

ARTICLE 2 OF 2 · FOUNDER AND FUND DYNAMICS

The Conversion Rate Problem Nobody Talks About

Why funds convert three of every ten software assets, and what a needs analysis of asset managers, founders and employees reveals.

Steve Humphris

Master of Applied Positive Psychology, University of Melbourne | Co-founder, CMO Software

wellletstalk.com

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Steve Humphris | MAPP, University of Melbourne | Co-founder, CMO Software

Article 2 of 2 in a series on founder-fund dynamics in PE-backed software companies

David Swensen, the legendary head of Yale's endowment, built one of the most successful investment track records in history partly by backing entrepreneurs through private equity. His reasoning was straightforward: founders have skin in the game. Their wealth, their reputation, often their personal relationships are tied to the outcome. They won't walk away when things get hard.

What Swensen didn't address (the word 'wellbeing' doesn't appear once in his landmark book on portfolio management), is what happens to founders when the investors they take on are solely focused on profit. The assumption embedded in most PE value creation plans is that founder motivation is a given. It isn't, and the conversion rates at many funds reflect exactly that gap.

Three Out of Ten

Consider a fund with a typical software acquisition strategy: buy a majority stake, target a twentyfold ARR increase in forty-eight months, sell for twenty times the entry price. A reasonable model on paper. Now consider that the same fund converts only three of every ten assets. The other seven get sold early or collapse. When asked why, the fund's leadership points to founders and employees losing motivation during the growth process, either walking out or being removed before the business had properly adjusted.

This isn't an unusual story, it's a pattern. The striking thing is that the problem is almost universally attributed to the founder after the fact, rather than examined as a relationship dynamic that could have been managed differently from the outset.

What the Needs Analysis Actually Shows

When you sit down and talk to everyone involved, asset managers, founders, frontline employees, a consistent picture emerges, and it isn't flattering to either side.

Asset managers describe founders as obstacles. People who resist governance standards, lack financial sophistication, and slow down execution. Founders describe feeling blindsided by the volume and nature of new demands, all while being held accountable for extreme growth targets they've agreed to but never actually operated at scale before. Employees describe workplaces that have become more intense, less supportive, and increasingly narrowed to a single objective: profit.

Everyone is telling the truth. The problem is structural, not personal, and it starts before anyone notices it.

Research into what happens when investors arrive in a founder-led business describes the experience as "dramatic jolts", moments where the founder's established skillset rapidly loses congruence with what their business now demands of them (Hoang & Gimeno, 2010).

Governance frameworks tighten. Reporting expands. New competencies around finance, legal, international operations etc., suddenly become non-negotiable. The founder who was excellent at product and customers finds themselves managing a role that feels neither familiar nor energising. That shift in engagement has direct consequences for performance (Ryan & Deci, 2000).

The Motivation Science, Without the Jargon

Decades of research into what drives sustained performance at work reaches a consistent conclusion: people perform best when they have a genuine sense of ownership over their work, feel capable of meeting its demands, and maintain meaningful connections to the people and purpose that originally motivated them (Deci et al., 2017). Strip those conditions away, even in service of a growth plan they've agreed to, and the quality of their engagement declines. They comply. They report. They attend the board calls. But the discretionary effort, the creative problem-solving, the willingness to push through genuinely hard stretches, that erodes.

For a growth-stage software business, this isn't an abstract concern. It shows up in customer relationships, product decisions, hiring quality, and team culture. The things that made the asset worth acquiring in the first place.

The Case for Acting Before Activation

Most operating partners engage post-acquisition. They arrive with playbooks, KPIs, and process improvements. These are useful. But the research suggests the most important intervention happens earlier, before the relationship between fund and founder is stress-tested by the first set of missed targets or difficult board conversations.

The evidence for autonomy-supportive management, how operating teams interact with founders, not just what they ask them to do, is substantial.

72 studies | 32,000+ participants

Meta-analysis linking autonomy-supportive management to higher engagement, greater commitment, and stronger performance outcomes (Slemp et al., 2018)

Critically, a follow-on systematic review found these effects were most durable when the approach was embedded before major operational changes began, endorsed visibly by senior leadership, and tailored to the specific context of each asset rather than applied as a generic framework (Slemp et al., 2021).

In practical terms, this means operating teams being trained to work with founders rather than around them. It means providing genuine rationale for new demands rather than simply mandating compliance. It means acknowledging openly that what is being asked of founders is difficult and creating structured feedback mechanisms that catch problems early rather than at the point of departure.

A survey of 3,311 companies found that founders in particular, more so than other employee types, show heightened sensitivity to having genuine ownership over decisions, with increased autonomy correlating directly with better growth in early-stage firms (Preenen et al., 2016).

This isn't about making the relationship comfortable. It's about keeping it functional under pressure.

What Gets Measured, Gets Managed

The argument for building these practices into the pre-activation process is also a measurement argument. If founder engagement and motivation are tracked from the outset, using validated scales alongside the objective performance data funds already collect (Gagné et al., 2015), operating teams have early indicators of where the relationship is starting to break down, long before it shows up in revenue numbers. Absenteeism, leadership changes, team attrition: these are lagging indicators. Founder motivation is a leading one.

50%+

Employees attribute more than half of their experience at work to how they are led (De Neve & Ward, 2025)

For a fund betting on a twentyfold ARR increase in four years, that's not a soft finding. It's a risk variable.

The Upside

The fund that converts three of ten assets is leaving significant returns on the table. If the pattern of founder disengagement is consistent across failed assets, and the evidence strongly suggests it is, then the question isn't whether to address it. It's how early and how systematically.

The operating partners already doing the technical work of value creation are well-positioned to add this dimension. It doesn't require a separate program or an external consultant. It requires a working understanding of what actually drives founder motivation, and a management approach calibrated to preserve it under the specific pressures of a PE-backed growth strategy.

That's the conversion rate lever nobody's pulling.

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