

ARTICLE 1 OF 2 · FOUNDER AND FUND DYNAMICS

What Happens to Founders After the Deal Closes

Why the risk profile of a software investment shifts within months of closing, and why it rarely appears in the investment committee deck.

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Article 1 of 2 in a series on founder-fund dynamics in PE-backed software companies

The deal closes. Everyone celebrates.

Then, within months, the risk profile of the investment quietly shifts, not in the market, but in the founder.

This isn't speculation. It's a pattern seen consistently in both research and practice. More than half of founders lose their CEO role within three years of taking external investment (Wasserman, 2012). A 2025 survey found that 46% of founders don't discuss their difficulties with investors, largely out of fear of losing confidence and being judged a failure (Warp & Weft, 2025).

Those dynamics, the exits, and the silence that precedes them, rarely appear in the investment committee deck.

What Due Diligence Doesn't Capture

Due diligence is precise on what can be measured: financial performance, market size, churn, product architecture, customer concentration.

It is largely silent on something harder to quantify, whether the founder can operate effectively once the rules of the game change.

And those rules change quickly.

Governance tightens. Reporting cadence increases. New capabilities are required, finance, international operations, compliance, often outside the founder's prior experience. Research describes these moments as "dramatic jolts", where a founder's skillset loses alignment with the evolving demands of their own business (Hoang & Gimeno, 2010).

The shift is not just operational. It's psychological.

Decades of research in motivation science show that when people lose a sense of ownership, feel out of their depth, and become disconnected from the work that once energised them, the quality of their engagement declines (Ryan & Deci, 2000; Deci et al., 2017).

They still show up. They still report. But they are no longer driving the business, they are complying with it.

In a growth-stage software company, that shift is not subtle. It shows up in product decisions, customer relationships, and culture.

The Founder's Dilemma in Practice

Noam Wasserman's "founder's dilemma" frames a trade-off between control and risk. What it underestimates is how disorienting the transition itself can be.

I experienced this first-hand when our investor took a majority stake, the growth opportunity was real. What neither side anticipated was how quickly my role changed into one I hadn't signed up for and wasn't well equipped to perform.

The instinct on both sides is to push through.

Founders don't want to show vulnerability. Fund managers have performance timelines to meet.

So, the problem compounds quietly, until it surfaces as underperformance, replacement, or exit.

What Can Actually Change

For fund managers and operating teams

The evidence points to what motivational researchers describe as autonomy-supportive management, working with founders, rather than directing them.

In practice, this means:

- Explaining *why* decisions are being made, not just *what* needs to happen
- Acknowledging the difficulty of new demands
- Using language that preserves the founder's sense of ownership
- Asking about the founder's capacity, not just the company's performance

A meta-analysis covering 72 studies and over 32,000 participants link this approach to higher engagement, stronger performance, and lower withdrawal (Slemp et al., 2018).

For founders

The evidence supports a more deliberate approach to role design, often referred to as job crafting (Wrzesniewski & Dutton, 2001).

In practice, this means:

- Protecting time on the work you are uniquely good at (product, customers, culture)
- Delegating unfamiliar or misaligned responsibilities early
- Actively reshaping the role, rather than passively absorbing it

More recent research shows that maintaining alignment with autonomy, competence, and relatedness is critical to sustaining motivation in changing roles (Olafsen et al., 2025).

This isn't about resisting the investor's agenda. It's about remaining effective as the business scales.

The Business Case

The commercial logic is straightforward.

Founder retention drives continuity.

Continuity reduces execution risk.

Lower execution risk improves the probability of delivering the investment thesis.

Research consistently links high-quality founder engagement with task commitment, persistence, and performance (Deci et al., 2017).

Conversely, founder disengagement and replacement are associated with disruption, cultural instability, and performance decline (Wasserman, 2012).

The hundred-day plan matters.

So does the relationship being built during it.

Due diligence tells you whether the business is worth buying.

It doesn't tell you whether the founder will still be effective once you own it.

That gap is addressable, but only if it's recognised early, not after performance starts to slip.

Article 2 will explore where this breakdown typically occurs, and how fund managers and founders can intervene before it becomes structural.

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