

MORE THAN MONEY: THE COMPLEX DYNAMICS OF CAPITAL AND POWER IN ENTREPRENEUR-INVESTOR RELATIONSHIPS

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Power, the capacity to influence outcomes in positive or negative ways, is rooted in capital. Scholars and practitioners pervasively believe that financial capital—such as equity—affords profound influence over organizations. Perhaps nowhere is this belief more foundational than in extant thinking about new ventures, where owners—entrepreneurs who found them and investors who are brought on to fuel growth—remain intimately involved in venture affairs. However, uncritically accepting that power requires financial capital limits attention to one part of a more complex story, one where non-financial capital—such as knowledge and reputation—also underpins influence. Our aim is to build awareness of the multiple power sources, dynamics, and outcomes at play among new venture owners. Framed by a primer on power from organization theory and entrepreneurship research, we show how diverse forms of capital equivalently and dynamically empowered an entrepreneur and his investors toward unique and unexpected outcomes. Then, informed by our exploration of this relationship, we discuss some pragmatic insights for both entrepreneurs and investors, as well as other stakeholders and interested parties. We hope to highlight that a holistic view of capital accounts for power dynamics that are overlooked and unexpected by conventional wisdom.

Power refers to the capacity to influence outcomes positively or negatively (Lukes, 2018). Such influence is predicated on the capital obtained by actors, as well as their motivation and capability to use their capital to achieve desired outcomes (McMullen, 2024; McMullen & Shepherd, 2006; McMullen, Fitzsimmons, Shetty & Ramoglou, 2024). Individuals and collectives accumulate and exercise power from many forms of capital (Bourdieu, 1977), yet one form—financial capital—receives the lion's share of attention (Clough, Fang, Vissa & Wu, 2019).

Scholars and practitioners widely glorify the power that comes from financial capital, which is

control of access to cash, equity, and other (semi-liquid) resources (Cooper, Gimeno-Gascon & Woo, 1994; Wiklund & Shepherd, 2005). One example is the widely held belief that ownership—in the form of equity—affords profound influence over organizations. Perhaps nowhere does this belief have more impact than on thinking about new ventures. Unlike owners (shareholders) of mature firms, who contract agents (professional managers) to run the business on their behalf, new venture owners (entrepreneurs and their investors) commonly remain directly and intimately engaged in the organization's workings (Garg, 2020). Research assumes that the parties with the largest equity stakes maintain the most decision-making authority—especially prior to the

Accepted by Gideon Markman

formalization that occurs when pursuing initial public offering (IPOs). However, evidence suggests this assumption limits attention to one part of a much more complex story, thereby overlooking other power sources that also matter.

This paper strives to challenge and improve conventional wisdom about organizational power, specifically regarding the relational dynamics between entrepreneurs and investors in new ventures. Contextualized by a primer in relevant organization theory and entrepreneurship research, we show how financial *and* non-financial capital—such as knowledge, reputation, position, and contractual agreements—shaped power dynamics in one such relationship and how these dynamics impacted multiple outcomes. Recounting the evolution of the entrepreneur–investor relationship provides a useful setting to demonstrate that a much more comprehensive view is needed to account for all potential power sources, dynamics, and impacts—not only those directly attributable to financial strength.

Informed by our exploration of this relationship, we present a parsimonious model (Figure 1) and pragmatic insights for entrepreneurs, investors, and others. Attaining foundational goals for their relationships requires both entrepreneurs and investors to appreciate that power is multifaceted in terms of both source (i.e., financial and non-financial) and impact (i.e., individual, relational, and organizational). Better

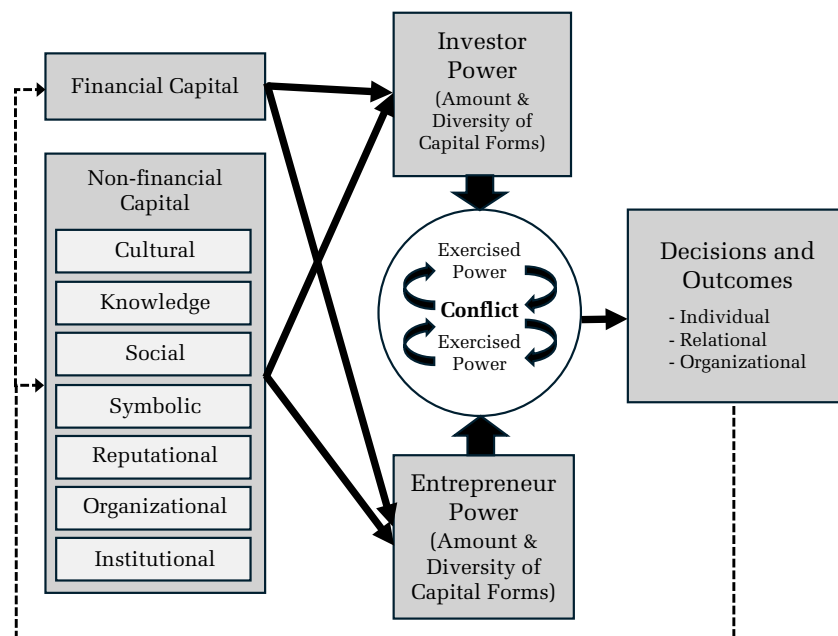
awareness may foster relationships that unfold harmoniously rather than contentiously, increasing relationship quality, goal attainment, and stakeholder support, among other positive outcomes (Waldron, McMullen, Petrenko, Trudell & Aronson, 2022). It may specifically inform more effective relationship design or even prevent relationships that arguably should not be formed. Three insights may be particularly useful in this regard: (1) financial and non-financial forms of capital have unique and varying effects on the accumulation of power; (2) power exercised (i.e., activated and mobilized)—or even unexercised—influences venture decisions and outcomes; and (3) power exercised by two or more stakeholders can lead to conflict, which may impact multiple decisions and outcomes, and—as seen in our case—potentially destroy relationships. We discuss, illustrate, and present actionable advice based on each one of these points.

WHAT WE KNOW ABOUT POWER IN ORGANIZATIONS: SOME BACKGROUND FROM ORGANIZATION THEORY AND ENTREPRENEURSHIP RESEARCH

Power: Definition, Sources, and Mechanisms

Our interest in power deals specifically with the capacity to influence decisions that impact entire organizations. Like others (Clegg, Courpasson &

FIGURE 1
A Model of Capital and Power in the Entrepreneur–Investor Relationship



Phillips, 2006), we view power to be relational, such that influence requires “getting things done through other people...to achieve goals that are shared or contested” (Fleming & Spicer, 2014: 2). Even the most powerful organizational leaders must involve others when making decisions about strategizing, structuring, operating, and analogous matters of importance to their organizations. Navigating norms, networks, and other relational considerations matter in this regard (Burt, 1997; Gedajlovic, Honig, Moore, Payne & Wright, 2013; Lukes, 1974).

Individuals and collectives involved with organizations derive power from control of access to

socially embedded and accessible resources—often described simply as capital (Bourdieu, 1985). Many forms of capital can serve as power sources (Ocasio, Pozner & Milner, 2020). Consistent with our objectives, we categorize capital as financial and non-financial, with non-financial encompassing cultural, knowledge, social, symbolic, reputational, organizational, and institutional forms. Table 1 defines what each capital form is and touches on how each one empowers actors (e.g., entrepreneurs and investors) to influence organizations (e.g., new ventures).

Extant research recognizes that power requires both accumulating capital and exercising influence

TABLE 1
Capital Types, Definitions, and Power Linkages

Type		Definition	Power Linkage
Financial		Resources “derived from the ability to bring financial resources to an organization, either directly or indirectly” (Ocasio et al., 2020: 319).	Power based on financial capital rests on an actor’s capacity to leverage others’ “dependence on access to such resources (Ocasio et al., 2020: 308).
Non-financial	Cultural	Resources “derived from embodiment of and ability to deploy the language, cognition, values, and indicators of the organization or social system” (Ocasio et al., 2020: 319).	Power based on cultural capital rests on an actor’s capacity to “demonstrate consistency with the culture and rules of the game within which the power operates, to play that game effectively” (Ocasio et al., 2020: 309).
	Knowledge	Resources “derived from organizationally relevant individual abilities, talents, education, and experience, formal or informal, tacit or explicit, and independent of structural position” (Ocasio et al., 2020: 319).	Power based on knowledge capital rests on an actor’s capacity to deploy their abilities, talents, etc., as well as to “access data and mobilize information” that are contextually meaningful (Ocasio et al., 2020: 310).
	Social	Resources derived from access to “the ties that exist in social systems, including affiliations, sources of information, referrals, and commitments available through social networks that might enhance the focal actor’s position” (Ocasio et al., 2020: 319).	Power based on social capital rests on an actor’s capacity to bond with others (Thompson, 2005), to achieve status (Podolny, 2001), and to broker information flows (Burt, 1997) in organizational networks.
	Symbolic	Resources derived from “category membership, whether acquired—job titles, credentials, formal educational degree, functional background—or ascribed—gender, race, ethnicity, and age” (Ocasio et al., 2020: 319).	Power based on symbolic capital entails being part of a labeled, valued category, such as having gone to an elite university (Datta & Iskandar-Datta, 2014) or having founded companies (Finkelstein, 1992).
	Reputational	Resources “derived from perceived reputation for successful performance within the organization or relevant external contexts, [which are] not necessarily connected to actual performance” (Ocasio et al., 2020: 319).	Power based on reputational capital hinges on being perceived as a high performer—one who contributes substantially to organizational success (Pollock, Lashley, Rindova & Han, 2019).
	Organizational	Resources “derived from control over strategic resources, discretion and legal authority, reward, and coercive power afforded to certain organizational positions” (Ocasio et al., 2020: 319).	Power based on organizational capital hinges on the direct and indirect authority over decisions and agendas (Lukes, 1974).
	Institutional	Resources “derived from the ability to define the rules of the game, establish the value of different forms of capital, and create symbolic systems of classification” (Ocasio et al., 2020: 319).	Power based on institutional capital requires being able to shape, not simply embody and leverage, organizational culture, rules, norms, etc., creating new classification systems that are assumed to be normal and natural aspects of organizational life (Lukes, 1974).

garnered through that capital to achieve desired outcomes (Ocasio et al., 2020). Accumulating power involves building stocks of capital by inheriting them, developing them, or converting them from existing forms into others (Bourdieu, 1986). As one example, financial capital (e.g., cash) can be invested to accumulate more of it (e.g., buying a dominant equity stake in a rapidly growing venture), as well as converted into organizational capital (e.g., becoming a board chair). Exercising power involves utilizing stocks of capital through activation—the process of making capital sources salient to others—and mobilization—the garnering of support through social interactions (Ocasio et al., 2020). Fundamentally, accumulating and exercising more extensive, diverse, and contextually valuable capital stocks can facilitate more power over organizations (Bourdieu, 1989; Ocasio, Laamanen & Vaara, 2018). Specifically, dependence on capital (Pfeffer & Salancik, 1978), as well as identification with (French & Raven, 1959), legitimacy from (Pfeffer, 1992), and status based on capital (Podolny, 2001), can rally support.

Despite recognizing that power can be accumulated from many sources and exercised from them in various ways, the workings and effects of financial capital has received disproportionate attention relative to the diverse forms of non-financial capital (Clough et al., 2019). Seminal thinking in organization theory emphasizes others' dependence on financial capital as the foundation of influence (Pfeffer & Salancik, 1978; Thompson, 1967). The rationale is elegantly simple: Getting things done involves controlling those who depend on them for cash or resources that can readily be converted into it (Bourdieu, 1986).

Power Over Mature Organizations: Shareholders and Managers

The utility of financial capital as a power source is perhaps most evident and consequential at the pinnacles of organizations, where decisions associated with growing, sustaining, saving, and even terminating operations occur. Such strategic decisions are believed to reflect the interests of the financially richest shareholders, meaning individuals or coalitions with majority equity stakes maintain decision-making authority (Jenson & Meckling, 1976). Indeed, equity legitimates claims on organizations and thus affords the legal rights to make decisions impacting them. In concept, parties who depend on owners for resources must acquiesce to their wishes (Pfeffer & Salancik, 1978).

Although ownership certainly affords power over vital organizational decisions, the reality is that the owners of mature (public) firms generally do not become deeply concerned with or involved in the organizations' ongoing operations. Rather, owners vote on strategic matters and leave more tactical matters to professional managers—with some exceptions (e.g., institutional investors) (Connelly, Hoskisson, Tihanyi & Certo, 2010). Owners thus wield their power indirectly and imperfectly through agents who make decisions on their behalf, creating the potential for managers to benefit themselves at the expense of shareholders. Such problems are thought to be mitigated by electing boards to monitor managerial behavior and by aligning agents' interests and behaviors with those of principals via well-designed incentive programs (Boivie, Bednar, Aguilera & Andrus, 2016).

Although we are fascinated by what happens in mature public firms, these organizations are relatively few compared to other kinds (Siggelkow, 2007)—notably the privately held ventures that fuel economic development (Acs & Audretsch, 1990; Aldrich, 2008; Welter, 2011). In these firms, the distinction between owners and agents can be blurred or even indiscernible (Garg, 2020), particularly during the formative stages of venture development. Venture owners—entrepreneurs who started them and investors who were brought on to fuel growth—often remain deeply concerned with, and intimately involved in, organizational affairs (Huang & Knight, 2017). These individuals do not readily or entirely allocate their decision-making authority to professional managers, at least not until institutional forces like venture capitalists and IPO processes force startups to change to structures and processes that resemble more mature firms (Garg, 2020).

Reducing reliance on professional managers should mean reducing the risk of interest misalignment that can adversely impact investment value (Garg & Furr, 2017). However, things are rarely as simple as they seem. The active roles that owners take in the development of their ventures exacerbates attention to—and fuels dogma about—"financially based" power, oversimplifying and overlooking more complex dynamics and outcomes ranging from the individual to the organizational level. The result is that we have unwittingly been focused on one part of a much more complex story. As we will demonstrate, failing to appreciate the power derived from financial *and* non-financial capital—especially in new ventures—can carry dramatic consequences.

Power Over New Ventures: Entrepreneurs and Investors

Entrepreneurs who create successful ventures face pressure to scale rapidly and soundly (Markman & Waldron, 2014). Those who take this path must build relationships with diverse stakeholders to secure capital vital to venture development and longer-term performance (Clough et al., 2019; Wasserman, 2017). Relationships between entrepreneurs and investors have received particularly extensive attention because of the criticality of the latter's support to these developmental processes (Huang & Knight, 2017; Wasserman, 2008).

Scholars have long believed that power dynamics in entrepreneur–investor relationships hinge on formulaic exchanges of financial capital. To obtain growth-enabling cash, entrepreneurs commonly grant majority equity stakes to investors (Brophy & Shulman, 1992; Gomez-Mejia, Balkin & Welbourne, 1990; Kaplan, Sensoy & Strömberg, 2009; Wasserman, 2008, 2017). Holding the equity “upper hand” legitimates investor authority over venture affairs (Cable & Shane, 1997; Pfeffer, 1992; Zacharakis, Erikson & George, 2010); this authority is largely assumed to be ultimate and unassailable (Waldron et al., 2022). Accordingly, investors can unilaterally determine venture structure, strategy, and operations, as well as whether and what roles entrepreneurs retain. Entrepreneurs who do not cash out can accept subordinate positions and serve at the pleasure of investors, sometimes remaining CEO. Other role possibilities include moving into other executive positions or becoming a board member (Rosenstein, 1988; Wasserman, 2006, 2008), blurring the lines between being an owner and an agent. Sometimes entrepreneurs get forced out altogether because of poor performance, lingering disagreements, or outright insubordination (Rosenstein, 1988; Wasserman, 2006, 2008).

Academic research and conventional wisdom depict financial capital as offering ultimate power over venture affairs. The prevailing assumption is that investors become more powerful as they attain larger ownership stakes. Despite mirroring aspects of reality, this assumption preserves incomplete understanding of who can maintain power over new ventures and where such power originates. The belief that power requires equity has become so normalized that we do not evaluate the extent of its applicability, thereby overlooking the role of non-financial capital in empowering both entrepreneurs and

investors. When explaining power dynamics in venture upper echelons, cash or equity may not always be the most important form of capital.

Financial capital certainly affords investors with potential influence, but we overlook the non-financial capital that enables them to exercise this influence. To illustrate, investors can provide advice (Zahra & Filatotchev, 2004; Zhang, Baden-Fuller & Pool, 2011), guide strategizing (Fried, Bruton & Hisrich, 1998), complement top management expertise (Knockaert, Bjornali & Erikson, 2015; Zahra, Filatotchev & Wright, 2009), and increase venture prestige (Chen, Hambrick & Pollock, 2008; Stuart, Hoang & Hybels, 1999). Investors can also develop alliances (Beckman, Schoonhoven, Rottner & Kim, 2014), as well as make personnel decisions while facilitating product commercialization (Boeker & Wiltbank, 2005; Fiet, Busenitz, Moesel & Barney, 1997; Hellmann & Puri, 2000). Controlling dominant equity stakes legitimates investors' capacity to take these sorts of actions, but exercising this power requires formal leadership roles like board chairs and seats—instantiations of non-financial (specifically organizational) capital.

Additionally, given a preoccupation with the financially fueled power enjoyed by investors, we tend to overlook non-financial capital that can empower entrepreneurs—even after ceding ownership majorities to investors. Surprisingly, entrepreneurs often continue to lead their venture creations well after trading ownership for resources. According to Wasserman's lifetime research on more than 16,000 founders, approximately 50% remained the organization's chief executive—an indicator of power—by the third round of outside funding (Wasserman, 2014). Similarly, a Harvard Law study of more than 18,000 startups found that 40% of founders remained CEO by the time of IPO, which is a late-stage milestone in venture development (Fried & Broughman, 2018).

Like any empirical evidence, these statistics hold multiple meanings. That most founders are *not* leading their ventures at later developmental stages lends credibility to the assertion that exchanging equity for cash tends to eliminate an entrepreneur's capacity to influence venture activities. Yet fixating on this widespread interpretation overlooks another possibility. Despite being in the simple minority, a sizable percentage of entrepreneurs preserves meaningful, post-investment power, which must stem from non-financial capital. Further, entrepreneurs can accomplish this position of power as minority

owners who give up little of their remaining equity to investors. These dynamics not only happen but are increasingly common (Somerville, 2021). Indeed, it is important to recognize that entrepreneur power (i.e., power held by the founder) and investor power (i.e., power held by investors) is sourced from both financial and non-financial capital and may change over time as power is dynamically accumulated and exercised.

HOW WE SHOULD VIEW POWER IN ORGANIZATIONS: EMPIRICAL EVIDENCE OF THE NEED FOR A MORE COMPREHENSIVE VIEW

Our primary objective for this article is to cultivate pragmatic awareness that power in organizations, especially involving entrepreneur–investor relationships, is more complex than long assumed. Our awareness campaign begins by utilizing events at Balcones Distilling to illustrate this premise. Drawing from a qualitative study on the formation, evaluation, and conclusion of the relationship between Balcones' founder and his investors (Waldron et al., 2022), we show how both sides accumulated and exercised power from diverse capital forms and what resulted from these dynamics. This study does not systematically address power sources, dynamics, and impacts, but it does provide a rich narrative that shows these concepts in action. As such, we offer a rare glimpse at relational dynamics often hidden behind the veil of privacy in pre-IPO ventures.

The Story of Balcones Distilling

Chip Tate founded Balcones Distilling in 2008, the first whiskey distillery in Texas since prohibition in the United States. From an old warehouse in downtown Waco, Tate built his company by hand. Not only did he design and weld his own distillation equipment, but he also innovated novel ingredients, product recipes, distillation methods, and aging processes that revolutionized whiskey production techniques.

The next five years were a blur of innovation, growth, accomplishments, and accolades. Tate received rave reviews for innovative products and his venture built a cult following. Balcones piled up victories in international tasting competitions where its products defeated offerings from renowned distilleries with centuries of tradition and experience. Success vaulted Balcones onto the international

stage and resulted in Tate becoming recognized as a preeminent craft whiskey distiller. The media referred to Tate as the “Steve Jobs of Craft Whiskey” and viewed him to be a “founding father” of the burgeoning craft whiskey movement; these factors fueled exponential growth in demand, which Balcones could not satisfy organically.

Tate received and spurned acquisition offers from mass producers. Instead, he sought the rare investor who could fund Balcones' expansion while sharing his passion for craft whiskey and his vision for the distillery. Tate and Greg Allen of PE Investors, an angel investment group based in Oklahoma, began talks in March 2013 and closed a deal in June 2013. They decided to collaborate in pursuit of Balcones' future; both parties were energized about what they could achieve together.

In terms of equity, the new investors received a 58% ownership stake in Balcones. Of this amount, Tate put up 4%, reducing his already minority stake from 31% to 27%. The remaining 54% came from two earlier-stage investors: (1) Michael Rockafellow retained a 15% stake, and (2) Steven Germer sold his entire stake to Allen and PE Investors, exiting Balcones altogether at this point.

In terms of roles, Allen became the board chair and assumed responsibility for venture finance and business oversight and advisory roles. Other PE Investors and Rockafellow, the previous investor, received four of five board seats. Tate remained CEO and head distiller; he was responsible for running the business, innovating processes and products, and guiding the expansion. He also secured the right to impact major board actions by the investor-directors, which afforded Tate meaningful post-investment control of his venture. Specifically, Balcones' agreement required Tate's presence at meetings for board actions to occur and required his approval to alter the venture's constitution—notably via recapitalization or restructuring. These roles and rights would persist as long as Tate owned at least 10% of Balcones.

The beginning of the relationship progressed smoothly. After three months of cultivating the nature of their deal and subsequent work arrangement (March–June 2013), Tate spent six more months performing his responsibilities as CEO and head distiller while putting together an initial plan and budget for the facility expansion. Things were good.

The honeymoon soon crumbled as disagreements, largely stemming from different production philosophies, drove a wedge between founder and investors. Problems began at the December 2013 board meeting, where Tate reported that expansion costs could

exceed PE Investors' initial investment amount. Tate originally budgeted for a facility that would produce whiskey during the cooler half of the year in Texas, whereas the investor-directors became enamored with a facility that would produce the entire year. Making spirits during the hotter half of the year in Texas required an expensive cooling system to facilitate product distillation and maturation.

Both sides agreed to incur the additional costs required for year-round production, all while quietly blaming each other for the budgeting issue. The investors lamented that Tate should have anticipated the need for a cooling system, just as Tate lamented that the investors were responsible for the unexpected cost increase. Measures to rein in this cost (e.g., hiring engineering consultants), as well as other unanticipated costs, failed, and the projected budget continued to increase. During the June 2014 board meeting, the investor-directors proposed that Tate step down as CEO and the company undertake additional financing to fund expansion. Notably, the funding plan threatened to reduce Tate's ownership stake to below 10%, at which point the investors could act without his input at meetings or his approval to recapitalize the venture.

Tate resisted both proposals. Instead, he presented an alternative funding plan, one unlikely to reduce his ownership stake to below 10%. He also skipped board meetings, which took advantage of the operating agreement terms that required his attendance for board action to occur, such as recapitalization or restructuring of the company. Neither side backed down, which triggered an escalating series of actions by both sides as they attempted to exercise their power over Balcones' affairs. The struggle became serious and intense, as the parties levied accusations of sabotage, espionage, dishonesty, and even death threats. Things had gotten bad and would get worse.

The board proceeded to fundraise, suspended Tate, pursued an injunction that would permanently bar Tate from Balcones, and secured a gag order to prevent him from communicating publicly about the situation. Keith Bellinger, who had been hired as COO some months earlier, oversaw the CEO duties in Tate's stead. Jared Himstedt, who had been with Balcones since its creation, served as head distiller. Both the entrepreneur and investors proclaimed their actions as justified in the courts. Tate maintained that the board's actions overstepped their prescribed roles, while the investor-directors claimed that Tate's actions threatened Balcones' future success. Upon having the gag order lifted during the

legal battle, Tate publicized his side of the story in the media, effectively utilizing his celebrity status to garner external support. As a result, an acrimonious legal battle ensued which attracted national attention.

Then, in November 2014, a milestone occurred. A Waco district judge affirmed that Tate was entitled to continue leading Balcones as its CEO, meaning the founder and investors would need to continue to share control of the distillery's activities. Unsurprisingly, the founder and investors disagreed over the finality of the court decision. Tate saw his victory as absolute and unassailable, whereas Allen—a Harvard-educated lawyer—believed this outcome would eventually be reversed upon appeal. Time would never tell, however.

Faced with Tate's impending return to active duty, both sides recognized that they could not work together and thus entered mediation to determine who would remain with Balcones. In December 2014, Tate willingly accepted a buyout and agreed to refrain from starting another distillery for 16 months, leaving Allen and the investor-directors to chart Balcones' path forward. The divorce ended a relationship marred by a year of continually escalating, increasingly intractable conflict. Yet many relationships, including this one, die hard.

Frictions surfaced and subsided over the next few months. Tate claimed his former investors reneged on an agreement to turn over personally meaningful barrels of whiskey, a claim that the investors denied. Through their attorney, Jared Himstedt and his wife sent a demand letter to Tate seeking restitution on a loan made to support Balcones. Tate sued Himstedt for seeking repayment when the terms for doing so had not been satisfied, as well as for defaming him in the media after leaving Balcones. As this dust kicked up, Tate started his new company—Tate & Co.—in early 2016, which was much earlier than the terms of the buyout allowed. However, rather than produce whiskey, he elected to focus on producing hand-made distillery equipment.

Ultimately, time cured what ailed the rivals. The two sides drifted apart as they walked different paths. Balcones walked the growth path, culminating in its 2022 sale to Diageo—a multinational that owns a sizable portfolio of liquor makers. Tate walked the control path, leading the new business until 2024. At that time, Tate was named master distiller for innovation at Foley Family Wines, a California-based wine company that recently entered the spirits market. With this new full-time position, Tate left Tate & Co. to be managed by investors.

Power Sources and Dynamics at Balcones Distilling

As conventional wisdom dictates, equity provided a baseline power source for Allen and PE Investors. The investor-directors' influence over Balcones was traceable to their majority equity stake, which legitimated their authority to make key decisions impacting the venture's future. But simply owning the venture (so to speak) differed from influencing what the venture did. Extant thinking about entrepreneur-investor relationships downplays the possibility that exercising authority from ownership requires non-financial capital, such as that linked to formal organizational roles, contract agreements, and more.

In return for their cash, the investors received an ownership interest *and* formal roles at Balcones. Allen became the chair of Balcones' board and two colleagues from PE Investors became directors, with their rights and responsibilities codified in the business's revised operating agreement—examples of organizational capital. Holding three of five board seats at Balcones meant the new investors possessed the voting majority required to set agendas and pass motions that would meaningfully shape the organization's development. That Michael Rockafellow, the early-stage investor who remained an owner and a director, tended to conference with the PE group increased their majority. Additionally, many of the investors' moves resulted from their belief that responsibility for the venture's (and its stakeholders') wellbeing superseded all other considerations, including operating agreement terms.

The power that Allen and PE Investors exercised throughout their battle with Tate often stemmed from such organizational capital. When conflict was private and muted, the investor-directors largely acted according to the protocols defined in the operating agreement. Notably, business was conducted in board meetings with all members present and able to vote on motions. However, as conflict worsened and became intractable, the investors increasingly acted in ways that ignored established protocols and thus encroached on the entrepreneur's rights. To illustrate, the investor-directors began to conduct business without meetings—required according to the operating agreement—to circumvent Tate's efforts to stall moves that would affect Balcones' ownership and his place in it. The rationale was that these terms applied only under mundane circumstances, not when the founder acted in bad faith to prevent the investor-directors from performing their fiduciary duty.

Along with demonstrating that the investors leveraged power from financial and non-financial capital, the story of Balcones Distilling shows that the entrepreneur also took advantage of power from non-financial capital. Prior to taking on PE Investors, Tate made all key decisions as CEO and head distiller while owning only 31% of the company for much of that time. Germer and Rockafellow controlled the dominant ownership interest, but they did not heavily leverage their financial power and did not contest Tate's decisions as actively as did the PE group.

After taking on PE Investors, Tate not only retained his existing roles but also became the "founding manager." This role was formalized in the operating agreement and allowed Tate to block certain board actions—namely those that would diminish his involvement with Balcones. And he negotiated these benefits while giving up only 4% of his equity stake to PE Investors, leaning on the early-stage investors to provide the rest.

So, what might allow entrepreneurs to not only retain but also to expand and formalize power without having or giving up much financial capital to additional investors? Tate certainly used some equity, albeit a surprisingly small amount, but he also used non-financial capital that he had accumulated previously. That is, Tate leveraged non-financial capital sources of power, such as his knowledge of the craft whiskey business, his reputation for innovating unique, quality products, and his symbolic leadership of the craft whiskey movement, as bargaining chips.

Tate exercised power, notably sourced from non-financial capital, in multiple ways throughout the battle for Balcones. For example, when the investors proposed that Tate step down as CEO, Tate refused and began to skip board meetings to prevent a vote on the matter. Doing so leveraged the operating agreement terms that specified Tate's presence as a requirement for such votes to occur. Tate used the same tactic to stall the board initiative that would raise additional funds for the facility expansion, a possibility that threatened to dilute his equity stake to below 10%—at which point the board could unilaterally decide his future at Balcones. And when the battle spilled into the courts, Tate claimed that the board was overstepping its authority according to the terms of the operating agreement—a claim enacted through resistance.

Power Impacts at Balcones

Differences in how the founder and investors exercised power from their organizational capital stocks

ultimately shaped multiple outcomes, beginning with the legal battle. The district court judge ruled that the investors “had violated the operating agreement terms that required Tate’s presence and consent for board action” (Waldron et al., 2022: 33), including his suspension, the fundraising initiative, and legal petitions (injunction and gag order) against him. The implication was that investor-directors had exceeded their own organizational-based authority and thus encroached on Tate’s domain, at least according to one judge’s initial interpretation of the operating agreement.

A key issue here is the distinction between having power and activating and mobilizing it to influence decisions and bring about desired outcomes. Tate did not prevail in court merely because he had more or better non-financial capital than the investors, *per se*. His agency and action were needed to exercise his power as the founding manager—including combining the power sourced from cultural, knowledge, symbolic, and reputational capital. By demonstrating understanding of, and adherence to, the literal terms of the agreement, such efforts shaped the ruling that Tate was acting according to his legal authority and the investors were not. Also consequential was the contrast with the investors, whose actions increasingly bypassed formal decision-making protocols—thus subjecting these moves to interpretation.

Having achieved a victory in the legal battle, why did Tate willingly and voluntarily concede the relational war? Among multiple considerations, changes in other non-financial capital that impacted his power in different settings might have contributed to this decision. At Balcones, Tate’s influence from social capital declined as the battle with the investors worsened. Accusations of hostility toward investors and employees indicate that attempts to exercise power damaged their affective bonds with Tate, increasing conflict and reducing his standing among employees. For example, there were allegations in the legal filings that Tate was abusive and prone to displays of rage and that he had made death threats and threatened arson. Additionally, once the investors suspended Tate, his ability to broker crucial information flows was severely impaired, thus reducing his overall capital stock—particularly social capital—and limiting his ability to exercise any remaining organizational or symbolic power. As Tate’s capital stock—and associated power—at Balcones decreased, the board’s increased. The investors effectively built goodwill among Balcones’ employees, who saw the investor-directors as a stabilizing influence during a tough time.

The shift in power for the entrepreneur and his investors involved a shift in cultural capital. Being favorably regarded by Balcones’ employees positioned the investors to develop a culture based on professionalism, transitioning away from the emphasis on craftsmanship that Tate had championed since the venture’s inception. The investors thus became better positioned than Tate “to deploy the language, cognition, values, and indicators of the organization or social system” (Ocasio et al., 2020: 319), affording the investors with an additional source of influence that the founder could not access or otherwise replicate.

Outside Balcones, social and reputational capital empowered Tate long before the investors entered the picture and continued to do so during his relationship with them. Tate spent extensive time telling Balcones’ story and romanticizing its wares to industry bloggers, reporters, consumers, peers, and others; such activities cultivated elite status and strong relational bonds with external audiences. Accumulating various forms of capital often involved activating other non-financial forms of capital that Tate inherited or invested in over time to diversify his capital base. For instance, Tate’s expertise and success made him the symbolic leader of the craft whiskey movement and elevated his reputation among industry experts for producing distinct, quality wares. In this way, Tate converted or mobilized the necessary capital stocks into power when it mattered most to his relationships with investors and industry audiences.

Once the battle to control Balcones spilled into the public forums (i.e., after the gag order on Tate was removed), Tate’s long-established reputation among, and bonds with, actors in the external social network were mobilized to support his cause. Bloggers and reporters sought, obtained, and disseminated information on the conflict based on Tate’s narrative. Further, because the investors did not comment on the conflict during the legal proceedings, regular media coverage created an unfavorable sociopolitical environment for the investors in Waco, where the court battle occurred. Motivated consumers tended to take Tate’s side in the conflict, some “going so far as to establish a GoFundMe account to defray his legal expenses and start a ‘No Chip No Balcones’ movement on social media” (Waldron et al., 2022: 17).

Interestingly, Tate invoked key cultural aspects of his venture and the craft whiskey movement—craftsmanship and authenticity—to mobilize outsider support for his position with Balcones—rather than for the distillery’s development (Giorgi, Lockwood & Glynn, 2015; Lockwood, Giorgi & Glynn, 2019;

Soublière & Lockwood, 2022). Discerning the impact of such efforts is difficult, but they certainly shaped the social environment where the battle for Balcones unfolded. That the investors secured a gag order on public communication as part of the temporary injunction against Tate suggests they recognized the potential impact if he continued to control the public narrative about the ongoing battle. We suspect the investors recognized that the combination of Tate's skill as a storyteller and their own reticence to comment on legal matters would skew public sentiment toward the local entrepreneur over "big city" investors.

Ultimately, temporal changes and contextual differences in power—based on non-financial capital—made leaving for greener pastures more attractive to the founder than trying to rebuild a war-torn battlefield. Facing an indefinite power struggle with the investors, irreparably damaged relations at Balcones, and cultural shifts therein, foreshadowed an untenable work environment while outside support began to signal opportunity elsewhere (Waldron et al., 2022).

These multifaceted contextual impacts on the founder coincided with, and were reinforced by, the investors' own situation. PE Investors had sunk millions into Balcones and desired an adequate return on their investment; this increased their willingness to either to buy out the person who was preventing a positive financial outcome or to continue seeking legal recourse. Even though Tate did not have to exit, and his investors—even with their vast advantage in financial capital—could not force him to do so, the founder and his investors mutually agreed to part ways.

PRAGMATIC INSIGHTS ABOUT POWER OVER NEW VENTURES: CONSIDERATIONS FOR ENTREPRENEURS AND INVESTORS

Awareness that power is derived from different sources of capital, including but not limited to the financial capital that receives much of the glory, holds pragmatic value. Fundamentally, for entrepreneurs and investors, achieving their goals begins with awareness of this point. Failure to appreciate the complex interactions among capital, power, and outcomes can distract from goal attainment, as Balcones' founder, investors, and others learned the hard way. Our observations about the events at Balcones lead us to develop a basic model (see Figure 1) that demonstrates the fundamental steps through which different forms of capital are accumulated

and exercised by entrepreneurs and investors to influence decisions and outcomes. First, financial and non-financial forms of capital are accumulated and stocked as power held by entrepreneurs, investors, or other stakeholders. Second, stocks of power based on capital can be exercised to influence decisions and outcomes; the effectiveness of the exercise of power depends on the amount and type of power relative to other parties wishing to influence decisions and outcomes. Conflict, to a greater or lesser degree, is likely and the decisions and outcomes will result from these dynamic exchanges. Finally, decisions and outcomes will feedback to influence capital that may be utilized in future exchanges.

Building on this model, we highlight three key lessons we believe worthy of further discussion. First, capital, in various forms, accumulates and serves as a multifaceted basis for power. Second, power must be activated and mobilized to influence decisions and outcomes. Third, power exercised by (competing) stakeholders leads to conflict, which may unduly impact outcomes and destroy relationships.

Capital: A Multifaceted Basis for Power

Capital accumulated, especially during deal negotiations, defines the nature and scope of each side's power going forward. Capital stocks ebb and flow during relationships, but the capital secured early largely determines power that can be wielded later. For example, formal roles codified in the operating agreement largely dictated what the founder and investors could or could not do at Balcones. Such non-financial capital underpinned much of the power eventually exercised by both sides, as well as provided a baseline consideration in their legal struggle's outcome. Although equity certainly legitimates venture ownership and receives the most attention, organizational and other forms of capital may directly and explicitly legitimate authority to influence venture activities. As in mature public firms, owning equity in an organization does not always equate to influence, even when owners run the business.

This premise might explain why the founder and his investors converted various forms of capital to secure formal roles in shaping Balcones' future. The investors exercised cash (financial capital), experience in scaling businesses (knowledge capital), access to industry connections (social capital), and more into governance roles on the board (organizational capital). The entrepreneur exercised a small portion of his (already) minority ownership stake,

knowledge of the production of craft spirits, and reputation in the emerging craft whiskey category to secure the “founding manager” role. That entrepreneurs and investors convert some capital forms into others that offer more direct, explicit influence, or exercise multiple capital types simultaneously, draws attention to an intuitive, yet often-forgotten proposal. Their relationships predicate on mutually, not unilaterally, beneficial exchange (Huang & Knight, 2017). In other words, relationships between entrepreneurs and investors are multifaceted and built over time through bidirectional and ongoing exchanges.

Like investors, entrepreneurs can negotiate operating agreements that preserve at least some of their post-investment influence (Sarason & Dean, 2019). Balcones’ founder initially accomplished this with his earlier-stage investors, who allowed him to run the show relatively uncontested. Subsequently, the founder persuaded his new investors’ attorneys to revise the operating agreement in ways that codified his desired roles, board voting protocols, etc.

Such accomplishments might not be as unusual as they seem. Statistics show that many entrepreneurs retain consequential positions with ventures over the longer term, arrangements that were common in Allen’s own investments (Waldron et al., 2022). One implication is that investors are not always as strong, and entrepreneurs are not always as weak, as financially oriented thinking about their relationships suggests. But strength in these relationships depends on more than simply accumulating various capital forms.

Power Must Be Exercised to Influence Decisions and Outcomes

Capital accumulated by entrepreneurs and investors remains little more than potential power sources unless used in pursuit of desired outcomes (Ocasio et al., 2020). That is, power must be exercised—activated and mobilized (Ocasio et al., 2020)—or it has no actual value and may be diminished or lost over time. To illustrate, consider the impact of the non-financial capital that Tate negotiated on the summary judgment in his favor. A natural conclusion is that the founder’s legal win resulted automatically and entirely from an agreement that codified his rights as “founding manager” and the board’s voting protocols. Yet this outcome would not have occurred had Tate simply viewed the investors’ equity stake as the ultimate power source, accepted the investors’ actions, or resisted in ways unsupported by their

agreement. Therefore, placing too much faith in power from any one capital form, including legally supported forms like equity and operating agreements, can prevent the attainment of desired outcomes.

Exercising power from one source can facilitate desired outcomes while diminishing or destroying power accessible from other sources (Pfeffer, 1993). The founder and his investors experienced this unfortunate consequence at Balcones. By exercising power from their organizational capital to overcome the entrepreneur’s resistance to their initiatives, the investors weakened their social capital with both him and industry audiences. Likewise, by exercising power from his organizational capital to resist the investors’ initiatives, the entrepreneur weakened his social capital with the investors and Balcones’ employees. These dynamics saw the investors strengthen, and the entrepreneur weaken, their cultural capital within the venture. Although the courts validated the entrepreneur’s use of organizational capital, the concurrent erosion of his social and cultural capital contributed to Tate’s unforced departure. Effectively, winning in court turned out to be a pyrrhic victory of the founder’s own making.

Notably, actions that erode social and cultural capital can negate power from organizational capital—even when legally supported. Having created ventures and been involved in them over the longer term does not afford entrepreneurs with any more protection from this consequence than these considerations do investors. Indeed, the investors converted Balcones’ employees despite being involved for a much shorter period and having no role in the venture’s meteoric rise to that point. Of course, the founder could have avoided this undesirable shift in support by ensuring that the power he used to preserve his involvement with Balcones did not inflict collateral damage on the employees, possibly even showing how it could benefit them in some way. Entrepreneurs and investors should recognize that successfully wielding influence depends not only on leveraging more or better capital but also on maintaining or securing support from venture insiders.

Exercising Power Can Impact Relationships

Entrepreneurs and investors who hold relatively equally potent capital stocks and who are generally prone to use power to achieve their desired goals might be destined for relational disaster. Indeed, and despite recent theorizing to the contrary, negative dynamics and outcomes can occur in relationships

with longer-term, collaborative orientations (Huang & Knight, 2017). Entrepreneurs and investors whose relationships predicate on creating mutual value and pursuing shared visions can allow each other to accumulate relatively equivalent power, derived from similar or different capital sources (Waldron et al., 2022). At Balcones, the entrepreneur and his investors shared a vision for Balcones' future, aspired to work together in pursuit of that vision, and thus divided influence into complementary roles. This well-intentioned arrangement set the stage for power struggles and subsequently intractable conflict to arise, worsen, and then destroy the relationship, among other outcomes. Being aware of this possibility matters, because it contradicts the entrenched assumption that entrepreneurs lack adequate financial capital to resist investors' initiatives.

Preventing relationships from disintegrating into intractable conflict might mean allocating capital in ways that preclude parity in power, especially when both parties are inclined to use it. Informed by the finding that ventures increase more in value when investors assume control than when entrepreneurs retain it (Wasserman, 2006), entrepreneurs must choose between getting rich and being king (Wasserman, 2008). Getting rich involves taking on investors to help scale up ventures, whereas being king entails locking out investors to control the venture. When scaling is the goal, entrepreneurs might forego personal safety nets and cede decision-making authority to investors—with caveats, of course. Alternatively, when being king is the goal, entrepreneurs might forego investors altogether or find those not primarily motivated by financial returns, such as friends and family. Balcones' founder might have been better off following the latter path, which he appears to have done at his new venture. As the founder discovered, even the most careful vetting and planning processes cannot overcome the motivational divide between entrepreneurs who want to run their businesses and investors who want to optimize financial returns. The key here is the importance of enacting the means optimally suited to achieving desired ends. Relationship design matters, as does the notion that some relationships should not materialize at all.

Few entrepreneurs have gotten rich *and* remained king. Names like Bezos, Musk, Gates, and Jobs come to mind. But we know little about how these extreme outliers navigate the wealth-control trade-off over the longer term. Scholars have proposed that “fighting the urge to fixate on individual interests as conflicts arise, keeping shared visions in view, showing empathy for counterpart perspectives, and

communicating openly and honestly” (Waldron et al., 2022: 21) can allow entrepreneurs and investors to share power successfully. They have also identified various tactics that entrepreneurs can use to influence board decisions (Garg & Eisenhardt, 2017). Retaining power while building wealth may boil down to the careful preservation and use of social capital with investors and employees, such as by subverting personal gain to the collective good. As the Balcones case showed, nurturing social capital may position entrepreneurs to preserve and continue benefiting from cultural capital in their ventures. However, doing these things is more easily said than done: self-oriented personality features—like hubris and narcissism—reportedly correlate with entrepreneurial success (e.g., Navis & Ozbek, 2016).

The various effects of using power—both positive and negative—merit attention. Given the belief that investors enjoy ultimate financially based power over venture affairs, research has largely overlooked the outcomes of conflict for those involved or affected by it. The ill-effects of the battle for Balcones, as contentious as it was, surprisingly dissipated over the longer term. The founder started a new business where he enjoyed undisputed authority—grounded in financial and non-financial capital—to determine its path forward. The investors enacted their desired steps to grow Balcones and appear to have achieved acceptable returns with the distillery's sale to Diageo. Employees who remained with Balcones settled into productive roles. Consumer support for Balcones resumed as interest in the founder's departure faded.

Of course, the decisions and outcomes of stakeholder power struggles will differ in other settings. The plight of Elizabeth Holmes and Theranos comes to mind as one example. Holmes was an expert storyteller who leveraged that skill to exercise influence from various forms of non-financial capital, leading investors to pour more than \$700 million into her company. Specifically, she convinced investors that Theranos' technologies revolutionized blood testing by simplifying it. After reporters investigated and debunked these promises, it spelled the downfall for the entrepreneur and venture alike, not to mention the destruction of value for a diverse set of stakeholders (Carreyrou, 2020). In 2018, Theranos ceased operations and released all assets to creditors. By 2022, Holmes was indicted and convicted for fraud in federal court; she was sentenced to over 11 years in prison.

OpenAI serves as another example. In November of 2023, arguably the hottest company in tech at the time faced the possibility of collapse as it experienced

the firing, replacement, and rehiring of Sam Altman, the CEO. Although unclear, the initial firing of Altman presumably was based on disagreements about the company mission; the board of directors (at the time) was focused on safety and transparency, while Altman was more focused on technological progress and growth. The board, based on the original non-profit structure of the company, had the power to hire and fire and argued that their fiduciary duty was to humanity, not to investors. Chaos ensued, ultimately resulting in the exit of company president Greg Brockman and the threat of exit from 95% of OpenAI employees. Within a few days, OpenAI announced Sam Altman's return along with new board members.

Overall, power—including power obtained from non-financial capital—may be wielded positively or negatively, responsibly or irresponsibly, with the potential for severe and wide-ranging consequences. Outcomes can even reach beyond the organization to include society, such as represented by the Theranos and Open AI cases.

CONCLUSION

Our objective was to cultivate initial awareness of power sources, dynamics, and impacts in entrepreneur–investor relationships. We provided pragmatic overviews of organization theory on what power is, how it works, and how it is conceived among organizational elites, including entrepreneurs and investors. These relationships play vital roles in determining how effectively startups scale into the corporate behemoths of business lore, yet our understanding of power dynamics in them remains overly dependent on financial capital explanations.

To mitigate the consequential impact of such thinking on the actual decisions and actions of entrepreneurs and investors, we took two steps. First, we showed how the founder and his investors at Balcones were financially and non-financially empowered by multiple capital forms and what resulted from their use of this power. Second, we highlighted and illustrated pragmatic takeaways for entrepreneurs and investors to consider as they design and navigate relationships. These lessons offer a humble starting point to inform conventional wisdom about power in these relationships, helping participants to interact positively and productively.

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