by ex-ante pricing alone.

Despite their differences, both sides of the debate generally conceptualize post-IPO governance as the result of bargaining between founders and public shareholders at the IPO.[86] Once the dual-class firm is public, founders are assumed to operate largely independently, limited primarily by their fiduciary duties and the specifics of any applicable sunset

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[80] Lund & Pollman, *supra* note 79.

[81] *See* David J. Berger & Pierluigi Matera, *Performance Leads Governance: A Comment on Professor Tallarita's Dual-Class Analysis*, 49 J. CORP. L. DIGITAL 101, 118 (2025) ("[T]he research suggests that dual-class governance—when combined with strong leadership, a focus on the company's mission, and a culture of long-term value creation—can shield companies from 'short-termist' pressures and enable superior strategic decision-making.").

[82] Ofer Eldar, *Dual-Class IPOs: A Solution to Unicorn Governance Failure*, EUR. CORP. GOVERNANCE INST. LAW WORKING PAPER No. 741/2023, https://ssrn.com/abstract=4647143.

[83] Berger & Matera, *supra* note 81, at 105 ("[P]erformance and mission matter more than 'check-the-box' governance structures."); David J. Berger, *Dual-Class Stock and Private Ordering: A System That Works*, HARV. L. SCH. FORUM ON CORP. GOV. (May 24, 2017), https://corpgov.law.harvard.edu/2017/05/24/dual-class-stock-and-private-ordering-a-system-that-works/ ("[M]any of the dual- or multi-class companies listed by the NYSE and Nasdaq continue to be among the most successful in the world."); Jeffrey Sonnenfield & Steven Tian, *Re-Thinking The Hostility Towards Dual-Class Share Structures: When Dual-Class Shares Work Better*, HARV. L. SCH. FORUM ON CORP. GOV. (Oct. 16, 2024), https://corpgov.law.harvard.edu/2024/10/16/re-thinking-the-hostility-towards-dual-class-share-structures-when-dual-class-shares-work-better/ (finding that "companies with dual and multi class shares, on average, outperformed the companies with single-class shares across both the short and long-term" and arguing this is evidence there is no singular optimal structure).

[84] For an exploration of the "contracting process" that shapes dual-class charters, and the role of lawyers and market norms, in driving most dual-class companies to choose similar or identical levels of voting inequality, *see* Roberto Tallarita, *Dual-Class Contracting*, 49 J. CORP. L. 971 (2024).

[85] Berger & Matera, *supra* note 81, at 105.

[86] *See, e.g.*, Aggarwal et al., *supra* note 10 (finding that "the increase in dual-class IPOs is driven by the founders' ability to dictate the governance of IPO firms" and hypothesizing that "one potential determinant of dual-class structures is the relative bargaining power of founders versus investors").

provisions.[87] Venture capitalists appear as enablers of this arrangement due to shifting dynamics toward "founder friendliness," particularly for the most promising startups.[88] They backed the founder early, helped design the governance structure, and then exited.[89]

This assumption shapes both positive and normative analysis. Agency-cost critiques measure the "wedge" between founder voting power and economic interest. Founder-centric defenses focus on shielding founders from public-market discipline. In neither case are venture capitalists treated as persistent governance actors whose continued involvement might simplify or complicate the picture.

Yet if venture capitalists retain meaningful equity stakes, voting power, or board representation after the IPO, then the two-player model is incomplete. Post-IPO governance may involve prolonged venture capital influence, and the possibility of contingent collaboration among founders, venture capitalists, and other large shareholders. Recognizing venture capitalists as persistent participants does not resolve the dual-class debate, but it helps reframe it. The next Part turns from paradigms to evidence.

II. VENTURE CAPITAL PERSISTENCE AFTER THE IPO

This Part presents descriptive findings that challenge the conventional view of the IPO as a clean venture capital exit. Drawing on a comprehensive dataset of venture-backed IPOs, and following these firms across time, it documents the extent to which venture capitalists remain significant equity holders, voting participants, and board members well beyond the lock-up period. The analysis focuses on how long venture capitalists remain involved post-IPO and under what governance configurations.

A. DATA AND METHODOLOGY

We begin with the universe of U.S. venture-backed IPO firms that completed an offering between January 1, 2002 and December 31, 2020. Applying standard sample screens (U.S. headquarters and availability of accounting data on Compustat) yields 844 IPO firms, of which 79 issued high-vote stock via a dual-class structure and 765 employed a single-class structure.[90]

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[87] *See, e.g.*, Goshen & Hamdani, *supra* note 11, at 591 ("In both the concentrated-ownership and the dual-class structures, the entrepreneur controls the company by virtue of owning the largest share of the company's voting equity.").

[88] *See* David Kampmann, *The Political Economy of Venture Capital: Winners-Take-All and Founder Control*, Advance Article, SOCIO-ECONOMIC REV. 1, 23 (2025), https://academic.oup.com/ser/advance-article/doi/10.1093/ser/mwaf065/8286992 (examining how "the changing dynamics of competition in US start-up investing since the early 2000s enabled founders—but only those deemed by VCs as leading the most promising start-ups—to occupy an increasingly powerful position vis-a-vis VCs" and bargain for dual-class structures).

[89] *See id.* at 2-3 (examining venture capitalists' role in "how and why dual-class shares became the dominant corporate governance regime in US Tech" and discussing why "VCs would give up control to founders").

[90] *See id.* at 10. The sample frame for the list of IPOs is Jay R. Ritter, *IPO Data: Venture Capital-backed IPOs*, U. Fla. Warrington C. Bus. (last updated May 12, 2025), https://site.warrington.ufl.edu/ritter/files/IPO-age.xlsx. Similar to other empirical studies of dual-class firms, we only characterize a firm as dual-class if it issues high-vote stock. Aggarwal et al., *supra* note 10; Tallarita, *supra* note 84. The observation count varies slightly across

We constructed the governance dataset for all 844 firms using an automated data collection pipeline built on Anthropic's Claude (Opus 4.8). For each sample firm, the pipeline reads IPO prospectuses (Form 424B4) and subsequent annual proxy statements (DEF 14A) obtained from the SEC's EDGAR database and then applies a common coding protocol.[91]

We assessed the coding using two separately collected sources. First, we compared it with research-assistant data from a 157-firm sample used in our prior research.[92] Second, we used OpenAI's Codex (Sol 5.6) to code the same variables directly from SEC filings for all 79 dual-class firms and a fixed random sample of 70 single-class firms.[93] We reviewed disagreements against the filings and used that review to clarify the coding rules, including the classification of venture investors, the treatment of founder-controlled proxy votes, and the attribution of board seats. After this review, we reran Claude's coding and classification for the full 844-firm sample under the revised protocol. All tables, figures, and other empirical results in this Article use the resulting Claude-coded dataset. Appendix Table A1 compares those final values with the Codex and human-coded observations for the core variables used in the analysis.[94]

Our findings describe patterns among U.S. venture-backed firms that completed traditional IPOs between 2002 and 2020. Whether similar patterns hold for firms going public through SPACs, direct listings, or in other jurisdictions is an open question.

For each firm, we track venture capital ownership, voting power, and board representation at the time of the IPO and at multiple points thereafter. We code the IPO prospectus (Form 424B4) to capture ownership and voting arrangements immediately following the offering.[95] We then code annual proxy statements (DEF 14A) to track the post-IPO evolution of ownership, voting power, board composition, and key governance provisions. We collect up to seven years of post-IPO data, stopping earlier only if the firm is

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tables and figures because not all governance variables are available for every firm-year. Board composition data (Table 4) requires a proxy filing with sufficient biographical detail to classify director affiliations, reducing the available sample relative to ownership tables. Figure sample sizes reflect the subset with complete data for the plotted variables.

91 The pipeline operates in several stages: looking up each firm's CIK identifier on EDGAR; downloading and parsing the relevant sections of each SEC filing (the principal stockholders section from the IPO prospectus and the security ownership of certain beneficial owners and management section from each annual proxy statement); and applying a large language model coding protocol to identify founders and venture investors and measure their voting power and board representation.

92 Aran, Broughman & Pollman, *supra* note 27. The human-validation sample consists of 78 dual-class firms and 79 matched single-class firms.

93 Codex was used for a separate measure from the underlying filings, not to copy Claude's values. The coding rules were subsequently clarified through filing review. Accordingly, Panel A reports agreement after that review and protocol refinement, rather than an untouched pre-review test of model performance.

94 See Appendix A for comparison samples and agreement measures. For related work on validating LLM-coded governance data against human coding, *see* Jens Frankenreiter, *Measuring Corporate Governance with Large Language Models* (working paper 2026 - https://ssrn.com/abstract=7145639); Jens Frankenreiter, *DECODEM: Data Extraction from Corporate Organizational Documents via Enhanced Methods* (working paper 2026 - https://ssrn.com/abstract=7132942).

95 IPO prospectuses are available on the SEC's EDGAR database. *See* Filings & Forms, U.S. Sec. & Exch. Comm'n, https://www.sec.gov/edgar (last visited Jan. 26, 2026).

acquired, delisted, or otherwise ceases to trade, or if a given post-IPO year would extend beyond the end of 2025, the endpoint of our data collection.

Venture capital investors are identified using the "Principal Stockholders" table in each firm's IPO prospectus.[96] Each listed institutional shareholder was classified using the AI coding pipeline, with results validated against human classifications in the 157-firm validation set (see Appendix Table A1). Because beneficial-ownership disclosures report only holders above the 5% threshold, a venture capitalist that reduces its stake below 5% drops out of our data even if it continues to hold shares or remains otherwise involved. Our ownership and voting measures therefore capture only significant (≥5%) positions, and the persistence patterns we document are best understood as lower bounds on the duration of venture capital involvement.

We measure board influence by coding directors' affiliations from proxy-statement biographies and related disclosures and computing, for each year, the percentage of board seats held by founders and by VC-affiliated directors.

We also code voting agreements among venture capitalists, among founders, and between founders and venture capitalists, as well as irrevocable proxy arrangements through which founders delegate voting authority to a designated agent. Because these mechanisms can render the same underlying shares functionally attributable to multiple constituencies, we track overlap to avoid double-counting while still capturing the practical significance of coalition-based control structures.

B. DESCRIPTIVE STATISTICS AND FINDINGS

With this framework in place, we turn to our findings, beginning with descriptive patterns in venture capital ownership and board representation in newly public firms.

1. Equity Ownership Beyond the Lock-Up

The traditional narrative of the IPO as an "exit" for venture capitalists views the lock-up period as the end of significant venture capital involvement. However, our data challenge this perspective. Beyond the familiar observation that venture capitalists seldom sell all their shares during the IPO itself, ownership disclosures indicate that full divestment often takes years, not months.

[96] Our dataset captures all significant pre-IPO institutional equity investors, including both venture capital and private equity (including growth equity) firms. We use "venture capital" or "VC" throughout the text as shorthand for this broader category for two reasons. First, in our sample of venture-backed IPOs, venture capital investors predominate; private equity participation typically occurs alongside or subsequent to venture capital investment. Second, the functional distinction between late-stage venture capital and growth equity has blurred considerably, with many investors and transactions defying clean categorization. Where relevant, we note distinctions between investor types. We classify as venture capital or private equity only bona fide independent venture and private-equity investors, excluding passive asset managers and index funds, sovereign-wealth and public-pension funds, corporate venture arms, and family offices or founders' personal investment vehicles; crossover and hedge-fund investors that operate across both private and public markets are counted only where they led a financing round or held a board seat.

Table 1 provides descriptive statistics on venture capital holdings in our sample of post-IPO firms, broken down by years since the IPO and by share-class structure. The figures for the IPO year are particularly noteworthy. In single-class firms, an average of approximately three venture capital or private equity investors appear as principal shareholders, collectively holding about 33% of the voting power. This pattern does not reflect a quick shift to fragmented public ownership. Instead, it depicts multiple blockholders that continue into the public stage, with the potential to collectively wield substantial influence in shareholder votes and guiding the company's direction through both formal governance channels and informal influence.

Dual-class firms offer a seemingly distinct but fundamentally similar starting point. At the IPO, they typically feature approximately three venture capital investors holding around 35% of the voting power. Given that founders' high-vote shares leave them with a much larger percentage of the vote in dual-class firms as compared to single-class firms (36% vs 8%), one might have expected venture capitalists to hold a correspondingly smaller share of the vote in dual-class firms. Instead, venture capital voting power at the IPO is comparable across both structures.[97] The main reason we do not find a larger decline is that venture capitalists hold high-vote shares alongside the founders in most dual-class firms.

[97] Bootstrap 95% confidence intervals for mean VC voting power at IPO: dual-class 34.9% [29.9–40.1] (N=79); single-class 32.7% [31.3–34.0] (N=760).

Table 1, Panel A: Dual-Class Firms (N=79)

Year	N	# Active Founders	# VC/PE Firms	VC Total Voting %	Founder Total Voting %
0	79	1.81 (2.00)	2.80 (3.00)	34.9 (38.2)	36.2 (28.3)
1	77	1.82 (2.00)	2.13 (2.00)	30.2 (29.3)	43.6 (42.1)
2	76	1.76 (2.00)	1.37 (1.00)	18.2 (9.2)	50.4 (54.2)
3	73	1.64 (2.00)	0.88 (1.00)	12.8 (4.2)	48.8 (51.6)
4	70	1.61 (1.50)	0.61 (0.00)	8.4 (0.0)	48.0 (49.6)
5	69	1.54 (1.00)	0.48 (0.00)	6.9 (0.0)	44.2 (47.5)
6	52	1.46 (1.00)	0.33 (0.00)	4.8 (0.0)	42.1 (47.8)
7	39	1.28 (1.00)	0.41 (0.00)	4.8 (0.0)	44.8 (53.0)
All	535	1.65 (2.00)	1.24 (1.00)	16.6 (4.8)	44.8 (48.0)

Table 1, Panel B: Single-Class Firms (N=765)

Year	N	# Active Founders	# VC/PE Firms	VC Total Voting %	Founder Total Voting %
0	760	1.23 (1.00)	2.77 (3.00)	32.7 (33.7)	8.3 (4.3)
1	751	1.14 (1.00)	2.14 (2.00)	25.9 (26.0)	7.2 (3.4)
2	711	1.04 (1.00)	1.59 (1.00)	17.3 (13.9)	6.4 (2.9)
3	644	0.97 (1.00)	1.21 (1.00)	12.2 (7.4)	5.7 (2.6)
4	593	0.90 (1.00)	0.97 (1.00)	8.6 (0.7)	5.0 (2.2)
5	536	0.84 (1.00)	0.78 (0.50)	6.6 (0.0)	4.6 (1.6)
6	435	0.81 (1.00)	0.64 (0.00)	5.1 (0.0)	4.3 (1.5)
7	362	0.72 (1.00)	0.67 (0.00)	3.9 (0.0)	4.0 (0.4)
All	4792	0.99 (1.00)	1.49 (1.00)	16.0 (9.7)	6.0 (2.6)

Notes: Values reported as Mean (Median). Sample: VC-backed IPOs, 2002–2020. Panel A: dual-class firms; Panel B: single-class firms (full population). "VC Voting %" and "Founder Voting %" report aggregate voting power held by each group. Observations decline over time due to M&A or delisting, or because more recently listed firms have not yet reached the later post-IPO years.

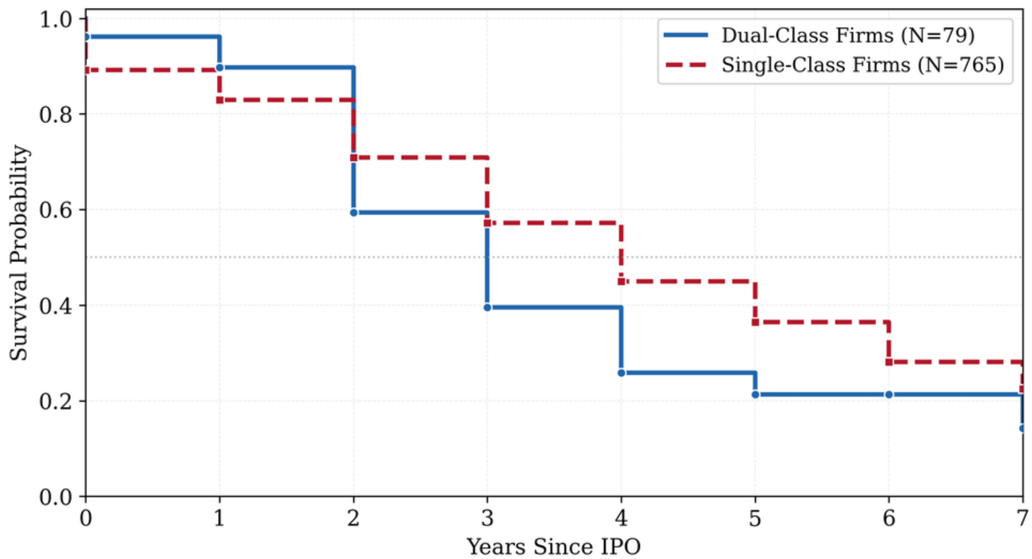
The timeline of venture capital divestment is best illustrated through survival analysis, which addresses a simple question: how long does venture capital ownership last after the IPO before dropping below 5%, the threshold for public disclosure? Figure 1 displays Kaplan-Meier survival curves differentiated by share-class structure. The median dual-class firm retains VC equity above 5% for three years post-IPO; the median single-class firm retains it for four years.[98] Thus, the six-month lock-up serves as a minimum requirement, not the typical limit. Divestment proceeds incrementally, often spanning several annual proxy seasons.

Several aspects of these curves deserve attention. First, venture capital investors continue to hold at least 5% of the equity two years after the IPO at 71% of single-class firms

[98] The VC governance persistence patterns are broadly stable across IPO cohorts. Splitting the single-class sample by IPO era (2002–2008 (N=189), 2009–2014 (N=255), and 2015–2020 (N=321)), median VC voting power at IPO is similar across cohorts (32.6%, 39.5%, and 28.9%, respectively), and the share of firms reaching dispersed control by year three is also comparable (77%, 83%, and 88%). These patterns suggest that VC governance persistence is a structural feature of the VC-backed IPO market rather than a phenomenon driven by any particular cohort or market cycle.

and 59% of dual-class firms. Second, the survival curves do not reach zero even by year seven; roughly a quarter of single-class firms and 14% of dual-class firms still retain VC equity stakes above 5% at the edge of our data window.

Figure 1: Kaplan-Meier Survival Curves for VC Ownership
Probability of Retaining VC Equity Stake ≥ 5% by Years Since IPO



Notes: This figure plots Kaplan-Meier survival curves for VC equity stake, where "failure" is defined as aggregate VC equity stake falling below 5%. For dual-class firms, equity stake is calculated as total VC shares held divided by total shares outstanding. The solid line represents dual-class firms; the dashed line represents single-class firms. The horizontal dotted line marks the 50% survival threshold. Observations are censored if the firm reaches the seven-year observation limit, is acquired or delisted, or if data collection ended in 2025 with VCs still holding stakes above the threshold. Time is measured discretely as years-since-IPO based on annual proxy filings (DEF 14A).

The venture capitalists that stay invested beyond the lock-up are not a random assortment. Table 2 lists post-IPO holders present in at least ten sample firms, highlighting that ongoing ownership is dominated by established venture capital firms such as New Enterprise Associates and Sequoia Capital. Even among these repeat players, exit trajectories vary considerably. Life-science-focused investors such as Domain Associates and Atlas Venture remain shareholders in about half of their portfolio firms three years after the IPO, while technology-focused firms such as Accel and Greylock exit most positions within that same window.

Table 2: Venture Capitalists Remaining as Shareholders Post-IPO

Investor	At IPO	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7
New Enterprise Associates	43	40	32	28	15	15	13	7
Sequoia Capital	28	22	20	16	11	5	3	2
ARCH Venture Partners	22	21	20	15	12	3	2	4
MPM Capital	22	17	15	10	7	3	1	1
Accel	18	11	4	3	1	2	0	0
Third Rock Ventures	17	16	15	9	5	4	4	3
Kleiner Perkins	16	14	9	8	5	5	4	5
Domain Associates	16	13	10	9	7	4	3	2
Atlas Venture	16	14	14	10	10	7	1	2
Benchmark	15	14	11	6	6	3	3	3
Versant Ventures	15	17	13	11	8	5	5	2
Polaris Partners	13	12	6	5	5	2	2	1
Sofinnova Ventures	13	10	10	7	7	4	3	1
Alta Partners	13	10	4	6	5	2	2	1
Insight Partners	12	8	8	4	2	1	1	1
Bessemer Venture Partners	12	8	4	3	2	0	0	0
Meritech Capital Partners	12	5	2	0	0	0	0	0
Greylock Partners	11	7	2	2	1	2	2	2
Lightspeed Venture Partners	10	6	4	3	2	1	1	0

Notes: This table reports the count of sample firms in which each VC investor appears as a principal shareholder, limited to investors appearing in at least ten sample firms at IPO. "Firms at IPO" reports the count of firms in which the investor appeared as a reported shareholder (≥5% beneficial owner per SEC filings) at the time of the IPO. Columns "Yr 1" through "Yr 7" report the count of firms in which the investor appeared as a reported shareholder at each post-IPO year. VC names are normalized to group affiliated funds under the parent firm (e.g., individual fund vehicles are consolidated under their managing firm).

Early stage investors, who participate in first or second round financing, are more likely to stay than those entering later. This aligns with possible governance and information-oriented explanations that early investors build stronger ties with founders, accumulate extensive board experience, and gain superior insights compared to public market actors. Their ongoing role likely stems from an intentional decision to stay involved, rather than an inability to sell.

These results add nuance to the conventional understanding of venture capital as a system centered on discrete liquidity events. In the standard view, the IPO transforms illiquid private holdings into tradable public shares, enabling venture capitalists to repay limited partners and shift focus to new ventures. This description is generally accurate in broad strokes but does not provide the full picture. Our findings indicate that many venture capitalists see the IPO not as an immediate departure but as the beginning of a shift that can take years to fully execute.

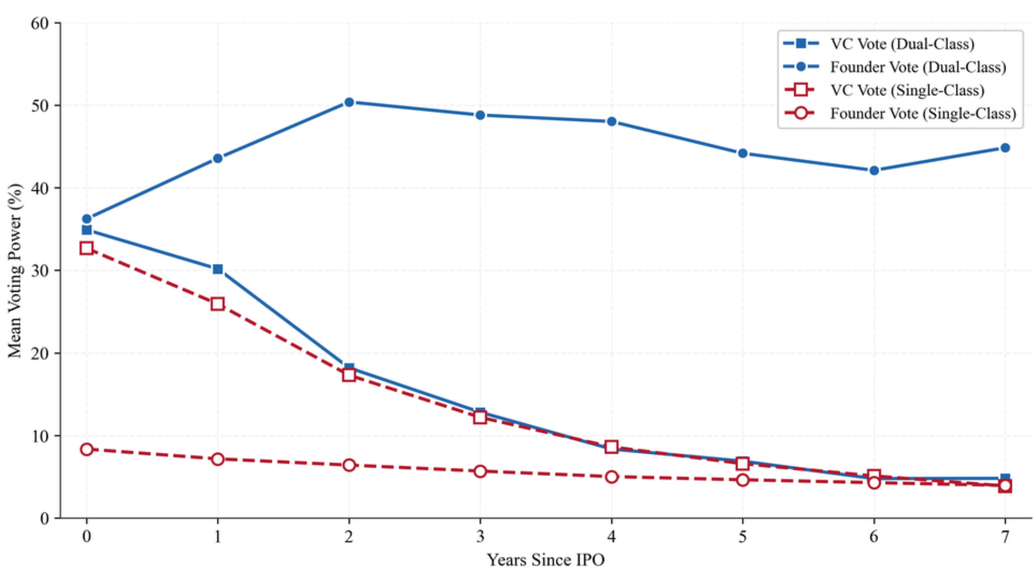
This has important consequences for corporate governance. If venture capitalists commonly keep meaningful holdings for several years after the IPO, newly public companies function under a model distinct from the Berle-Means archetype of dispersed ownership. During this interim phase, the "public" firm continues under the watchful eye of knowledgeable and active blockholders who often preserve not just equity but also significant voting power, board positions, and sometimes even contractual rights.

2. Voting Power and Control Arrangements

As illustrated in Figure 2 below, at the IPO, average venture capital voting power is substantial in both single-class firms (33%) and dual-class firms (35%). Venture capitalists' stakes often represent meaningful voting blocs capable of influencing or vetoing major corporate actions.

The dual-class results deserve special attention. As we have discussed, a large body of research has analyzed dual-class structures as tools for founder entrenchment, examining whether high-voting shares shield founder-managers from market pressures. This view often frames dual-class as a two-sided struggle between founders and public investors. Our data add nuance to this narrative. In our dual-class sample, high-vote shares make up roughly 90% of total voting power at the time of the IPO. Yet, as noted above, venture capitalists still hold an average of 35% of the vote at the IPO. This is feasible only because venture capitalists themselves typically possess high-vote stock in dual-class firms.

Figure 2: Mean Shareholder Voting Power by Years Since IPO



Notes: Figure plots mean aggregate voting power by years since IPO. Dual-class firms (N=79) shown with solid markers; single-class firms (N=765) with open markers. Sample: VC-backed IPOs, 2002–2020.

Put differently, dual-class is often not simply "founder control," at least not initially. In the early years following the IPO, it often preserves the possibility of coalition-based control: venture investors retain voting leverage by holding high-vote shares alongside founders rather than being diluted into low-vote common stock. Potential shared control configurations characterize roughly 42% of dual-class firms at the IPO but only about 22% by year two, as VC voting power declines rapidly. These configurations do not imply that venture investors vote as a unified bloc or consistently align with founders. Rather, their retained voting power gives them the capacity, depending on the issue and circumstances, to support, constrain, or oppose founder control.

By year three, VC investors' aggregate voting power has declined to roughly 4% at the median dual-class firm (13% mean), marking a substantial shift toward founder control. This transition is consistent with the way prominent venture voices have publicly justified dual-class structures as mechanisms that "give founders the power to steer their companies towards their long-term goals," often with the implicit or explicit expectation that early investors will remain aligned through the transitional public years.[99]

Averages can mislead when they imply a single "typical" control configuration. To capture the distributional variation obscured by averages, we first aggregate the voting power held by all venture capital investors in each firm-year and, separately, the voting power held by all founders. We then classify each firm-year along a *control spectrum*. "Hard" control denotes aggregate voting power of 50% or more; "soft" control denotes aggregate voting power between 33% and 50% where the other group holds less than 10%. We classify a firm-year as VC or founder control depending on which group independently satisfies the relevant threshold. We classify it as shared control when the combined voting power of VCs and founders satisfies the relevant threshold but neither group does so independently. Finally, we classify a firm-year as dispersed when the combined voting power of VCs and founders is less than 33%. These are descriptive voting-power classifications; they do not imply that individual VCs act in concert or that founders and VCs constitute a legal control group.

[99] Scott Kupor, *Limit, Don't Ban, Dual-Class Share Structures*, ANDREESSEN HOROWITZ (Feb. 25, 2019), https://a16z.com/limit-dont-ban-Dual-Class-share-structures/.

Table 3: Distribution of Control Classifications by Years Since IPO

Panel A: Dual-Class Firms (N=79, 535 firm-years)

Control Type	Yr 0	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Total
VC Hard	24%	21%	9%	7%	3%	3%	0%	0%	10%
VC Soft	1%	0%	0%	0%	0%	1%	0%	0%	0%
Shared Hard	38%	29%	14%	8%	10%	6%	6%	3%	16%
Shared Soft	4%	5%	8%	11%	6%	4%	6%	0%	6%
Founder Hard	29%	39%	57%	58%	50%	49%	48%	56%	47%
Founder Soft	1%	3%	5%	4%	11%	12%	10%	8%	6%
Dispersed	3%	4%	7%	12%	20%	25%	31%	33%	15%
N	79	77	76	73	70	69	52	39	535

Panel B: Single-Class Firms (N=765, 4792 firm-years)

Control Type	Yr 0	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Total
VC Hard	19%	11%	5%	3%	2%	1%	0%	1%	6%
VC Soft	22%	18%	11%	5%	3%	2%	3%	1%	9%
Shared Hard	12%	8%	3%	2%	1%	1%	0%	0%	4%
Shared Soft	12%	12%	7%	4%	2%	2%	1%	1%	6%
Founder Hard	1%	1%	1%	1%	1%	1%	0%	0%	1%
Founder Soft	1%	1%	1%	1%	1%	1%	1%	1%	1%
Dispersed	34%	50%	71%	84%	90%	93%	94%	96%	72%
N	760	751	711	644	593	536	435	362	4792

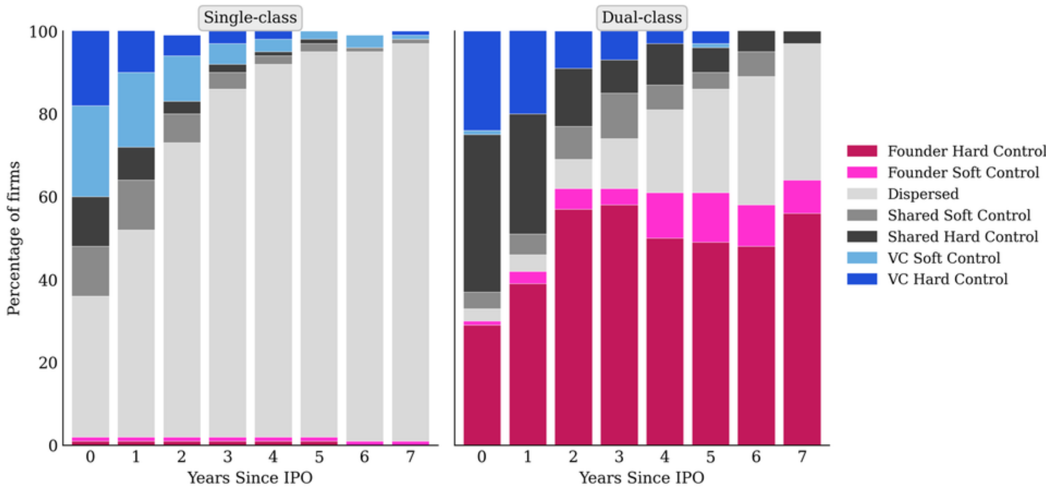
Notes: This table reports the percentage of firm-years falling into each control classification by years since IPO. "Hard" denotes voting power ≥ 50%; "Soft" denotes voting power between 33% and 50% while the other party holds < 10%; "Shared" categories denote combined VC-plus-founder voting power meeting the relevant threshold where neither party alone has control.

Table 3 and Figure 3 report the distribution of control classifications over time, disaggregated by share-class structure. Concentrated insider control is not a niche phenomenon in the years immediately following the IPO; it is the norm. At the offering, 97% of dual-class firms and 66% of single-class firms exhibit some form of insider control.[100] The two structures differ not in *whether* insiders control the newly public firm, but in *who* among the insiders holds that control, and in *how quickly* control dissipates thereafter.

In dual-class firms, the IPO-year distribution defies the conventional narrative of unilateral founder control. Venture capitalists, founders, and VC-founder contingent coalitions each account for substantial shares of the control landscape; in 97% of firms, one of these configurations characterizes the governance structure. The picture that emerges is not a bilateral contest between "the founder" and "public shareholders," but a triangular configuration in which venture investors occupy a position of substantial, potentially dispositive, influence. Single-class firms exhibit even starker venture capital dominance: 19% display venture capital hard control at the IPO, with an additional 22% exhibiting venture capital soft control. Including shared control configurations, approximately 65% of single-class firms display some form of venture capital control at the offering.

[100] As noted above, we use the term "control" and analyze "control classifications" in this Part in reference to our data findings regarding voting power that examines founders collectively, VCs collectively, and both founders and VCs collectively as "insiders." Such terminology does not imply or refer to legal determinations regarding insider status or control under corporate or securities law, topics that we discuss in Part III.

Figure 3: Distribution of Control of Shareholder Vote Over Time



Notes: This figure graphs shareholder control classifications from a sample of single-class (N=765) and dual-class (N=79) firms (see Table 3 for the definition of each control classification). Sample: VC-backed IPOs, 2002–2020.

The trajectory away from concentrated control diverges sharply by share-class structure. In single-class firms, the transition to dispersion is rapid; by year three, 84% have dispersed ownership.[101] Dual-class firms follow a markedly different path: dual-class firms remain substantially more concentrated, with a majority remaining under some form of insider control at year three.

Voting agreements among venture capitalists appear in about 7% of IPO-stage firms overall, but are notably more prevalent among dual-class firms (17%) than single-class firms (6%). Coalition agreements between venture capitalists and founders are rarer, appearing in approximately 5% of dual-class firms and 1% of single-class firms. Irrevocable proxies held by founders over venture capitalist shares are uncommon (1.3% of dual-class firms). While the majority of sample firms do not employ formal voting agreements, these arrangements are disproportionately concentrated among dual-class firms where they reinforce coalition governance structures.[102]

These patterns underscore the inadequacy of two-player governance models that pit founders against public shareholders or controllers against dispersed owners. Post-IPO governance in venture-backed firms involves at least three principal actors: founders, venture

[101] Similarly, founder involvement and meaningful voting power persists longer at dual-class firms as compared to single class firms. In our sample, a typical dual class firm retains at least one active founder even seven years after the IPO, and founder voting power remains substantial—starting at 37% at IPO and hovering around one-half of total votes through the observation period. In single-class firms, by contrast, founders exit at a much faster rate. By year seven, the mean number of active founders falls to 0.72, founder voting power drops to 4.0%, and founder board representation becomes minimal.

[102] The voting percentages reported in Table 1 already incorporate the effects of these agreements, as DEF 14A principal shareholder tables report shares over which a party has control, including those subject to irrevocable proxies and voting agreements.

capitalists, and public shareholders. The relative influence of each varies across firms and over time, but the presence of venture capitalists as a distinct constituency, with interests that partially overlap and partially diverge from both founders and public shareholders, shapes governance dynamics in ways that existing frameworks do not adequately capture. In dual-class firms, this three-player structure often manifests as a founder–venture capital coalition around the IPO; in single-class firms, it manifests as venture capital stewardship during founder exit. Both configurations challenge the binary categories (controlled versus dispersed, insider versus outsider) that dominate corporate governance discourse.

3. Board Representation After the IPO

The third dimension of venture capital persistence concerns board representation. Conventional accounts assume that venture capitalists relinquish board seats as firms go public, yielding governance authority to independent directors and professional management. The board, on this view, transitions from an investor-dominated body designed to monitor founders toward a more balanced composition befitting a public company. Table 4, which reports board composition across the first seven years following IPO, reveals a different pattern.[103]

Venture capitalists maintain board presence well into a firm's public life. At IPO, VC-affiliated directors occupy 31% of board seats in dual-class firms and 31% in single-class firms. Combined with founder representation, insiders hold 50% of seats in dual-class firms and 43% in single-class firms at IPO. This initial configuration exceeds what one would expect if the IPO marked a clean break between private and public governance. The modal arrangement is not venture capitalists' dominance, founder control, or board independence, but rather *shared control* in which neither venture capitalists nor founders can unilaterally direct governance, but outsiders cannot easily override insider preferences.[104] Outright venture capital board majorities occur in only a small fraction of firms, concentrated at the IPO or immediately thereafter.[105]

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[103] Board representation is measured as the percentage of board seats held by VC-affiliated or founder-affiliated directors, as reported in annual proxy statements. The sample includes 79 dual-class and 765 single-class VC-backed IPOs from 2002 to 2020. Typical board size is seven to eight seats.

[104] A similar form of shared control between venture capitalists and founders is frequently found among privately-held venture-backed firms. *See* Broughman, *supra* note **Error! Bookmark not defined.**, at 41-42; Broughman, *supra* note 42; Ewens & Malenko, *supra* note 42.

[105] Venture capitalists held a majority of board seats at a small number of dual-class and single-class firms in the sample, concentrated at the IPO or one year later.

Table 4: Board Representation by Years Since IPO

Panel A: Dual-Class Firms (N=79)

Year	N	Legacy VC Board %	Founder Board %	Combined Insider %
IPO	79	31.1 (28.6)	19.7 (16.7)	50.3 (50.0)
Year 1	77	27.7 (25.0)	18.6 (16.7)	45.8 (44.4)
Year 2	76	23.0 (23.6)	17.9 (14.3)	40.4 (40.0)
Year 3	73	19.6 (20.0)	16.8 (14.3)	35.9 (36.4)
Year 4	70	16.5 (15.5)	16.8 (14.3)	33.0 (33.3)
Year 5	69	14.8 (14.3)	16.2 (14.3)	30.4 (33.3)
Year 6	52	14.4 (14.3)	14.3 (12.5)	28.1 (29.3)
Year 7	39	12.2 (12.5)	14.8 (12.5)	26.1 (22.2)

Panel B: Single-Class Firms (N=765)

Year	N	Legacy VC Board %	Founder Board %	Combined Insider %
IPO	760	31.3 (33.3)	12.3 (12.5)	43.4 (42.9)
Year 1	751	26.3 (28.6)	10.3 (11.1)	36.5 (37.5)
Year 2	711	20.1 (16.7)	10.0 (11.1)	29.9 (28.6)
Year 3	644	15.6 (12.5)	9.3 (11.1)	24.8 (25.0)
Year 4	593	12.1 (11.1)	8.8 (10.0)	20.8 (18.2)
Year 5	536	9.8 (0.0)	8.3 (10.0)	17.9 (14.3)
Year 6	435	7.9 (0.0)	7.9 (8.3)	15.7 (14.3)
Year 7	362	7.7 (0.0)	8.0 (8.3)	15.5 (12.5)

Notes: Values reported as Mean (Median). "Combined Insider %" = VC-affiliated directors + founder-affiliated directors as a percentage of total board seats. This measure does not include other executive directors or track NASDAQ independence classifications. "Legacy VC Board %" counts directors representing pre-IPO VC/PE investors.

More striking still, venture capitalists retain meaningful board presence for years after the offering. Even at year seven, VC-affiliated directors hold 8–12% of board seats. VC board representation thus persists longer than VC equity voting power, which as documented above typically approaches zero by this point in most firms.

The trajectories of board representation differ markedly between share structures. In dual-class firms, venture capital board presence declines steeply (from about 31% to 12% of seats) while founder board presence erodes only gently (from about 20% to 15%), so that the two converge—founders in fact hold slightly more board seats than venture capitalists by year seven—with both groups retaining meaningful voice throughout the observation period.[106] Founders consistently retain one to two seats even five to seven years after the IPO, suggesting that those who select dual-class structures may be choosing a governance regime that supports sustained founder involvement.

In single-class firms, venture capital board presence starts at a similar level (about 31%) but contracts more sharply, falling toward the lower, comparatively stable founder level (about 12% declining to 8%); the two converge by years six and seven, as board control gives way to

[106] In dual-class firms, venture capital board representation declines from 31.1% to 12.2% while founder representation falls from 19.7% to 14.8%. In single-class firms, venture capital representation drops from 31.3% to 7.7% while founder representation falls from 12.3% to 8.0%.

dispersed and independent oversight. Venture capitalists nonetheless retain board seats well into the public years—occupying about 8–10% of seats through years five and six—longer than they retain significant voting power, before their own gradual withdrawal. This bridging presence may maintain continuity with the firm's pre-IPO period while professional management and independent oversight mature.

The decoupling of board presence from equity stakes has important implications. A venture capitalist who sells most of her shares may nonetheless retain a board seat, continuing to influence strategy, monitor management, and participate in governance decisions long after her fund's economic exposure has diminished. This decoupling suggests that conventional analyses focusing on ownership stakes may understate venture capital influence in newly public companies.

4. Shareholder Returns and Continued VC Engagement

The preceding sections document that venture capitalists often remain significant shareholders and continue to hold board seats, lasting several years after the IPO. That persistence raises a natural question: whether continued VC engagement is associated with shareholder returns during the firm's early public life.

To examine that question, Table 5 reports firm fixed effects regressions relating calendar-year shareholder returns to measures of post-IPO VC engagement observed in the firm's proxy statement filed during that same year. Formally, we estimate:

$$AnnualReturn_{i,t} = \alpha + \beta * VCEngagement_{i,t} + \mu_i + \lambda_t + \delta_{\{IPOAge(i,t)\}} + \varepsilon_{i,t} \quad (1)$$

where the VC engagement measure is alternately captured using (i) a dummy variable for VC voting power greater than five percent, (ii) the percentage of voting power held by VC investors, or (iii) the percentage of board seats held by VC-affiliated individuals.[107] All models reported in Table 5 include firm fixed effects, calendar-year fixed effects, and IPO-age fixed effects. To clarify, IPO-age fixed effects mean that we include a separate indicator variable for each year after the IPO. VC voting power and board representation are typically greater immediately after the IPO and decline in subsequent years. Including IPO-age fixed effects therefore helps distinguish differences in VC persistence from broader lifecycle effects associated with time since IPO. Because annual proxy statements are typically filed in the spring, the VC governance variables are measured early in calendar year t, while the dependent variable captures shareholder returns over the full calendar year t.

[107] To reduce the impact of outliers all continuous variables used to estimate equation (1) are Winsorized at the 1% and 99% level.

Table 5: Firm Fixed Effect Regression Models

	(1)	(2)	(3)	(4)	(5)
VC voting > 5pct	0.123***				0.029
	(0.044)				(0.050)
VC voting pct		0.008***		0.007***	0.008***
		(0.002)		(0.002)	(0.002)
VC board pct			0.001		
			(0.002)		
Dual * VC voting pct				0.007*	
				(0.004)	
IPO-Age FE	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes
Constant	1.560**	1.209	1.769**	1.284*	1.182
	(0.784)	(0.761)	(0.762)	(0.757)	(0.769)
N	3700	3700	3700	3700	3700
Within R2	0.200	0.205	0.198	0.206	0.205

Standard errors are clustered at the firm level and reported in parentheses
* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

We find a consistent positive association between shareholder returns in a given year and the percentage of a firm's equity vote held by its VC investors early that year. The coefficient on VC equity vote percentage is positive and statistically significant in models (2), (4), and (5). By contrast, VC board percentage is insignificant (model 3). The VC vote-above-five-percent indicator is positive and statistically significant in model (1) but is not statistically significant in the fuller specification reported in model (5). Model (4) finds a somewhat stronger positive association between VC voting power and shareholder returns at dual-class firms, significant at the 10% level. Taken together, these results suggest that the most informative measure of post-IPO VC involvement is not whether a VC-affiliated director remains on the board, but whether venture capitalists continue to hold a meaningful voting stake in the firm.

These findings should be interpreted with caution. The regressions do not establish that continued VC involvement causes stronger returns. One possible interpretation is governance-based: retained VC voting power may add value by supplying oversight, continuity, and strategic discipline during the transition from private to public markets. Another possible interpretation, however, is informational or selection-based: venture capitalists may simply remain invested longer in firms they privately expect to perform well, such that retained VC holdings partly signal favorable information about future prospects. These explanations are not mutually exclusive, and our analysis does not distinguish between them. The Article's central descriptive finding does not depend on resolving that question:

regardless of why VCs remain invested, substantial VC ownership, voting power, and board representation often persist well after the IPO.

III. THEORY AND IMPLICATIONS

Part II documented a pattern overlooked by existing paradigms: venture capitalists frequently remain consequential governance actors after a firm goes public. They retain equity stakes, voting power, and board representation, and they do so across a wide range of governance configurations. This Part develops a theory of venture capital involvement post-IPO, and then explores implications for corporate governance debates and regulatory design.

Before developing this account, a clarification is in order. Part II primarily documents governance involvement, including VC voting power and board seats, and then presents suggestive evidence that retained VC voting power is positively associated with shareholder returns. These regressions do not establish that VC persistence *causes* better firm performance, reduces agency costs, or otherwise enhances governance quality. The theoretical framework that follows in this Part therefore should not be understood as proven by the return regressions, or positing a normative stance on venture capital involvement post-IPO. Rather, we offer an interpretation of the broader patterns, supported by the descriptive statistics. Alternative accounts cannot be ruled out on the basis of the results reported here.

Our core claim is that venture capitalists help facilitate the governance transition after a venture-backed company's IPO, typically over several years. This perspective reframes how we should understand dual-class governance, minority controller concerns, and the design of governance rules for growth-stage public firms.

A. HOW VENTURE CAPITAL FACILITATES POST-IPO GOVERNANCE TRANSITION

The persistence of venture capital influence after the IPO suggests that exit is better understood as an inflection point or process rather than a discrete, terminal event. Venture capitalists may remain involved in part because they perform a role that neither founders nor public-market institutions are well positioned to perform during the early public life of growth firms, involving both delayed liquidation and participation in corporate governance. In many cases, continued involvement may not reflect a single, forward-looking governance strategy so much as liquidity constraints, information advantages, reputational incentives, and relational commitments that make disengagement costly or suboptimal at any given moment.

1. Why Venture Capitalists Stay In

The conventional venture capital narrative emphasizes exit incentives. Venture capital funds are generally finite-life vehicles.[108] General partners are compensated based on realized

[108] Josh Lerner & Ramana Nanda, *Venture Capital's Role in Financing Innovation: What We Know and How Much We Still Need to Learn*, 34 J. ECON. PERSPS. 237, 245 (2020) (Venture capital investors typically raise funds for a specific (usually a ten-year) period.").

returns.[109] Liquidity events are necessary to recycle capital and raise successor funds.[110] On this account, we might expect venture capitalists to exit as soon as feasible once a firm goes public. That logic, however, abstracts away from several structural features of venture capital practice that make post-IPO persistence rational.

First, venture capitalists may stay invested and involved in companies that they expect to have significant growth post-IPO. The shareholder return evidence presented in Part II.B.4 is consistent with the view that post-IPO VC persistence could benefit limited partnership fund investors. Indeed, our results add an extra dimension to Bartlett and Ramella's recent study finding that VC funds often experience substantial economic returns late in the fund lifecycle,[111] by suggesting that some of those returns may occur after the portfolio company has already completed its IPO.[112]

Firms often go public when they have reached viability for such an event and market "windows" open,[113] not necessarily when the firm has reached the end of its high-growth potential.[114] IPO timing frequently reflects macroeconomic conditions, sector enthusiasm, or liquidity cycles, as well as some level of internal readiness.[115] Market prices may not reflect all available information and may sometimes undervalue a firm's growth opportunities. Post-IPO growth is indeed common, particularly for technology firms whose business models involve intangible assets, scaling, platform development, or ecosystem expansion.[116] In these circumstances, venture capitalists may rationally retain stakes because they believe that significant value remains to be realized in the public markets, whether based on their own

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109 RAMSINGHANI, *supra* note 17; BRAD FELD & JASON MENDELSON, VENTURE DEALS: BE SMARTER THAN YOUR LAWYER AND VENTURE CAPITALIST 172-74 (2019).

110 GOMPERS & LERNER, *supra* note 35, at 7 (describing venture capital cycle of needing to return funds to investors and raise successive funds).

111 *See* Bartlett & Ramella, *supra* note 17.

112 Sequoia Capital, for example, has created a structure with an open-ended liquid portfolio made up of public positions, and closed-end subfunds that continuously flow in a "feedback loop," so that its investments avoid having "expiration dates" and the firm can hold public shares long after IPO to maximize returns for its limited partners. Sequoia, *The Sequoia Capital Fund: Patient Capital for Building Enduring Companies* (Oct. 26, 2021), https://sequoiacap.com/article/the-sequoia-fund-patient-capital-for-building-enduring-companies/.

113 *See, e.g.*, Corrie Driebusch, *Hoping to Make a Splash on Wall Street? Better Check the Forecast for the IPO 'Window'*, WALL ST. J. (June 7, 2024), https://www.wsj.com/finance/ipo-window-season-public-investing-875db370. On the cyclicality of IPOs, see Jay R. Ritter, *The 'Hot Issue' Market of 1980*, 32 J. BUS. 215 (1984); Michelle Lowry & G. William Schwert, *IPO Market Cycles: Bubbles or Sequential Learning?*, 57 J. FIN. 1171 (2002); Chris Yung, Gönül Çolak & Wei Wang, *Cycles in the IPO Market*, 89 J. FIN. ECON. 192 (2008).

114 *See, e.g.*, Juan Carlos Arancibia, *What S&P Earnings Would Be Without the Magnificent Seven*, INVESTORS.COM (Jan. 27, 2026), https://www.investors.com/news/magnificent-seven-sp-500-q4-earnings/ (noting technology companies driving overall S&P 500 earnings growth).

115 On IPO "readiness," see *IPO Ready: Navigating the Path to Public Market Success*, WALL ST. J. (Sept. 22, 2025, https://www.wsj.com/podcasts/sponsored/crafting-capital/ipo-ready-navigating-the-path-to-public-market-success/0be456d3-1392-4b8d-b67c-1a1b3b496a7e; Carta, IPO Readiness (July 23, 2025), https://carta.com/learn/startups/exit-strategies/ipo/readiness/).

116 *See* Fred Wilson, *Let Your Winners Run*, AVC (Feb. 23, 2013), https://avc.com/2012/02/let-your-winners-run/#:~:text=I%27ve%20made%20the%20mistake%20of,Lesson%20learned ("Back in the middle of 2007, my previous firm Flatiron exited our investment in Mercado Libre at the IPO selling our entire position for about a 10x gain. In the almost five years that MELI has been public, it has gone up 5x. So had we held our position for another five years, we'd have made 50x instead of 10x. That stings. Lesson learned.").

knowledge of the firm's prospects, expectation of their continued value-enhancing involvement, or both.[117]

Second, this point can be generalized to more than just growth opportunities. Venture capitalists may have informational advantages on several dimensions that persist after the IPO. One important dimension of this persistence concerns timing and exit strategy. Although public-company disclosure regimes reduce information asymmetry between insiders and public investors, they do not eliminate it, particularly for firms whose value turns on intangible assets, human capital, or uncertain technological trajectories.[118] Venture capitalists might possess granular, historically accumulated knowledge about the leadership team, product pipelines, internal capabilities, and strategic options that is not fully captured in periodic disclosures or market signals.[119] That informational advantage can be especially valuable in assessing whether early post-IPO volatility reflects transient growing pains or more fundamental weaknesses. As a result, continued involvement after the IPO can help venture capitalists identify more favorable windows for full exit, allowing them to time their sale to maximize returns relative to less-informed public shareholders.[120]

Beyond exit timing for a particular firm, the informational advantages associated with post-IPO involvement may also generate spillovers across a venture capitalist's broader investment activities.[121] Information acquired through board service at a newly public company can inform screening, valuation, and governance decisions with respect to other portfolio companies operating in similar markets or facing comparable scaling challenges.[122] Post-IPO firms might serve as real-time laboratories for understanding how business models, regulatory obligations, and capital market pressures interact as companies transition from private to public status.[123] These insights can bolster a venture capitalist's industry understanding, help refine their investment thesis, improve capital allocation across funds, and shape strategic judgments about when other portfolio firms should pursue liquidity events or remain private.[124] In this sense, the informational value of post-IPO participation extends

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117 *See* Minmo Gahng, *Cash or Stock? Agency Frictions in Venture Capital Distributions*, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=6140146 (finding that U.S. venture capital funds returned at least 56% of capital to limited partners as publicly listed equity rather than cash between 2012 to 2023, and they "tend to distribute shares following periods of substantial price appreciation," reflecting both their valued-added activities and ability to time exits); *see also* Wilson, *supra* note 116 ("[M]y view is that you look to exit your weakest investments as soon as you can and you let your winners run as long as you can.").

118 On the difficulty of valuing companies with intangible assets, see Aswath Damodaran, *Invisible Value? Valuing Companies with Intangible Assets*, May 17, 2010, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1609799.

119 *See* Rustam Abuzov, Will Gornall & Ilya Strebulaev, *The Value of Privacy and the Choice of Limited Partners by Venture Capitalist*s, 169 J. FIN. ECON. (2025), https://doi.org/10.1016/j.jfineco.2025.104063 (highlighting the importance of proprietary information for venture capital investing).

120 *See, e.g.*, GOMPERS & LERNER, *supra* note 35, at 355 (studying how "[e]xperienced venture capitalists appear to be more proficient in timing IPOs than their less experienced counterparts").

121 Ofer Eldar & Jillian Grennan, *Common Venture Capital Investors and Startup Growth*, 37 REV. FIN. STUD. 549 (2024) (finding that VC directors who also serve on other startups' boards are the primary mechanism through which common venture-capital investment generates informational spillovers across a VC's portfolio).

122 *See supra* note 119.

123 *See* de Fontenay, *supra* note 11, at 487 (discussing how information generated by public companies is valuable in private markets).

124 Venture capitalists' information flows and decision making has been studied in depth in the context of startup investing. *See* Paul A. Gompers, Will Gornall, Steven N. Kaplan & Ilya A. Strebulaev, *How Do Venture Capitalists Make Decisions?*, 135 J. FIN. ECON. 169 (2020).

beyond monitoring a single investment and contributes to the venture capitalist's expertise and reputational capital, making continued board service rational even when direct financial exposure has substantially declined or ended. This spillover account also helps explain why our firm-level return regressions do not find a significant result for VC board seats (model 3): if the principal benefits of board service are partly realized across the venture capitalist's broader portfolio rather than solely at the focal firm, those benefits may not be captured by firm-specific shareholder returns.

Third, venture capitalists retain relationship-based advantages that operate in a similar spillover fashion and likewise extend beyond a particular portfolio company. Venture capital relationships with founders and senior executives often span a decade or more and are built through repeated interactions across financing rounds, strategic pivots, and periods of crisis.[125] These relational ties do not terminate at listing, and they can be particularly valuable during the early public-company phase, when firms confront new disclosure obligations, heightened analyst scrutiny, and the risk of shareholder activism.[126] Venture capitalists can act as trusted intermediaries who help founders navigate these pressures while preserving strategic coherence and long-term vision. At the same time, these relationships reinforce the venture capitalist's broader network within entrepreneurial and managerial labor markets, facilitating future deal flow, founder recruitment, and coalition-building across the portfolio.[127] As with informational advantages, relational capital accumulated through post-IPO involvement thus yields benefits that transcend any single company and help explain why venture capitalists may rationally remain embedded in governance well after the formal exit point suggested by traditional accounts of venture investing.

Fourth, large venture capital stakes cannot always be liquidated quickly without price impact. Even in liquid markets, block sales risk depressing share price by triggering negative signals or inviting activist attention.[128] Gradual exit strategies mitigate these risks but necessarily extend the period of venture involvement.[129] During that period, governance participation may help protect the remaining stake and stabilize market expectations. Continued board presence or voting participation can function as a signal of confidence and continuity, particularly where it is difficult for outside investors to interpret early public performance.[130]

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125 *See, e.g.*, *supra* note **Error! Bookmark not defined.** (discussing the value of "long-term partnerships" between the venture capital firm and founders).

126 *See id.* (quoting Jack Dorsey of Square stating that the "history and relationship" with Sequoia built "over many years" has been "crucial to me at defining moments").

127 *See* Gilson, *supra* note 1, at 1106-08 (describing how venture capitalists' informational and reputational capital extends beyond any single portfolio company); Broughman & Wansley, *supra* note 33, at 1352 (discussing the importance to venture capitalists of being perceived as founder friendly).

128 Robert Kraus & Hans R. Stoll, *Price Impacts of Block Trading on the New York Stock Exchange*, 27 J. FIN. 569 (1972); Robert W. Holthausen, Richard W. Leftwich & David Mayers, *The Effect of Large Block Transactions on Security Prices*, 19 J. FIN. ECON. 237 (1987); Donald B. Keim & Ananth Madhavan, *The Upstairs Market for Large-Block Transactions: Analysis and Measurement of Price Effects*, 51 J. FIN. 1 (1996); Laura Casares Field & Gordon Hanka, *The Expiration of IPO Share Lockups*, 56 J. FIN. 471 (2001).

129 *See* Ronald J. Gilson & Bernard S. Black, *Venture Capital and the Structure of Capital Markets*, 47 J. FIN. ECON. 243 (1998) (describing IPO timing and post-IPO value realization).

130 *See* William L. Megginson & Kathleen A. Weiss, *Venture Capitalist Certification in Initial Public Offerings*, 46 J. FIN. 879 (1991) (showing that reputable venture capitalists reduce IPO underpricing and costs while retaining significant equity stakes as a credible signal of firm quality); Timothy H. Lin & Richard L. Smith, *Insider Reputation*

Fifth, fund-cycle constraints shape exit behavior in ways that are often underappreciated in standard accounts of venture capital liquidity. Venture capital funds are organized around fixed contractual lives, typically with defined investment and harvest periods, but those timelines rarely align cleanly with the timing of portfolio company IPOs.[131] As a result, venture capitalists frequently confront mismatches between the internal clock of the fund and the external trajectory of a portfolio firm's development in public markets.[132] Some funds may face acute pressure to distribute assets to limited partners in order to return capital or demonstrate realizations ahead of fundraising for successor funds.[133] Other funds, by contrast, may enjoy greater flexibility, whether because they are earlier in their life cycle, have negotiated extensions, or can rely on continuation vehicles, secondary transactions, or partial distributions to manage liquidity without forcing an immediate and complete exit.[134]

These institutional features generate heterogeneous exit incentives not only across venture capitalists, but also across firms within the same portfolio.[135] A venture capitalist managing multiple funds may rationally choose to retain post-IPO exposure in one company while exiting another more quickly, based on the specific fund through which each investment is held and the distribution needs associated with that vehicle. Moreover, the availability of secondary markets and fund-level structuring tools allows venture capitalists to decouple governance involvement from full economic exit, enabling continued board service or influence even as ownership stakes are reduced or reallocated.[136] In this way, fund-cycle constraints help explain why post-IPO exit behavior is varied and sensitive to internal fund economics rather than purely to firm-level performance or market conditions.

Finally, coalition dynamics matter in shaping post-IPO governance and exit behavior. Venture capitalists rarely act in isolation. In the startup context, venture capitalists generally invest in syndicated rounds of staged financing.[137] And, as we reveal, in the public company context, they often participate in governance alongside founders, senior executives, and other large or influential shareholders. In the immediate post-IPO period, when ownership remains relatively concentrated and insider influence is still substantial, the potential for such informal,

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and Selling Decisions: The Unwinding of Venture Capital Investments During Equity IPOs, 4 J. CORP. FIN. 241 (1998) (examining how reputable venture capitalists refrain from selling overpriced shares at the IPO, and gradually reduce ownership as they redeploy resources).

131 *See* Lerner & Nanda, *supra* note 108, at 245 (discussing timing mismatches between fund length and exit opportunities for portfolio companies).

132 *Id.*

133 *See* KUPOR, *supra* note 45, at 84 (discussing how venture capital fund performance and timing can affect VCs' motivations regarding a portfolio company's exit); FELD & MENDELSON, *supra* note 109, at 122-24 (discussing how time impacts fund activity and incentives).

134 *See* Ryan Hibbison, *Continuation Vehicles Are Accelerating in the Venture Industry*, VENTURE CAPITAL J. (July 1, 2025), https://www.venturecapitaljournal.com/continuation-vehicles-are-accelerating-in-the-venture-industry/ (discussing increasing use of secondary market and continuation vehicles); Gené Teare, *The Growing Secondary Market In Venture: A Conversation On The Emergence of VC Continuation Funds*, CRUNCHBASE NEWS (May 30, 2025), https://news.crunchbase.com/liquidity/secondary-market-continuation-funds-eapen-goudey-sidley/ (discussing venture capitalist strategies ranging from sales to secondary buyers to continuation funds).

135 *See supra* note 133.

136 *See supra* note 134.

137 Gornall & Strebulaev, *supra* note 37, at 16.

contingent coalitions can provide stability and continuity by preserving shared understandings formed during the private-company phase.

At the same time, these coalitions—or perhaps better expressed as simply aligned interests—are inherently contingent and subject to change as firm performance, leadership composition, and market conditions evolve. Periods of strong performance may reinforce alignment, reducing pressure for governance change and supporting continued venture capitalist involvement.[138] By contrast, sustained underperformance, strategic disagreement, or leadership transitions can strain or fracture the alignment of interests, triggering CEO turnover, shifts in board composition, changes in voting patterns, or increased receptivity to activist intervention.[139] Exit decisions are often embedded within these dynamics, as venture capitalists may reassess the value of continued involvement when their influence diminishes or when objectives diverge. In this sense, venture capital persistence after the IPO is relational and context-dependent, reflecting the firm's performance and the ongoing stability or breakdown of the governance coalitions in which venture capitalists are embedded.

Taken together, these considerations suggest that venture capitalists remain involved after the IPO not despite their exit incentives, but because of them. Gradually staging their financial and governance exit over extended periods of time allows for taking account of the potential for post-IPO growth, informational and reputational benefits, and fund-cycle constraints, while aiming to avoid depressing the company's stock price by quickly liquidating. Further, venture capitalists' continued involvement in governance and the potential for coalitional governance helps mitigate the risks of holding the investment post-IPO.

2. Transitional Governance and Market Validation

Understanding venture capital persistence also requires attention to the structural limits of public-market governance for growth-stage firms, particularly in innovation-intensive sectors. Many modern technology companies derive a substantial portion of their value from intangible assets such as intellectual property, data, platform effects, and specialized human capital.[140] These assets are inherently difficult for outside investors to observe, verify, or value with precision.[141] As a result, the information produced through public disclosure regimes, while extensive, often remains incomplete or insufficiently contextualized to support confident market judgment.[142] In such firms, early public losses or earnings volatility may reflect investment in future growth, experimentation with uncertain technologies, or strategic positioning in winner-take-all (or most) markets rather than managerial failure. Public markets,

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[138] *See* Yifat Aran & Elizabeth Pollman, *Ousted*, 25 THEORETICAL INQUIRIES L. 231 (2024) (discussing financial performance as an important factor in whether founder-CEOs retain the top managerial role); Aran, Broughman & Pollman, *supra* note 27, at 23-24 (finding that CEO turnover at dual-class firms remains highly sensitive to firm performance and that, in VC-backed dual-class firms characterized by coalitions of blockholders rather than a single controller, strong performance tends to stabilize governance arrangements, while poor performance increases pressure for leadership change and governance intervention).

[139] *See* Aran, Broughman & Pollman, *supra* note 27.

[140] *See* JONATHON HASKEL & STIAN WESTLAKE, CAPITALISM WITHOUT CAPITAL: THE RISE OF THE INTANGIBLE ECONOMY (2018).

[141] Damodaran, *supra* note 118.

[142] For a foundational work on incomplete contract theory, see Oliver Hart & John Moore, *Incomplete Contracts and Renegotiation*, 56 ECONOMETRICA 755 (1988).

however, are poorly positioned to distinguish reliably between value-creating investment and value-destroying mismanagement during these early phases of public life.

Public-market governance mechanisms are better suited for mature firms with stable cash flows, well-understood production functions, and relatively predictable competitive dynamics. In those settings, deviations from expected performance can be more plausibly attributed to managerial choices. By contrast, growth-stage public companies often embrace strategies that are high-variance with uncertain payoffs.[143] Success may depend on technological breakthroughs, regulatory change, network effects, or organizational learning that occurs over long horizons and resists incremental measurement. Analysts rely on proxy metrics such as user growth or addressable market estimates, which are noisy, contestable, and vulnerable to narrative framing.[144] Share price volatility in this context may track sentiment, macroeconomic shocks, or sector-wide trends rather than firm-specific fundamentals.[145] Activist interventions, while sometimes value-enhancing, may also privilege short-term cost reductions or premature strategic pivots that undermine long-term investment plans.[146]

Transitional governance arrangements emerge as a response to these structural limitations. Venture capitalists occupy a distinctive institutional position within such arrangements, providing a form of informed oversight that mediates between founder vision and market discipline. Through prolonged involvement prior to the IPO, venture capitalists accumulate deep, tacit knowledge about the firm's technology, team, and strategic tradeoffs. This knowledge allows venture capitalists to assess whether early public-market signals reflect transient noise or meaningful shifts in the company's prospects. Their incentives may also align in complex ways with long-term value creation. Although venture capitalists typically seek liquidity, their reputational capital and future fundraising prospects can create countervailing pressures against opportunistic exit. At the same time, venture capitalists are not insulated from public-market accountability. Their board positions are contestable and their governance role is visible to analysts, activists, and regulators.

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143 *See* Matthew T. Wansley, *Moonshots*, 2022 COLUM. BUS. L. REV. 859 (2022) (discussing moonshot strategies of technology companies).

144 *See* Marc Goedhart, Tim Koller & David Wessels, *Valuing High-Tech Companies*, MCKINSEY & COMPANIES (Feb. 22, 2016), https://www.mckinsey.com/capabilities/strategy-and-corporate-finance/our-insights/valuing-high-tech-companies (discussing methodologies and challenges in valuing technology companies); Aswath Damodaran, *Going to Pieces: Valuing Users, Subscribers and Customers*, Feb. 21, 2020, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3175652 (discussing unconventional metrics used in technology companies for valuation such as numbers of users, customers and subscribers).

145 *See, e.g.*, Sam Goldfarb, *Wall Street Has Fallen Out of Love With Software Stocks*, WALL ST. J. (Jan. 25, 2026), https://www.wsj.com/finance/investing/wall-street-has-fallen-out-of-love-with-software-stocks-b050b457 (discussing "how quickly fortunes can change on Wall Street" for tech company stocks with shifting narratives).

146 *See* Martin Lipton, *Dealing With Activist Hedge Funds and Other Activist Investors*, HARV. L. SCH. FORUM ON CORP. GOV. (Sept. 10, 2025), https://corpgov.law.harvard.edu/2025/09/10/dealing-with-activist-hedge-funds-and-other-activist-investors-8/ (discussing the limited number of activist strategies); Kobi Kastiel, *Against All Odds: Hedge Fund Activism in Controlled Companies*, 2016 COLUM. BUS. L. REV. 60 (2016) (discussing hedge fund activism in controlled firms including those with dual-class structures). The effects of shareholder activism is contested in the academic literature. *See, e.g.*, Lucian A. Bebchuk, Alon Brav & Wei Jiang, *The Long-Term Effects of Hedge Fund Activism*, 115 COLUM. L. REV. 1085 (2015) (finding no evidence that activist interventions are followed by short-term gains in performance at the expense of long-term performance); Andrew C. Baker, *The Effects of Hedge Fund Activism*, June 3, 2022, https://www.gcgc.global/event/2022-gcgc-conference-oxford-4/track/the-effects-of-hedge-fund-activism-74 (finding that activism increases firm payouts to shareholders and decreases investment).

From this perspective, venture capital persistence after the IPO might function as a transitional governance mechanism rather than an anomaly or failure of exit. Continued venture involvement can mitigate the risks associated with an abrupt shift from private to public by allowing governance to evolve as uncertainty resolves and organizational capabilities mature. Instead of forcing companies immediately into a governance paradigm optimized for mature public companies, transitional arrangements permit recalibration and adaptation over time. Venture capitalists can help interpret early public-market feedback, resist premature strategic reversals driven by short-term market pressures, and support investments with long payoff horizons. As the company's business model stabilizes, disclosure becomes more informative, and performance metrics become easier to interpret, the informational and relational advantages that justify continued venture involvement erode.

This account also sharpens the connection between transitional governance and exit behavior. When venture capitalists believe that their continued presence improves innovation and growth, market understanding, strategic execution, or organizational stability, persistence is rational even in the face of declining ownership stakes. Conversely, when public-market governance mechanisms become sufficiently informative and disciplining, the marginal value of venture involvement declines, making exit more attractive. Exit is not simply a liquidity event but a governance transition as well, marking the end of the first chapter of the company's post-IPO governance.

This framework also informs ongoing debates about dual-class stock and control structures in newly public firms. Dual-class arrangements are often criticized as mechanisms for founder entrenchment that insulate management from accountability and distort market discipline.[147] While these risks are real, dual-class stock can also be understood as one element of a broader transitional governance regime in which founders and venture capitalists jointly steward the firm through its early public life. As we have shown in Part II, dual-class status does not invariably correspond to founder control: shared or venture-capitalist control remains common at and shortly after the IPO. Venture capitalists' continued involvement can moderate founder autonomy, provide internal checks, and supply credible signals to public investors during periods of heightened uncertainty. Over time, as uncertainty diminishes and market validation becomes more reliable, the justification for both venture capital persistence and control insulation weakens, creating potential institutional pressure for convergence toward conventional public-company governance for at least some portion of companies. Others may remain growth firms with visionary founders, justifying long-term dual-class arrangements.

3. Diverging Governance Paths as Venture Stakes Decline

As venture capital stakes decline, governance arrangements diverge in systematic but under-theorized ways. The evidence presented in Part II suggests at least two stylized post-IPO trajectories, although many companies occupy intermediate or hybrid positions that combine elements of each. These trajectories are shaped by capital structure, control rights, coalition stability, and the pace at which venture capitalists unwind both their economic and governance positions. Rather than converging uniformly toward a single model of public-

[147] *See supra* notes 68-71 and accompanying text.

company governance, venture-backed firms vary and follow different paths that reflect the interaction between ownership, control, and the timing of the exit.

In single-class firms, venture capital exit typically produces a transition toward ownership dispersion and market-based supervision. As venture capitalists sell down their equity positions and relinquish board seats, there may be no remaining residual blockholder with the incentives and information necessary to engage in intensive monitoring.[148] Governance in these firms increasingly resembles the conventional public-company model, in which discipline is supplied through diffuse mechanisms such as share price movements, analyst coverage, activism, litigation, and the market for corporate control.[149] As a consequence, these firms become more susceptible to takeover bids, activist campaigns, and the pressures of the "corporate governance machine."[150] Mergers and acquisitions frequently emerge as an exit pathway for any remaining founders and pre-IPO investors.[151]

The governance trajectory of dual-class firms is often more varied and complex than existing accounts of public-company corporate governance acknowledge. In many such firms, post-IPO governance is characterized not solely by unilateral founder dominance, but also by a period of potential for combined founder–venture control. Venture capitalists often retain voting power, board representation, or contractual veto rights sufficient to influence or approve major corporate actions, including mergers, charter amendments, capital structure changes, and leadership transitions. These retained rights can meaningfully constrain founder discretion while preserving the firm's ability to pursue long-term strategies insulated from short-term market pressure. Founders benefit from enhanced voting power, but they do not operate in isolation. Instead, governance authority is in many cases shared, blending founder vision with venture capital oversight, producing a form of internal accountability that differs from both market discipline and traditional controller monitoring.

As a result, many venture-backed public firms do not fit comfortably within existing doctrinal or theoretical categories of controlled and noncontrolled firms.[152] Rather than exhibiting a clean separation between control and dispersion, these firms frequently operate, for a period after the IPO, under joint or coalition-based governance arrangements in which founders and venture capitalists exercise overlapping, partially contingent, and not fully aligned forms of control. Authority is allocated across formal voting rights, board composition, and informal influence, and it is frequently evolving as economic stakes decline and strategic circumstances evolve. In dual-class companies, founders benefit from enhanced voting power, but that power is often exercised within a governance coalition that includes sophisticated financial intermediaries with independent incentives and reputational capital at stake. Venture capitalists may not act in the same way as each other, or in support of founders, so they cannot

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148 Illustrative of this pattern, the vast majority of single-class firms in our sample classify as "dispersed control" by four years after the IPO. *See supra* Table 3.

149 *See* Spamann, *supra* note 5 (describing the public market enforcement mechanisms).

150 *See* Lund & Pollman, *supra* note 79.

151 Aran, Broughman & Pollman, *supra* note 27.

152 *See* Bartlett, *supra* note 15, at 72-79 (arguing that venture-backed firms routinely exhibit multiple, interacting agency relationships that do not map cleanly onto standard control categories); *cf.* Ronald J. Gilson & Jeffrey N. Gordon, *Controlling Controlling Shareholders*, 152 U. PA. L. REV. 785, 793-98 (2003) (recognizing governance arrangements involving shared or contestable control); Shobe & Shobe, *supra* note 32 (demonstrating the heterogeneity of dual-class arrangements and resisting binary controller versus non-controller classifications).

be assumed to be joint controllers or a control group for legal purposes. This hybrid governance form complicates standard assumptions about who monitors whom, how agency costs arise, and when market discipline should be expected to function effectively.

Over time, as venture capitalists continue to exit, the balance of power shifts. As venture stakes wind down and board seats are relinquished, founders may consolidate control, particularly in firms with perpetual or long-duration dual-class structures.[153] This consolidation can increase agency costs by weakening internal constraints on founder behavior and reducing the diversity of perspectives and incentives represented in governance. Importantly, this dynamic suggests that although dual-class structures may grant founders substantial voting power from the outset, effective founder control is often more constrained during the firm's earliest public years, when venture capitalists or shared governance arrangements remain influential. Governance failures, entrenchment concerns, or strategic drift may therefore be lagging rather than contemporaneous with the adoption of control-enhancing mechanisms.

This account reframes standard minority controller concerns. Whether that concern is warranted depends on what kind of dual-class company is at issue: in some, founders hold hard voting control from the outset; in a substantial share of others, they share contingent control with venture capitalists who retain meaningful voting power into the early public years.[154] Some companies that appear, from a formal voting-rights perspective, to have a single minority controller in fact operate under joint or shared governance arrangements during a critical transitional period following the IPO. Treating these companies as founder dictatorships from the outset obscures the role that venture capitalists play in constraining behavior, shaping strategic choices, and mediating between founder autonomy and market discipline. As a sign of this dynamic, it is relatively commonplace for founder-CEOs of underperforming dual-class firms to lose their seat in the top managerial role in the post-IPO period.[155] A more accurate account of post-IPO governance must therefore attend not only to formal indicia of an individual party's control such as their voting power or board seats, but also to the temporal dynamics of venture exit and the coalition structures that persist well beyond the moment of going public.

B. IMPLICATIONS FOR GOVERNANCE AND REGULATORY DESIGN

Recognizing venture capitalists as facilitators of post-IPO governance transition has significant implications for corporate governance debates and regulatory design.

1. Governance for Innovative Firms Over Their Life Cycles

One high-level implication for the broader governance debate concerns the heterogeneity of the firms that go public and the governance they adopt over their life cycles. Innovative firms whose core assets are inseparable from human capital may benefit from

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[153] For instance, we find that founder control increases in the three years after the IPO for the dual class firms in our sample. *See supra* Table 3.

[154] On the concerns about minority controllers, see Bebchuk & Kastiel, *supra* note 24; Dov Solomon, *The Importance of Inferior Voting Rights in Dual-Class Firms*, 2019 B.Y.U. L. REV. 533, 561-65 (2019).

[155] *See* Aran, Broughman & Pollman, *supra* note 27, at 23-24; Aran & Pollman, *supra* note 155, at 247–49, 253–55 (describing public dual-class firms in which founder-CEOs holding substantial or "hard" voting control were nonetheless pressured to resign as performance and circumstances shifted).

extended periods of founder–venture stewardship rather than rapid transition to fully impersonal market governance. In such firms, value is often not embodied in separable physical assets but in people, teams, shared organizational vision, and technological know-how and implicit knowledge.[156] Productive capacity depends on the continued participation and coordination of key contributors who cannot be bound by contract either to remain with the firm or to supply high levels of discretionary effort.[157] Abrupt exposure to pure market discipline, whether through short-term performance pressures or governance mechanisms calibrated for different types of firms, risks destabilizing these relationships and the trajectory of innovative growth. Extended founder–venture stewardship can help sustain relationships with key contributors during periods when value creation remains highly contingent and difficult to observe.

Further, transitional governance arrangements might preserve innovation incentives by aligning control and residual claims with the realities of human-capital-intensive production.[158] Venture capitalists and founders can jointly steward the firm during periods of heightened uncertainty, with venture capitalists supplying capital, monitoring, and strategic discipline, and founders supplying vision, leadership, and tacit organizational knowledge. Continued insider oversight and equity-based alignment support sustained experimentation and discretionary effort while reducing the risk that premature market discipline will induce inefficient retrenchment or strategic myopia. At the same time, venture capitalists remain subject to reputational constraints, tradable equity prices, and eventual exit pressure, preventing stewardship from collapsing into insulation or entrenchment.

Finally, extended founder–venture stewardship could function as a transitional complement to market governance for innovative growth firms. As uncertainty resolves, information asymmetries diminish, and organizational capabilities stabilize, the justification for insider-heavy governance correspondingly weakens. At that point, market-based supervision might assume a larger role without undermining the firm's long-term value. That is, the comparative advantage of market-based governance might vary by types of firms or come later in some firms' lifecycles.[159] This perspective aligns with broader work emphasizing the limits of both contract and market discipline in knowledge-based firms and the functional role of hybrid governance regimes that bridge private ordering and public markets. Founder–venture stewardship can therefore be understood as a temporally bounded response to the governance challenges posed by high-growth firms with high levels of intangible capital, rather than as an anomaly or distortion of public-company governance.

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[156] On the shift toward an intangible economy and related issues, see HASKEL & WESTLAKE, *supra* note 140.

[157] *See, e.g.*, Gornall & Strebulaev, *supra* note 37, at 13-14 (discussing inalienable human capital in venture-backed firms); Margaret M. Blair & Lynn A. Stout, *A Team Production Theory of Corporate Law*, 85 VA. L. REV. 247 (1999) (discussing how the corporate form is a vehicle to solve the team production problem that arises when individuals must invest firm-specific resources to produce a nonseparable output).

[158] Yifat Aran, *The Optional Firm* (July 2026) (unpublished manuscript) (on file with authors) (theorizing venture-backed firms as human-capital-intensive enterprises in which equity aligns the founders and employees, sustaining their investment and discretionary effort).

[159] For a foundational exploration of value-enhancing variation in governance, see Frank Easterbrook & Daniel Fischel, *The Corporate Contract*, 89 COLUM. L. REV. 1416, 1418 (1989) (observing "no one set of terms will be best for all; hence the 'enabling' structure of corporate law").

2. Dual-Class Structures and Sunsets

Another implication concerns the dual-class stock debate. Critics of dual-class structures often overlook the role that venture capitalists continue to play after listing. By focusing almost exclusively on formal founder control, these critiques tend to assume a sharp discontinuity at the IPO, treating venture-backed firms as if they immediately become founder-dominated public companies insulated from meaningful oversight. This framing may overstate agency risks in firms where venture capitalists remain active monitors through board representation, voting rights, contractual provisions, or informal influence rooted in reputational capital and repeated interactions. Although there may be skepticism about the level of efficacy that venture capitalists play in a monitoring role,[160] they may nonetheless provide some measure of constraint on founder discretion, discipline managerial behavior, and provide informed oversight during the early public years, particularly when firm value remains opaque and strategy-dependent.

Conversely, defenders of founder-centric governance often err in the opposite direction, emphasizing insulation from short-term market pressures while understating the role venture capitalists play in validating long-term strategies and mediating between founders and public investors. Both sides thus generally rely on governance models that do not account for the coalition-based, transitional nature of control in many venture-backed public firms.

These conceptual limitations are especially visible in policy debates surrounding time-based sunset provisions for dual-class stock. Uniform sunset requirements are often proposed as a straightforward solution to minority controller concerns, premised on the assumption that control insulation becomes increasingly costly as time passes.[161] Yet such proposals disregard substantial heterogeneity in firms' business models, innovation cycles, and governance needs. A fixed temporal horizon assumes that agency costs rise with time, regardless of changes in ownership composition, information environments, or monitoring capacity. In practice, agency costs may increase not only because dual-class structures persist too long, but also because venture capitalists exit and founder power consolidates without effective counterweights, or for other reasons.

From this perspective, the relevant governance inflection point is not the passage of a predetermined number of years since the IPO, but the end of significant venture capital involvement or a founder–venture coalition that may have previously constrained discretion. This may occur incrementally and on varied timelines. Time-based sunsets risk forcing governance transitions either prematurely, when venture oversight remains valuable, or

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[160] For discussions of venture capitalists' monitoring failures, see Pollman, *Startup Governance*, *supra* note 37, at 200-09; Broughman & Wansley, *supra* note 33, at 1313-17; RENÉE M. JONES UNTAMED UNICORNS: WHY STARTUP FINANCE IS BROKEN AND HOW TO FIX IT (2026).

[161] *See* Bebchuk & Kastiel, *Untenable Case*, *supra* note 14, at 604-06 ("The costs of a dual-class structure are likely to increase over time for two main reasons: the likely erosion of any superior skills that the controller might have had at the time of the IPO and the likely decrease in the controller's fraction of equity capital."); Martijn Cremers, Beni Lauterbach & Anete Pajuste, *The Life Cycle of Dual-Class Firm Valuation*, 13 REV. CORP. FIN. STUDS. 459 (2024) ("As firms age, the valuation premium of dual-class firms tends to dissipate, possibly because dual-class agency problems increase due to a gradual widening of the wedge.").

belatedly, after the more meaningful shift in control has already occurred.[162] Over time, it is also possible that founders can provide more evidence of the value they produce with such structures in place, potentially supporting their company-specific arguments for extension of dual-class arrangements.

This reframing also has important implications for institutional investors and proxy advisors, whose governance frameworks often treat dual-class stock as functionally equivalent to founder dictatorship.[163] Categorical opposition to dual-class structures can obscure meaningful variation among firms and lead to blunt stewardship practices that fail to engage with governance realities on the ground. Recognizing the continued involvement of venture capitalists allows for more granular assessments of control, accountability, and risk. Institutional investors may benefit from distinguishing between firms operating under transitional, coalition-based governance and those in which founders exercise effectively unconstrained authority. Such differentiation could inform more tailored voting guidelines, engagement priorities, and escalation strategies, improving the effectiveness of stewardship while avoiding unnecessary conflict with firms whose governance structures serve a temporary, value-preserving function.

3. Increasing Governance Optionality

More broadly, this analysis suggests that strict or uniform governance requirements, particularly those imposed at the IPO stage, may distort firm development rather than enhance accountability. Pressure to conform immediately to mature public-company governance norms can discourage high-variance firms from going public or push them into capital and control structures that are ill-suited to their stage of development.[164] Firms whose value depends on experimentation, learning, and human capital accumulation may be particularly vulnerable to governance regimes that privilege short-term performance metrics and readily observable outputs.

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162 *See* Fisch & Solomon, *supra* note 64, at 1080-83 (observing that time-based sunset provisions are arbitrary and can pose moral hazard issues).

163 For example, Council of Institutional Investors (CII), a nonprofit trade association of large asset managers, pension funds, and foundations has long criticized dual-class structures and has requested the major stock exchanges to impose a mandatory sunset requirement. Further, CII has asked stock indices, such as the S&P 500 and Russell 2000, to exclude dual-class firms without sunsets. *See* Hirst & Kastiel, *supra* note 12; *see also* Letter from Ash Williams, Chair, CII, Jeff Mahoney, Gen. Couns., CII, & Kenneth Bertsch, Exec. Dir., CII, to Elizabeth King, CRO, NYSE (Oct. 24, 2018), https://www.cii.org/files/issues_and_advocacy/correspondence/2018/20181024%20NYSE%20Petition%20on%20Multiclass%20Sunsets%20FINAL.pdf; Letter from Kenneth Bertsch, Exec. Dir., CII, to MSCI Index Comm. (May 9, 2018), https://www.cii.org/files/issues_and_advocacy/correspondence/CII%20response%20to%20MSCI%20Expanded%20Consultation%20FINAL.pdf.

164 *See* Albert H. Choi, *Pricing Corporate Governance*, 75 U.C. L.J. 67, 72-73 (arguing that "*even if* the IPO market is informationally efficient, when different firms have different optimal governance structures and outside investors are informationally disadvantaged compared to the insiders, it becomes likely that the governance package offered by (at least some) firms will be suboptimal" because there may be "herding" behavior to adopt "relatively homogenous governance features"); *see also* Klausner, *supra* note 8 (discussing how the contractarian theory of governance customization and innovation does not occur as predicted at IPO or midstream, and how market forces will not necessarily yield socially optimal variation in governance arrangements).

Allowing greater variance at the IPO, including governance "on-ramps," staged convergence mechanisms, or menu-based regulatory approaches, may better align public-market regulation with actual governance practice.[165] Such flexibility would recognize that effective public-company governance often emerges through transition, and that premature standardization can impose costs on innovation, capital formation, and long-term value creation.

A useful reference point is the JOBS Act's creation of the category of "emerging growth companies" (EGCs), which explicitly recognized that newly public firms differ systematically from mature public companies.[166] Through scaled disclosure requirements, extended phase-in periods for certain accounting standards, and confidential IPO filings, the JOBS Act eased the transition from private to public markets along the disclosure dimension.[167] However, the statute left core corporate governance obligations largely untouched. EGCs remained subject to the same exchange listing standards and baseline governance rules as other public companies.[168] The Act thus acknowledged transition and heterogeneity in informational regulation, but not in governance design.

That asymmetry suggests a missed opportunity. If transitional treatment is appropriate for disclosure and compliance costs, it may also be appropriate for governance structures that are closely intertwined with firm maturity, ownership composition, and informational opacity. Governance "on-ramps" could mirror the JOBS Act's disclosure accommodations by allowing firms greater initial flexibility, paired with structured pathways toward convergence as conditions change. Rather than mandating uniform governance arrangements at the IPO, such as majority independent boards, regulators and exchanges could permit firms more leeway to tailor their governance choices, subject to disclosure and on-ramp timelines. Staged convergence mechanisms might tie governance transitions not to the passage of time alone, but to observable changes such as ownership dispersion, venture capital exit, revenue stability, or market capitalization thresholds. Further optionality could be enabled by revisiting the rules on extending dual-class stock structures.[169] This approach would recognize that the costs and benefits of particular governance constraints vary over the firm lifecycle, and that standardization can undermine value creation.[170]

More ambitiously, a menu-based regulatory framework could offer issuers a set of governance options at the IPO stage, with clearly specified obligations, sunsets, and disclosure

165 On the desirability of a menu of alternative governance structures to promote innovation and customization, see Michael Klausner, *The Contractarian Theory of Corporate Law: A Generation Later*, 31 J. CORP. L. 779, 797 (2006).
166 Jumpstart Our Business Startups (JOBS) Act, Pub. L. No. 112-106, § 101, 126 Stat. 306, 307-08 (2012); *see also* Michael D. Guttentag, *Protection From What? Investor Protection and the JOBS Act*, 13 U.C. DAVIS BUS. L.J. 207, 235-36 (2013) (discussing the JOBS Act's creation of EGC as a new category of issuer).
167 Guttentag, *supra* note 166, at 235.
168 *See* Orrick, *IPO Insights: Corporate Governance Practices for New Public Companies*, Oct. 2, 2023, https://www.orrick.com/en/Insights/2018/06/Corporate-Governance-Practices-for-New-Public-Companies (discussing the governance requirements for companies going public).
169 David Berger, Daniel Gallagher & Steven Davidoff Solomon, *Bye Bye 80s: It's Time to Revisit the Exchange Ban on Dual Class Companies Extending Sunsets*, HARV. L. SCH. FORUM ON CORP. GOV. (Aug. 8, 2026), https://corpgov.law.harvard.edu/2026/08/08/bye-bye-80s-its-time-to-revisit-the-exchange-ban-on-dual-class-companies-extending-sunsets/.
170 *See* Usha Rodrigues, *The Fetishization of Independence*, 33 J. CORP. L. 447, 486-88 (2008) (highlighting the perils of overreliance on director independence).

requirements. Such a regime would preserve network effects, comparability, and investor protection while allowing firms to choose governance structures that reflect their transitional needs.[171] Regulators and exchanges could require transparency about control arrangements, monitoring mechanisms, and expected transition paths, enabling investors to price governance risk more accurately ex ante.

Over time, firms might migrate across governance regimes as their ownership and informational environments evolve. In this way, public-company governance would be treated less as a single equilibrium imposed at entry and more as a process of evolution and adaptation. Drawing on the logic of the JOBS Act, this approach would align regulation with practice by recognizing that effective governance often varies, and that rigid uniformity may be suboptimal.

Our findings and analysis do not conclusively establish which, if any, of these possible reforms for increased governance optionality would be beneficial but we believe they suggest that further exploration could be worthwhile.

4. Control and Other Issues in Corporate and Securities Law

The governance patterns explored in this Article raise important questions for corporate law doctrine, particularly issues concerning corporate control. Delaware's controller jurisprudence is organized around a binary distinction between controllers and non-controllers, with significant fiduciary consequences flowing from the presence of control.[172] This architecture serves important functions, including predictability and administrability, and it is optimized for (but not limited to) paradigmatic cases of unilateral "hard" control (majority voting power and power to select a majority of the board) and a canonical set of cleansing moves that respond to that configuration.[173]

As we have explored, venture-backed public firms often operate in a different posture: governance influence may be jointly exercised, episodic, and coalition-mediated, with founders and venture capitalists holding overlapping, partial levers of power (board seats, consent rights, voting blocs, and agenda control) that might reflect aligned interests at a particular moment in time. Often in that setting, there will not be a singular controller and the relevant doctrinal question is not whether Delaware law should expand the number of "controlled" firms. It is whether courts and litigants can evaluate influence with sufficient granularity when plaintiffs plead a "control group" theory based on coordinated action, and the case turns on whether that coordination was legally significant (pursuant to significant coordination under Delaware case law or an "agreement, arrangement, or understanding" under Section 144) as opposed to

[171] *See* Sarath Sanga, *Network Effects in Corporate Governance*, 63 J. L. & ECON. 1, n.8 (2020) (collecting the network effect literature related to corporate law and governance).

[172] 85 Del. Laws, c. 6, § 1 (2026 amendments to Del. Code Title 8, § 144) (defining controlling stockholder and setting forth statutory safe harbor framework for conflicted controller transactions); *see also* Ann M. Lipton, *After* Corwin: *Down the Controlling Shareholder Rabbit Hole*, 72 VAND. L. REV. 1977 (2019) (discussing pre-2025 DGCL amendment doctrine on controlling shareholders).

[173] *See* Stephen M. Bainbridge, *Delaware Senate Bill 21: What It Does and What Questions Remain Open* (May 7, 2025), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=5243857 (discussing DGCL § 144's definition of controlling stockholder and cleansing procedures of the statutory framework).

a mere alignment of interests.[174] That is, the challenge is not that doctrinal tools are unavailable, but that their application requires careful attention to governance arrangements that are neither purely dispersed nor unilaterally controlled.

Recognizing this nuance is also relevant for director independence determinations or assessments of conflicted influence. Board independence analysis, for example, often focuses on bilateral relationships between directors and a single controller or one or more conflicted fiduciaries.[175] In contingent coalition-based settings, however, independence may or may not be compromised through overlapping relationships, shared histories, or aligned incentives among multiple insiders, even in the absence of a single dominant stockholder. Similarly, claims involving control groups or allegations of coordinated action require sensitivity to the ways in which founders and venture capitalists may jointly shape outcomes without formally agreeing to act as a unified bloc. Delaware doctrine pre-existing the 2025 DGCL amendments is generally understood to establish a high threshold to proving a control group which may be capable of accommodating these realities, and there is good reason to expect those principles will continue, but with recent Delaware law changes there are significant open questions. Critically, our analysis suggests that treating these hybrid governance arrangements as a basis for routinely extending controlling shareholder doctrine to venture capitalists or undercutting determinations of their independence would risk collapsing meaningful distinctions between alignment, influence, and control, and could subject ordinary forms of post-IPO monitoring and participation to a doctrinal framework designed for fundamentally different governance problems.

Finally, these implications extend to securities regulation as well. Disclosure regimes often implicitly assume that pre-IPO investors will soon disengage and that post-IPO governance will converge toward dispersed ownership and market-based oversight. Where venture capitalists remain active governance participants, however, standard disclosures may understate their continuing influence or oversimplify the firm's control dynamics. While current rules capture formal ownership stakes meeting certain thresholds and related-party transactions,[176] they may not fully convey the persistence of board-level influence, veto rights, or informal monitoring relationships that shape governance outcomes.

More nuanced disclosure of post-IPO governance arrangements and coalitions would not alter substantive legal standards, but could improve the informational environment in which those standards operate. Rather than reclassifying firms or expanding doctrines of control, such disclosure could make more visible the continuing role of venture capitalists in board oversight, voting power, or other material forms of influence. To be sure, additional disclosure is not always normatively desirable, and disclosure mandates can be costly and produce more noise than clarity.[177] In this setting, however, particularly if greater governance

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[174] Del. Code Title 8, § 144(e)(1); Sheldon v. Pinto Tech. Ventures, L.P., 220 A.3d 245 (Del. 2019).
[175] On director independence, see Del. Code Title 8, § 144(d)(2); Collins J. Seitz, Jr., *A Declaration of Independence: Committees, Conflicts, and the Courts*, 19 NYU J. L. & BUS. 467 (2023).
[176] Perkins Coie, *The Public Company Handbook: A Corporate Governance and Disclosure Guide for Directors and Executives - Sixth Edition*, https://perkinscoie.com/public-company-handbook-corporate-governance-and-disclosure-guide-directors-and-executives.
[177] *See* Troy A. Paredes, *Blinded By The Light: Information Overload and Its Consequences for Securities Regulation*, 81 WASH. U. L.Q. 417 (2003); Steven M. Davidoff & Claire A. Hill, *Limits of Disclosure*, 36 SEATTLE U. L. REV. 599 (2013);

variation were permitted at the IPO stage, enhanced disclosure could be considered as one possible regulatory response. By supplying investors with a clearer account of how influence is exercised and how it evolves, such transparency could help frame governance risk as dynamic and contingent rather than as a static attribute fixed at the moment of listing. In that sense, additional disclosure could complement corporate law's fact-intensive, contextual inquiry by providing a more accurate informational baseline from which courts, investors, and intermediaries might better evaluate influence, independence, and accountability over time.

CONCLUSION

This Article has challenged a deeply embedded assumption in business law and corporate governance: that venture capitalists exit at the IPO and therefore cease to matter for the governance of public companies. By documenting sustained venture capital ownership, voting power, and board involvement well beyond the lock-up period, we show that the IPO functions less as a clean exit and more as a transitional moment in a longer governance process. Venture capitalists do not simply liquidate and disappear. Instead, they often remain central actors during a firm's early public life, shaping strategic decisions and moderating founder discretion.

The Article's theoretical contribution is to reconceptualize venture capital as a facilitator of post-IPO governance transition rather than solely a pre-IPO institution whose relevance ends at listing. Venture capitalists occupy an intermediate position between founders and public markets, supplying informed oversight at a stage when public-market mechanisms are often ill suited to evaluate high-variance strategies, intangible assets, and uncertain growth trajectories. This perspective reframes longstanding debates about dual-class stock and minority controllers by showing that many firms operate under arrangements with the possibility of contingent joint or shared control for a period after going public. It also highlights that although dual-class structures grant founders substantial voting power from the outset, a consequential governance inflection point may also occur later, when venture capital oversight unwinds and control further consolidates. By shifting attention from static snapshots of control to dynamic transitions in governance, the Article offers a more accurate account of how modern growth firms move from private to public life.

Finally, the Article has implications for governance design and policy. Governance debates that focus exclusively on founders and public shareholders overlook the continued role of venture capitalists as monitors and potential coalition partners. Uniform approaches to governance reform, including categorical opposition to dual-class structures or rigid sunset requirements, risk disregarding heterogeneity in firm characteristics and business models. More broadly, the findings underscore the extent to which public and private governance have become intertwined, particularly for venture-backed firms at the boundary between markets. The IPO marks the beginning of a distinct governance phase in which exit and control unwind, gradually and contingently, rather than all at once.

Virginia H. Ho, *Disclosure Overload? Lessons For Risk Disclosure & ESG Reporting Reform From The Regulation S-K Concept Release*, 65 VILL. L. REV. 67 (2020).

Appendix A. Validation of the Governance Data

Table A1 compares the final Claude-coded dataset used in the Article with two separately collected sources for six core governance variables. Panel A compares Claude with data collected by Codex for all 79 dual-class firms and a fixed random sample of 70 single-class firms. Panel B compares Claude with data collected by research-assistants from our prior study, whose validation sample comprises 78 dual-class firms and 79 matched single-class firms. Each panel separates the two share-class groups and uses only firm-year observations for which both coders provide comparable, nonmissing values. Actual paired sample sizes vary by variable and reference source. The Claude–Codex comparison reflects filing review and refinement of the shared coding protocol; it describes post-review agreement, rather than an untouched pre-review test of independent model performance.

Table A1 - Panel A. Final Claude data versus Codex coding

Variable	Paired N	Claude mean	Codex mean	Difference in means	Mean abs. difference	Exact match (%)	Within 2 pp (%)	Pearson r
Dual-class firms (validation sample: 79 firms)								
Founder voting power (%)	535	44.77	44.79	-0.02	1.86	86.0	90.3	0.938
Legacy VC voting power (%)	535	16.62	17.43	-0.81	1.59	77.2	83.7	0.975
Legacy VC board seats (number)	535	1.66	1.66	0.00	0.18	85.2	—	0.892
Founder board seats (number)	535	1.37	1.44	-0.07	0.09	93.8	—	0.816
Active founders (number)	535	1.65	1.65	0.00	0.07	94.4	—	0.924
Legacy VC/PE firms (number)	448	1.33	1.52	-0.19	0.32	78.1	—	0.861
Single-class firms (validation sample: 70 firms – randomly selected)								
Founder voting power (%)	421	8.31	5.87	2.44	3.41	59.4	72.0	0.653
Legacy VC voting power (%)	421	15.87	15.56	0.30	4.59	58.7	66.0	0.803
Legacy VC board seats (number)	421	1.29	1.33	-0.03	0.63	52.0	—	0.617
Founder board seats (number)	421	0.82	0.80	0.02	0.32	72.4	—	0.650
Active founders (number)	421	1.12	1.05	0.06	0.43	69.8	—	0.594
Legacy VC/PE firms (number)	421	1.44	1.19	0.25	0.49	64.1	—	0.768

Table A1 (cont.)
Panel B. Final Claude data versus human research-assistant coding

Variable	Paired N	Claude mean	Human mean	Difference in means	Mean abs. difference	Exact match (%)	Within 2 pp (%)	Pearson r
Dual-class firms (validation sample: 78 firms)								
Founder voting power (%)	340	42.25	43.21	-0.95	2.65	76.2	86.2	0.908
Legacy VC voting power (%)	340	22.65	23.68	-1.03	2.19	65.9	77.4	0.972
Legacy VC board seats (number)	338	1.93	2.11	-0.18	0.41	63.9	—	0.788
Founder board seats (number)	340	1.38	1.59	-0.21	0.23	84.7	—	0.602
Active founders (number)	339	1.69	1.71	-0.02	0.13	88.5	—	0.847
Legacy VC/PE firms (number)	340	1.71	2.08	-0.37	0.55	61.5	—	0.787
Single-class firms (validation sample: 79 firms – matched sample)								
Founder voting power (%)	330	7.79	7.55	0.24	2.05	67.9	83.0	0.762
Legacy VC voting power (%)	330	19.57	24.35	-4.78	5.17	48.8	64.5	0.879
Legacy VC board seats (number)	329	1.80	2.38	-0.58	0.72	53.2	—	0.648
Founder board seats (number)	329	0.81	0.83	-0.02	0.22	79.6	—	0.804
Active founders (number)	329	1.04	0.95	0.08	0.25	79.3	—	0.794
Legacy VC/PE firms (number)	329	1.70	2.33	-0.63	0.79	51.1	—	0.760

Comparison samples. Paired N is the number of firm-year observations with comparable, nonmissing values from both coders. Pairs must refer to the same issuer and measurement occasion within years 0–7, restricted to overlapping coverage. Every statistic in a row uses the same pairs. Claude means for single-class can differ between the two panels because the comparison samples differ. Unavailable or unresolved observations are excluded, not converted to zero.

Measures. Difference in means equals the Claude mean minus the Codex mean (Panel A) or human mean (Panel B). Mean absolute difference is the average absolute paired difference. Differences in voting power are percentage points; count differences are in seats, founders, or investment firms. Exact match is the percentage of observations with the same value. Within 2 pp is the percentage with an absolute voting-power difference of at most two percentage points; it does not apply to count rows. Pearson r reports correlation.

Interpretation. The table describes agreement, not an error rate against an assumed infallible coder. Panel A uses the final Claude data and Codex records following filing review and protocol clarification. Panel B uses the available human reference records from the prior study. Identify any later corrections or definition differences in the human reference records.

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