Socio-Economic Review, 2025, Vol. 00, No. 00, 1–29
https://doi.org/10.1093/ser/mwaf065
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The political economy of venture capital: winners-take-all and founder control

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Abstract

In many US Tech corporations such as Meta, Alphabet, and SpaceX, founders still hold shareholder voting control. How can we better understand the concentration of insider control in Tech? Drawing on quantitative and qualitative data to examine the rise of US start-up investments post-dotcom, this article demonstrates that a small group of new venture capital (VC) entrants played a key role in advancing founder control in Tech to win deals against established VC firms and make outsized capital gains. I argue that the VC market follows a winners-take-all logic, which facilitated the uptake of founder control in Tech via dual-class shares because of the success of new VC entrants and early founder-controlled tech firms exiting between 2010 and 2014, and the growing investments by nontraditional, "passive" investors post-2010. This matters because the winners-take-all logic reinforces capital concentration among leading VCs while many Tech monopolies are now controlled by a small tech elite fraction.

Key words: venture capital; technology; competition; ideology; corporate governance; USA.

JEL classification: P political economy and comparative economic systems, O16 financial markets, saving and capital investment, corporate finance and governance, G24 investment banking, venture capital, brokerage, ratings and ratings agencies

> David Rosenthal (interviewer): "Supervoting shares … if you are a CEO, nonfounder, without a structure that you've set up, you just can't [implement voting control]. As you were setting up the company, …, you were so young, why was that so important to you?

Mark Zuckerberg: "In 2006, Yahoo wanted to buy the company for a billion dollars and everyone on our management team wanted to sell it, and the board tried to fire me, …

After that I was like, all right, well, I don't want to get fired from my own company for wanting to build it, so let's try to set up a governance structure that makes it somewhat harder to do that." On the acquired podcast in September 2024, tech centibillionaire Marc Zuckerberg—founder-CEO of Meta/Facebook—mused about how he kept himself in control of Facebook *before* the firm's initial public offering (IPO) in 2012 (Gilbert and Rosenthal 2024). A decade after dotcom, this IPO was the onset of an era where "founders are kings, emperors, gods" (Hagey 2025: 6) not only in Tech, but also increasingly in US politics. Four months later, Zuckerberg, Elon Musk, Jeff Bezos, Sam Altman, Sundar Pichai, and other tech CEOs attended Trump's inauguration as the 47th US President. Zuckerberg and Musk were both founder-CEOs in control of tech monopolies (Meta and SpaceX), while Pichai was managing a founder-controlled tech monopoly (Alphabet/Google). What observers saw at the inauguration was how an unprecedented concentration of capital and corporate control in Tech publicly displayed its alliance with the far-right, authoritarian politics of Trumpism. But how have billionaire Tech founders gained control of tech firms to be in a position to modify, leave on or shut down satellite communication services (e.g. Starlink run by SpaceX), the predominant internet search engine (Alphabet), or various social media services such as WhatsApp (Meta)? The answer is the proliferation of a particular corporate governance structure separating shareholder ownership and control based on dual-class shares in US Tech since the dotcom. Dual-class shares grant a fraction of shareholders—that is, insiders including founders and venture capitalists (VCs)—superior voting rights to exert a certain degree of control over privately held and publicly listed corporations (Seligman 1986). This is demonstrated by the cases of Alphabet and Meta, where founders Larry Page and Sergey Brin (combined), as well as Mark Zuckerberg control 51.3 per cent and 57.9 per cent of voting rights, respectively. Dual-class share structures in the US Tech sector are a relatively novel phenomenon and increased dramatically over the last decades (see Fig. 1). While only 15 per cent of the US Tech IPOs in 2012 featured dual-class share structures, this share increased to 50 per cent in 2022 (Ritter 2024).

This article explores how and why dual-class shares became the dominant corporate governance regime in US Tech. The article suggests that to answer those questions, we need to explore the changing dynamics of VC in financing the formation of tech firms. This is because under Delaware General Corporation Law, founder control is typically legally codified in the Certificate of Incorporation established in privately held start-up firms *during* the VC funding process through (1) voting power associated with seats on the board of directors and (2) dual-class share structures with supervoting power instituted in later funding rounds *prior* to the IPO, so that a class of shares with inferior voting power can be sold to outside investors *through* the IPO (Delaware General Corporation Law 2024). To institute supervoting shares requires a majority board vote and shareholder approval to change the Certificate of Incorporation. Since the board of a VC-backed firm is typically comprised of founders and VCs, the negotiations between them are crucial in establishing dual-class shares (see Kirkpatrick 2010: 320–1; Mallaby 2022: 277–8, 343–5, 359–60). Recentering the study of finance to better understand changes in corporate governance in Tech poses a challenge to the existing literature because the concentration of founders' voting control runs counter to the established argument in the literature on VC.

It seems counterintuitive that VCs would give up control to founders. This is because one of the hallmarks of VC investing as "patient capital" with a 5–7 year-long investment horizon (Klingler-Vidra 2016) is supposed to be that VCs, despite being minority equity

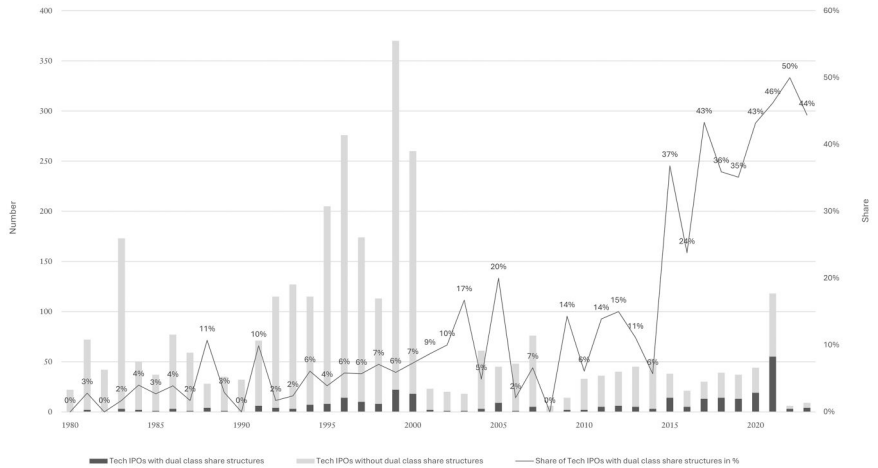


Figure 1. Number of US Tech IPOs with dual-class share structures.

Source: Author analysis based on data from Ritter (2024).

Notes: These data include IPOs with at least $5.00 offer price on NYSE, NASDAQ, and AMEX.

holders, can exercise control when and if required. Cooiman argues that VCs are in a position to exercise "forms of direct and indirect control" over their portfolio companies "that go beyond the typical engagement of equity shareholders" (Cooiman 2024: 595). This includes legal forms via preferred shareholder rights and board seats, so that VCs could dispose of founders and install new CEOs if necessary to protect their investments. But it also includes indirect control via access to networks of other investors, incumbent tech companies (as potential acquirers), bankers and lawyers, and more generally as "gatekeepers" of capital exercising influence over the channel through which finance flows from institutional investors into tech start-ups. But if VCs are in a powerful position vis-à-vis portfolio companies, why would they surrender voting control to founders on a regular basis?

The main limitation of established accounts is that these neglect differences *within* VC by generalizing insights from a pre-dotcom model of VC exercising control over founders without considering how US VC has changed since the early 2000s. This article argues that the key to understanding the changes in VC in the post-dotcom era is the winners-take-all logic underpinning the US market for start-up investing, where a few VC winners continuously make outsized returns while laggard VCs make low returns and follow the winners. This logic enabled a small group of new VC entrants to become winners after dotcom and thus have an outsized influence on how VC came to operate in the era of unicorns between 2010 and 2022. This was possible because new VC entrants managed to get access to the most promising deals by letting founders control the largest tech firms of the 2010–4 exit wave via board seats and dual-class shares in exchange for accepting outside investments. Founder control is the idea that founder-CEOs can stay in absolute voting control of tech firms as long as VCs can anticipate "outsized" returns from exit deals. To outcompete established VC firms, new VC entrants combined founder control as a strategy to win deals with raising larger multi-stage funds for follow-on investments and investing in lower risk, late-stage deals. Because the dual-class exits of 2010–4 were among the most profitable VC

deals of the time (e.g. Facebook's IPO in 2012), new VC entrants established themselves as the new winners and got better access to the most promising unicorn deals during 2010–20, while forcing VC incumbents to adopt founder control to not lose out on the best deals as founders increasingly demanded voting control.

This dynamic was reinforced by the increasingly fierce competition from nontraditional investors seeking returns in US start-up investing in the low-interest environment after the 2008 Global Financial Crisis (GFC) because these investors prioritized short-term gains over proportional shareholder voting rights in unicorn firms. The leading Wall Street investment banks had to largely accept founder control since they fiercely competed to underwrite the largest tech IPOs. As mutual funds and large asset managers moved into private markets—as so-called "crossover" investors—after the GFC by investing in dual-class unicorns, they approved founder control even *before* tech start-ups formally listed on the stock market, thereby lending additional credibility to dual-class IPOs. Despite more investors entering the market for start-up investing, capital concentrated in the hands of top-tier VC firms of which the new VC entrants and early adopters among established VC firms became the dominant fraction in the unicorn era.

The article demonstrates that new VC entrants have played a significant role in the uptake of dual-class share structures of start-up firms and thus played a key role in helping to establish founder control as the new ideology for corporate governance in Tech in the post-dotcom era. Founder control is the winners-take-all imperative underpinning the VC market taken to its logical conclusion in the corporate governance of Tech firms as investors let the "winning" founders of the leading tech firms stay in total corporate control in the post-dotcom era. This matters because the Tech-VC fraction that has come to benefit from founder control since dotcom has not only come to control tech monopolies such as Meta, Alphabet, or SpaceX and the leading VC firms such as Founders Fund, Andreessen Horowitz, and Sequoia Capital, but also increasingly promoted techno-authoritarian political views, illustrated by their support for the second Trump administration.

The article is structured as follows. The next part reviews the literature on the political economy of VC to propose an alternative account of VC that centers on the logic of winners-take-all and the idea of founder control. The third part highlights the mixed-methods approach used to construct the historical narrative of US VC in the post-dotcom era. The fourth part presents the historical account illustrating how the entry of new VC players after the dotcom and changing dynamics of competition within VC after the GFC led to the rise of dual-class share IPOs in the USA. Finally, the article provides a concluding discussion of the findings and highlights avenues for future research.

1. Venture capital, start-up investing, and corporate governance

The relationship between start-up investing and corporate governance has been studied by scholars in political economy, economic sociology, legal studies, and finance and management studies. However, scholars have understood dual-class shares largely as a *separate* phenomenon from VC that has been examined mainly as legal mechanism established via *re*capitalizations of already publicly listed corporations in the 1980–90s to prevent hostile takeovers (e.g. Jarrell and Poulsen 1988) or by focusing on dual-class IPOs while neglecting VCs and founders as increasingly influential actors (Huang 2017; Min Yan 2022).

The established political economy literature has understood VC primarily as a specific type of asset management firm that adopts a high-risk/high-return investment strategy by seeking equity investments into early-stage tech start-ups over mid-to-long investment horizons. As part of the growing literature on asset managers (see Braun and Christophers 2024), Cooiman (2024) argues for the "structural power" of VC managers (the so-called "general partners," or GPs) who occupy an influential position within the "investment chain" vis-à-vis start-up firms by managing capital from institutional investors—such as pension funds, insurance companies, foundations, and endowments acting as "limited partners" (LPs)—against a management fee and carried interest of typically 2 per cent to 3 per cent and 20 per cent to 30 per cent, respectively. Echoed in the literature on "patient capital" (Klingler-Vidra 2016), the main argument of this literature is that structural power gives GPs the capacity to retain some degree of control after investing in start-up firms in exchange for minority equity stakes, enabling them to exert influence over how portfolio companies are run (and by whom). The so-called "lead investors" in private funding rounds are particularly influential because they negotiate deal terms with founders and take board seats, while other VC firms typically participate passively (Shestakofsky 2024: 7).

In other words, the established literature understands the political economy of VC as a story of what can be referred to as the "traditional" model of VC firms. The model is represented for instance by the renowned US VC firm Benchmark Capital: a small asset management firm with a handful of GPs that raises ~$200–500 m funds to build portfolios of 10–20 "early-stage bets" seeking lead investments in the Series A round—and a 7–10 years horizon—while taking board seats in exchange for relatively large minority equity stakes of ~20 per cent (see Konrad 2015). This model goes hand in hand with research highlighting that *in the dotcom era*, VCs tended to hire professional managers to replace inexperienced founders when start-up firms scale in light of potential exits (Hellmann and Puri 2002).

The main limitations of this literature stem from the fact that scholars tend to *generalize* the now outdated "traditional" VC model, which characterized how VC operated during the dotcom era to develop *abstract* political economy accounts of how VC supposedly operates today. This abstract perspective overlooks significant changes in the US VC market that have taken place, particularly since central banks maintained the ultra-low-interest rate environment after the GFC. More specifically, the established literature tends to (a) treat all VCs the same and ignore competition between VCs, particularly from now highly influential "new VC entrants" that formed in the wake of or after dotcom; (b) overlook the increasingly important role of nontraditional investors competing with VCs for start-up deals and the consequences thereof (see Kenney and Zysman 2019; Fan 2022); and (c) neglect the role of founders in shaping start-up firms' corporate governance structures in their own interest.

While abstract political economy accounts of VC have been helpful in illustrating the powerful influence of anticipated exit deals on the VC investment process (Howard 2024) and start-up firms' expansionary trajectories (Cooiman 2024), these accounts implicitly assume that all VC investors and founders are the same. In a similar vein, historical accounts that focus on the limited partnership as a legally encoded "financial infrastructure" (Peters 2024) also assume that *all* VCs and founders—as part of the "alliance of asset owners"—benefit from exit transactions in a similar way. The implicit assumption here is one of perfect competition between VCs on the one, and start-ups on the other hand. In short, established accounts overlook important differences *within* VC. Tracing those differences matters because not all VCs are equal, nor are

all founders: the dominant actors can exert oversized influence on the dynamics of start-up investing in general.

In fact, the history of US VC is characterized by highly profitable outlier successes in the form of large exit deals such as IPOs or acquisitions by incumbents (Nicholas 2019). Ever since the infamous example of Fairchild Semiconductor, the capital gains realized through exits proved influential in enabling *some* founders and investors to set up new tech firms (e.g. Intel) and VC funds (e.g. Arthur Rock) (Saxenian 1994: 25–7). Through a small number of exits, some early VC firms generated superior returns for *entire* funds, which helped them to establish a track record that facilitated fundraising from LPs going forward and let them charge higher carried interest and management fees than laggard VC firms. The track record also facilitated top-tier VC firms' access to the most promising deals because founders sought investments from the most reputable investors (see Nicholas 2019: Chapter 6). In other words, past investment successes—especially if those were part of period-defining waves of large exits as in the early 1980s or late 1990s—have made future success more likely, which is how some VC firms managed to cement their leading position over time (see Fig. 2). For instance, the top-tier Silicon Valley based VC firms like Sequoia Capital and Kleiner Perkins—both founded in 1972 with early successes including the IPOs of Genentech (Kleiner) as well as Atari and Apple (Sequoia)—went on to profit from major dotcom exits, including Netscape and Amazon (Kleiner) as well as Yahoo and X.com/PayPal (Sequoia) (Mallaby 2022: 170; Nicholas 2019: Chapter 8).

As a result, capital gains have become concentrated in top-tier VC firms, which were able to consistently generate higher returns than laggard firms, which meant that *LPs*

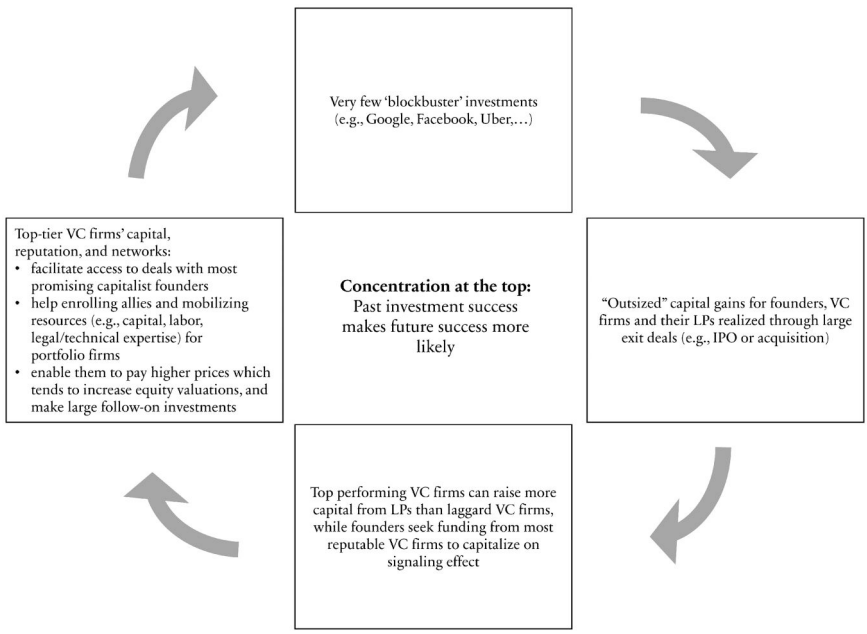


Figure 2. The flywheel effect concentrating capital among top-tier VC firms.
Source: Author analysis.

started to compete to get into newly opened funds of the most reputable GPs (Nicholas 2019: 278–9). That is why the market for start-up investing has become highly concentrated as "a small number of large VC firms hold the vast majority of capital … which can play a disproportionate role in driving where other investors put their money" (Lerner and Nanda 2020: 248–9). But outlier exit deals also proved pathbreaking for *founders* in Silicon Valley who often turned serial entrepreneurs or became investors themselves (Saxenian 1994). As start-up investing is geographically highly concentrated in a few metropoles such as the San Francisco Bay Area and operates "through an interconnected network of personal relationships," it is characterized by a strong herd mentality with many laggards following a few leaders, which often move between roles of founders and VCs (Bahrami and Evans 2000: 176).

Drawing on these insights around (i) the centrality of exit deals for the profits of VC which in turn (ii) define the leading VC firms of a certain period, and (iii) the disproportionate influence of the leading VC firms and founders on the market for start-up financing in general, this article proposes a political economy of VC that focuses on the "winners-take-all" logic which produces disproportionate gains for a small number of top-tier VC firms (and GPs), which are able to define new investment and technology trends that laggards tend to follow. Cooiman (2024) locates the "winners-take-all" logic as a consequence of the "hypergrowth" principle at the level of portfolio companies, which allows the author to point towards how hypergrowth enables some start-up firms to dominate certain markets by winning over competitors (e.g. Uber). In contrast, this article centers the "winners-take-all" logic as the core dynamic of how US VC has come to operate post-dotcom. Crucially, this logic underpins the investor, founder, *and* start-up sides of the US market of start-up investing: a few winning VC firms reap most of the returns of the sector, while a few winning tech start-ups reach dominant or even monopoly positions in particular markets. The winning founders—who are often already multimillionaire or billionaire serial entrepreneurs—of the leading start-ups can further secure founder control—for example, through nominating enabling board members and/or by instituting dual-class shares—because investors associate them *and* the start-ups they run with the potential of outsized capital gains. That is why the winners-take-all logic facilitates the uptake of founder control in VC-backed start-ups and ultimately reinforces the concentration of capital at the top.

By adopting a historical approach that attains to the changes in US VC over the last two decades, the article traces the formation of new VC entrants against the backdrop of the period-defining exits waves of 2010–4 and 2017–22 that generated "outsized" capital gains for founders and VCs in the post-dotcom era. By doing so, it foregrounds the agency of these key actors within US VC in advancing founder control in their own interests (see Knafo and Dutta 2020; Peters 2024). This approach highlights how the uptake of dual-class shares in unicorn firms was a consequence of new VC entrants winning deals against established VC firms, while founders followed in the footsteps of early founder-controlled tech firms such as Google and Facebook to demand control over "their" unicorn firms.

2. Methods and data

This article deploys a mixed method approach combining historical analysis with descriptive statistics and qualitative data from primary and secondary documents to develop a historical narrative account of US VC after dotcom.

To identify dual-class and founder-controlled tech firms as well as the dominant VC and nontraditional investors, this article draws PitchBook data, incl. the 460 largest exit deals of US-based VC-backed tech firms (2010–23), and 669 US Tech unicorn firms (as of December 2023). I analyzed all private funding rounds for all firms consisting of 29,368 US investments made by 13,179 investors (see Supplementary Appendix 2). I further collected and analyzed eighty-five primary and thirty-two secondary documents (see Supplementary Appendices 2 and 3).

I identified founder-controlled VC-backed tech firms based on the tech IPOs of the exit deals from PitchBook and used SEC filings to examine their shareholder composition and voting rights distribution before and after the IPO (see Supplementary Appendix 1, Table 8). The data analysis differentiates between two VC exit waves in the post-dotcom era to trace the uptake of dual-class share structures and rise of founder-controlled firms (see Fig. 3). After Google's IPO in 2004—which was the first VC-backed dual-class tech IPO enabling founder-control—I identified the first major exit wave between 2010 and 2014, which comprised mostly dual-class social media and web 2.0 firms with Groupon's IPO in 2011 being the largest tech IPO since Google. The second exit wave—which contained the major unicorn firms that formed around 2010 such as Airbnb and Uber—was from Snap's IPO in 2017 until 2022 before the US IPO market froze due to increasing interest rates.

The article argues that the rise of new VC entrants that pushed for founder control and the enormous profits realized through the dual-class IPOs of the first exit wave as well as the growth of founder-controlled Big Tech such as Alphabet and Meta had a significant influence on the uptake of dual-class share structures among VC-backed unicorn firms of the second exit wave. Based on primary documents including books, articles, and blog posts authored by VC and founders as well as secondary documents in the form of historical accounts of US VC and Tech, I identified a small group of new VC entrants founded *after* the dotcom, which were among the main financiers of dual-class firms in the first and second exit waves (see Supplementary Appendix 2).

3. The rise of founder control as corporate governance ideology in US Tech

3.1. Google's challenge to the established VC wisdom of replacing founders with managerial CEOs

It took over a decade after the dotcom crash in 2002 for founder control to cement itself as the new ideology for corporate governance in US Tech. Before, VC investors often replaced founders with externally hired, experienced CEOs who were seen as more capable of scaling firms towards the IPO (Hellmann and Puri 2002). Bob Knox of Cornerstone Equity Investors summed up the guiding rationale of investors as follows: "Founding entrepreneurs often do not have the skills, interest, or inclination to be the CEOs that will go through the next growth stage. Those skills are the skills we would associate with growth managers, or a professional manager, which is the kind of management that we more frequently encounter or recruit" (quoted in Gupta 2000: 39).

However, in the aftermath of dotcom, VC investor preferences started to change from replacing founders with an external CEOs *to* keeping founders *as* CEOs. Founder-CEOs—especially if they were 20-year-old university drop-outs—came to be seen as the antidote to self-serving manager CEOs of the "old economy," because they would know their company

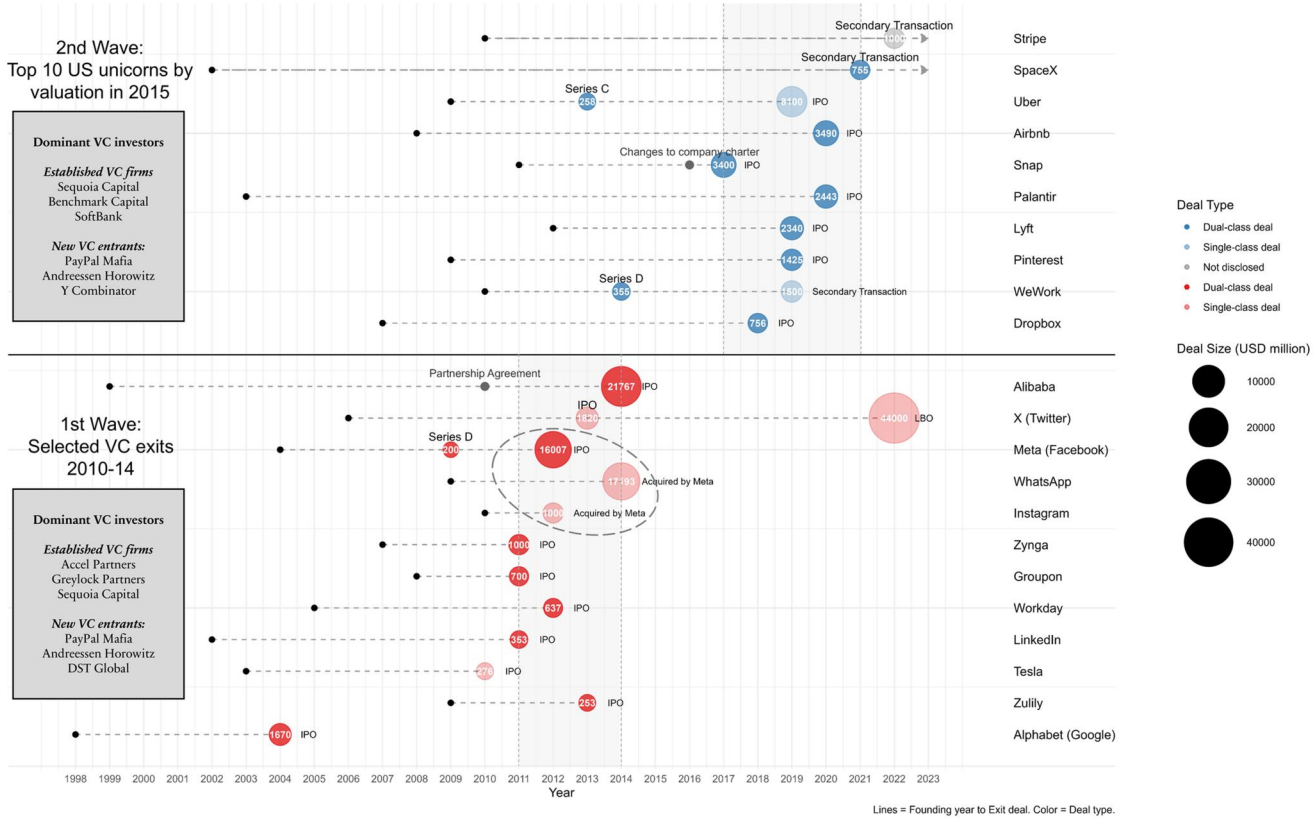


Figure 3. Timeline of first and second VC exit waves with dual-class US Tech IPOs in the post-dotcom era.

Source: Author analysis based on PitchBook data.

Notes: The Chinese firm Alibaba was added for illustrative purposes only. Dominant VC investors were identified according to the (1) total number of lead investments, (2) total number of companies backed, and (3) total number of investments (in that order), see Tables 6 and 7 in Supplementary Appendix 1.

Note on Facebook's IPO: Accel, DST, and Thiel held shares worth $7.7bn, $5bn, and $1.7bn on the day of Facebook's IPO, respectively, with Breyer also owning a $445m stake due to a separate, personal investment. Zuckerberg's 22.5 per cent stake was worth $25bn, while Andreessen and Hoffman held $250m and $180m worth of Facebook shares.

and technology best, and focus on long-term investments in innovation. Furthermore, leaving founders in control of tech start-ups after the IPO would provide insulation from short-term stock market pressures, present a substantial legal mechanism to prevent hostile takeovers, and help to ensure shareholder value creation in the long term (see Google Inc 2004b: i).

Google's dual-class IPO in 2004 was characterized by both the old and new VC wisdom of corporate governance in Tech. Google's founders Larry Page and Sergey Brin (23 and 25 years old, respectively, when they founded the firm in 1998) sought to keep control over the search engine and Google Inc. However, they were challenged by two of the most prominent VCs in Silicon Valley at the time—John Doerr, GP at Kleiner Perkins, and Sequoia Capital's GP Michael Moritz—to whom they had previously sold 25 per cent of shares (Mallaby 2022: 183). The VCs convinced Page and Brin to hire Eric Schmidt, who previously was CEO of software company Novell, as CEO in 2001 because they believed that an experienced professional manager had key capabilities that the two young, inexperienced founders lacked:

> It's not saying anything negative about them [Larry Page and Sergey Brin], but I thought we would do a much better job of building a world-class management team if they had a world-class CEO (John Doerr, quoted in Levy 2011: 73)

In exchange for hiring Schmidt, the founders convinced the VCs to permanently institutionalize different share classes to give the founders voting control over Google even after the IPO in 2004 (Levy 2011: 143–57). Google created Class A shares with 1 vote per share, and Class B shares with 10 votes per share. While Class A shares were sold to investors, the founders kept around 32 per cent of Class B shares (Google Inc 2004a), which granted them—after VC investors sold most of their Class B shares—55.6 per cent of voting power in April 2005 (Google Inc 2005). As a result, the founders became the legal authority to exert ultimate control over any decision-making which they deemed relevant, with regard to what technologies Google would develop, and how the emerging monopoly would come to operate and make profits.

Besides leaving founders in control of Google, the implementation of dual-class shares served two other important purposes. First, Google could raise more capital by selling the inferior type of shares through the IPO to finance corporate expansion. Second, the dual-class share IPO satisfied the structural need of VCs to realize capital gains through the exit (Howard 2024), while founders and Google's early workers could cash in their stock options (Levy 2011). Since Google was already profitable the year before the IPO, public market investors perceived little risk when buying into a corporation that they would have no say in the boardroom of corporate decision-making.

3.2. New VC entrants: founder control to compete against established Silicon Valley VCs

In the shadows of Google's IPO, a new group of VC entrants formed, which articulated the core ideas underpinning the principle of founder control as part of their investment strategies to win deals in the most promising tech start-ups in competition with established top-tier VC firms such as Kleiner Perkins and Sequoia Capital. The emerging "new guard" of tech investors—some of which were simultaneously founders *and* VCs, or *founder-VCs*—

rejected the view that VCs could replace founders by hiring external CEOs. Instead, often based on their own entrepreneurial experience, they promoted the idea that founders should be granted autonomy from the typical pressures and oversight of outside VC investors. In other words, founders should control their own start-ups after accepting VC investments and be allowed to "move fast and break things"—as the infamous Facebook motto would later go. This small group included founder-VCs of (1) the so-called "PayPal Mafia," (2) the VC firms Founders Fund, Andreessen Horowitz (a16z), and DST Global as well as (3) the newly formed accelerator Y Combinator (YC). Their view on founder control would later become the dominant ideology for corporate governance in Silicon Valley Tech firms around 2020 as more established VC firms adopted founder control over time to not lose out in the increasingly fierce competition about the best start-up deals, and more founders demanded voting control in exchange for accepting outside investors.

The "PayPal Mafia" emerged as a highly influential group of founder-VCs after amassing capital gains from PayPal's acquisition by eBay for $1.5bn in 2002. This group—including Peter Thiel and Elon Musk (both former PayPal co-founders and CEOs), Reid Hoffman (former PayPal COO), Max Levchin (former PayPal co-founder and CTO), Ken Howery and Luke Nosek (PayPal cofounders), as well as Roelof Botha (former PayPal CFO), Keith Rabois, Scott Banister, and David O. Sacks—formed a dense network to (co-) invest in and founded tech companies (see Soni 2023), many of which had dual-class shares to founder control (see Tables 5–7, Supplementary Appendix 1). The PayPal exit proceeds were crucial for this group to become highly influential angel investors—for example, Thiel invested in Facebook in 2004—and serial entrepreneurs: Musk used the capital to start SpaceX in 2002 and lead Series A, B, and C rounds of Tesla as outside investor, while Hoffman started LinkedIn in 2003.

Their views on corporate governance were influenced by internal conflicts with VCs at PayPal. As an investor in PayPal's predecessor X.com, Sequoia's Michael Moritz helped to replace Musk as CEO in 2000 before opposing Thiel to succeed Musk (Mallaby 2022: 204–7). While their political views varied from techno-authoritarian (e.g. represented by Thiel and lately Musk) to techno-liberalism (Hoffman), Thiel described the PayPal group later as "a tribe of like-minded people" (Thiel 2014: 122) that was hired with the explicit goal of creating a "tightly knit" network that would make them "more successful in our careers even beyond PayPal" (2014: 120). They came to share similar views on the importance of tech monopolization and founder control (see Thiel 2014; Hoffman and Yeh 2018). Thiel articulated first what would become known as the "power law" of VC—the idea that start-ups must seek to become monopolies, and that one investment in a start-up-turned-monopoly can realize outsized returns for the entire VC fund (Thiel 2014: 51–7). Thiel linked the success of tech monopolization (and thus VC investments) directly to "authoritarian" founder control:

> A unique founder can make authoritative decisions, inspire strong personal loyalty, and plan ahead for decades. Paradoxically, impersonal bureaucracies staffed by trained professionals can last longer than any lifetime, but they usually act with short time horizons … . we should be more tolerant of founders who seem strange or extreme; we need unusual individuals to lead companies beyond mere incrementalism. (Thiel 2014: 115)

Importantly, Thiel also advanced an influential investment strategy which would reinforce monopolization and founder control by creating a small portfolio of —five to seven

companies with the aim to back "outlier" start-ups and founders with the greatest potential through consecutive follow-on investments: "VCs must find the handful of companies that will successfully go from 0 to 1 and then back them with every resource" (Thiel 2014: 86). To implement this strategy of highly concentrated bets, Thiel co-founded—together with Ken Howery and Luke Nosek—the VC firm Founders Fund in 2005 to outcompete established VC firms by allowing founders to manage their start-up autonomously without much interference from GPs: in contrast to Sequoia, the firm "pledged to never fire a founder" (Chafkin 2021: 120).

While founders fund promoted the ideal of the contrarian, independent entrepreneurial geniuses that Thiel sought to fund, a16z adopted a different approach to attract founders and win deals through offering coaching and even consulting style services to help founders grow into their managerial roles. a16z was founded in Menlo Park in 2009 by Marc Andreessen (cofounder of Netscape) and Ben Horowitz, both of which resented the way in which established VC firms would exercise influence over founders because of their own experience as co-founders of Loudcloud in 1999, where top-tier VC firm Benchmark Capital sought to replace the young Horowitz as founder-CEO (Mallaby 2022: 290). Resonating with Thiel's founder authoritarianism, Horowitz later expanded the idea of founder control with his recipe for a "wartime CEO," who "neither indulges consensus building nor tolerates disagreements" when the company faces "an imminent existential threat" from competitors (Horowitz 2014: 225–7). a16z built on Thiel's strategy of follow-on investing in winning start-ups led by "strong" founder-CEOs. This went hand in hand with a media offense to promote its brand as the foremost "founder friendly" VC firm—an untypical yet successful strategy to differentiate a16z from Silicon Valley's VC establishment that preferred to remain in the shadows. Finally, a16z saw dual-class share structures as a crucial means to legally secure founder control against the threat of hostile takeovers, as Marc Andreessen put it: "We are encouraging all of our companies to put in place a dual-class share structure if and when they go public … [i]t is unsafe to go public today without a dual-class share structure" (quoted in Lublin and Ante 2012).

Riding the wave of "founder friendliness" like no other VC firm, a16z redefined VC investing over the next decade. Launched explicitly as a counterpart to the small-scale operations of Benchmark Capital—where six GPs focus on small, early-stage investments with small fund sizes—a16z followed a highly opportunistic, stage-agnostic investment strategy to invest in software deals from seed to late-stage and secondary deals, as well as leveraged buyouts (LBOs)—as in the cases of Skype in 2009 and Twitter/X Corp in 2022. Part of a16z's strategy was to raise more capital to increase annual management fees to expand operations. Until 2023, the firm hired over 500 investment, marketing, and operations professionals to support portfolio companies with various services from recruitment to sales, and the firm would grow to over $35bn in AUM by 2023 (versus Benchmark: $1.6bn in AUM).

Founders Fund and a16z were complemented by another newcomer firm that would become highly influential in promoting founder control in and beyond Silicon Valley. Founded in Palo Alto in 2005 as an "accelerator," YC set out to guide founders to become CEOs through a seed investment scheme. YC cofounder Paul Graham and later Sam Altman excessively promoted the idea that young programmers (or "hackers") without managerial experience should skip college to start and run their own companies, with Marc Zuckerberg held up as the prototypical founder-CEO. As Graham observed in 2010: "In

the past, founders rarely kept control of the board through a series A. … Founders retaining control after a series A …, I think in the coming year it will become the norm. … The switch to the new norm may be surprisingly fast, because the startups that can retain control tend to be the best ones. They're the ones that set the trends, both for other startups and for VCs" (Graham 2010). In a similar vein as Thiel—who became a mentor to Altman and later joined YC as part-time partner—Graham stressed that founder control was reserved for the most highly valued tech start-ups. Altman advised founders in 2014 when he became YC president "to keep enough control so that investors can't fire you" (Altman 2014).

3.3. Facebook and the exit wave of 2010–4 as a catalyst for founder control

As the first VC-backed and fully founder-controlled US Tech company, Facebook served as a catalyst for founder control in Silicon Valley because of the massive profits that investors realized through its IPO in 2012—which was the largest in history at the time—with $16bn in capital raised and a $104bn market cap on the first trading day. Facebook was part of the exit wave of 2010—4 with several high-profile dual-class IPOs which cemented founder control by serving as a model for the "unicorn" firms that would exit between 2017 and 2022 (see Fig. 3).

To establish founder control via dual-class shares, it was crucial for the then 19-year-old Zuckerberg to remain in control of Facebook's board of directors while raising funds from VCs. Facebook's then-President and Napster founder Sean Parker—who was fired as CEO of his previous company Plaxo by Sequoia and other investors in 2004—played a key role in helping Zuckerberg to secure control of the board via three seats (one held by Parker and two by Zuckerberg) in a board of five when the company first sought outside capital. After investing $500,000 in 2004, Thiel counseled Zuckerberg and backed the young founder's autonomy with his board voting power. After Parker resigned as president in 2005, Zuckerberg inherited his board seat to effectively control the board in addition to Thiel's support (Sengupta 2012). According to Kirkpatrick (2010), Thiel introduced Marc Andreessen to the Facebook founder in 2005. Andreessen "became a close adviser to Zuckerberg," who in turn "immediately took a liking to the tough-minded Andreessen, who never showed the slightest hint of obsequiousness" (2010: 135), and joined as board member in early 2008. Kirkpatrick recalls Andreessen's unwavering support for founder control:

> When I ask Andreessen what he thinks about Zuckerberg's control of the company, he blurts out, 'Oh, that's a good thing.' Only very strong founder CEOs, he says, can build big enduring tech companies. (Kirkpatrick 2010: 320)

After securing board control, Zuckerberg implemented the dual-class share structure to cement his voting power after the $200 m Series D funding round led by the Russian VC firm DST Global in 2009 (Facebook Inc. 2010; see also Letzing 2009). DST's CEO Yuri Milner did not demand any board seats in return (Kirkpatrick 2010: 285; Levy 2020: 270; Mallaby 2022: 276–8). Mallaby (2022) argues that DST helped to establish a new model of "growth equity" investing that encompasses large late-stage investments to finance expansion while letting founders stay in control, sometimes through a combination of dual-class

shares and voting agreements that enabled founders to vote DST's shares in their interests. This model was later replicated by a16z and the hedge fund Tiger Global.

Between 2009 and 2012, DST, a16z, and Tiger Global bought as many shares of Facebook, Zynga, LinkedIn, and Groupon in private markets as possible, including via secondary deals with previous investors. This highly opportunistic hedge fund-type strategy ran counter to the long-term strategy of established VCs. Whereas the latter would carefully pick the best early-stage bets and wait for an exit in 5–7 years, these new VC entrants sought to *get access to deals* to buy into the most promising *late-stage*, lower risk start-ups—such as Facebook and Zynga—only 2–3 years before their anticipated IPOs. a16z raised large *multistage* funds and deployed capital quicker into a higher number of deals. a16z's first two funds produced outstanding multiples (Winkler 2016), directly elevating the firm into the sphere of Silicon Valley's top VCs. Yet, the short-term cash cows were not long-term bets but the Skype LBO in 2009 (Fund I) as well as secondary deals of Facebook and Twitter and a late-stage investment in Groupon (Fund II).

After Facebook's IPO in 2012, founder control gained significant momentum. Commenting on the debate about corporate control in Tech, the *Wall Street Journal* observed "a power struggle under way in Silicon Valley. At stake: Power itself" (Lublin and Ante 2012). However, the more profits founder-controlled tech firms generated for VCs, the more the principle of founder control manifested itself ideologically as the "new normal" corporate governance structures for Silicon Valley's tech firms. The soon-to-become tech behemoth Facebook—controlled by a then 28-year-old—directly and indirectly (through numerous acquisitions of other VC-backed firms such as Instagram for $1bn in 2012) generated vast capital gains for new VC entrants which also profited from other exits of the exit wave of 2010–4. a16z and DST Global reaped gains from investments in Facebook, Zynga, and Groupon (all founder controlled) as well as from Twitter's IPO in 2014, which stood out as one of the few single-class IPOs at the time. As for the "PayPal Mafia," Thiel and Founders Fund (which Sean Parker had joined in 2006) profited from Facebook's and LinkedIn's IPO. Besides being LinkedIn's founder-CEO, Hoffman made various angel investments—often alongside other angel investors among the new entrants such as Andreessen, Thiel, or Sacks—to back founder-controlled firms, such as Facebook, Zynga, and Groupon (see Table 6, Supplementary Appendix 1).

The long-established top-tier Silicon Valley VC firms had to jump onto the bandwagon of founder control in "Web 2.0" start-ups, or risk missing out on some of the biggest investment opportunities in the post-dotcom era to the new VC entrants. Founded in 1983, Palo Alto-based VC firm Accel Partners, which had a long track record predating dotcom, came to accept founder control to get into deals with several social media firms. Jim Breyer, GP at Accel, agreed to let Zuckerberg control the board to win the $12.7 m Series A deal lead in 2005 under intense competition from other Silicon Valley VC firms such as Sequoia (Levy 2020: 108). Breyer became a strong proponent of founder control and stated later in 2012 that 1/3 of Accel Partners' portfolio contained founder-controlled tech firms (Cohen 2012; see also Morgenson 2012). Founded in 1965, Greylock Partners accepted founder control early on with investments in Reid Hoffman's LinkedIn and Groupon, and particularly through leading Facebook's $27.5 m Series B in 2006. Moreover, Greylock's GP Aneel Bhusri founded dual-class firm Workday in 2005, after which Greylock led the firm's Series A, B, C, and D rounds.

Sequoia Capital changed course from the times when Moritz opposed Thiel as CEO at PayPal, helped to fire Parker at Plaxo, and installed Schmidt as outside CEO at Google. Sequoia was not opposed to founder control *per se*—the firm led LinkedIn's Series A round in 2003 and Moritz approved LinkedIn's dual-class share structure as a board member prior to its IPO in 2011 (LinkedIn Inc 2011)—but to the controlling power of inexperienced, young founders. The fact that Sequoia—the leading VC firm globally—jumped onto the bandwagon of backing young founder-CEOs after missing out on Facebook in 2005—because Zuckerberg and Parker rejected the firm in favor of Accel—demonstrates that founder control had become solidified as the new corporate governance norm of the largest start-ups. In 2009, Sequoia invested in and started to systematically back the most promising tech firms backed by YC (Arrington 2009). With the investment by Sequoia—and later by a16z in 2011—YC became a significant force in Silicon Valley's seed investing landscape. Through direct access to deals of YC-incubated firms, Sequoia invested in emerging platform firms such as Dropbox, Airbnb, Stripe, and DoorDash (all founder controlled). As the largest VC-backed acquisition to date, the $17bn exit of WhatsApp—generating up to a 50x return for Sequoia led by GP Jim Goetz (Lawler 2014)—not only reinforced the firm's pole position but also the association between a founder-controlled firm (Facebook) as acquirer generating outsized capital gains for VCs. At the same time, the new VC entrants and entrepreneurs of founder-controlled firms permeated the ranks of established top-tier VC firms, helping to reinforce the new authoritarian corporate governance ideology. Botha joined Sequoia as a GP in 2003 and became managing partner in 2022. Matt Cohler, an early executive at LinkedIn and Facebook, became a GP at Benchmark Capital in 2008. Hoffman joined Greylock as a GP in 2009, while Rabois was hired by Khosla Ventures in 2013.

The highly profitable founder-controlled "Web 2.0" exits between 2011 and 2014 heralded a change of guards in Silicon Valley. Their beneficiaries among founder-CEOs, new VC entrants, and established VCs became the new capitalist elite strata of Silicon Valley (see Supplementary Appendix, Table 4). Breyer and Thiel became the new "kingmakers" of Silicon Valley, and Zuckerberg—who personified founder-control—the new king. In 2012, Forbes—the publisher of the annual Midas List of the best GPs with Breyer taking the top spot for three consecutive years—announced also that newcomers "Marc Andreessen and Ben Horowitz have created the hottest VCs firm in America" (Forbes Staff 2012).

At the same time, public market investors had come to increasingly accept founder control as a common form of corporate governance in Tech. Apple had become the most valuable company globally—widely accredited to the comeback in 1997 of its "genius" cofounder Steve Jobs who was ousted from Apple in 1985 by its CEO and board of directors. His success reinforced the growing "cult of the founder" associated with Silicon Valley's founding CEOs such as Jeff Bezos—named by Fortune the "the ultimate disruptor" and awarded Businessperson of the Year in 2012 after a decade of investments turned Amazon into sustained profitability—Elizabeth Holmes (Theranos), Evan Spiegel (Snapchat), or Adam Neumann (WeWork). Despite pushback from pension funds resenting the end of "shareholder democracy," founder control was winning out as institutional investors in public markets had little choice—they could either buy into highly anticipated tech IPOs, or risk missing out on the next Google. The "fear of missing out" (FOMO) spread from private to public markets. In fact, mutual funds and large asset managers—such as the US American investment firm T. Rowe Price—which act as "anchor" investors in such IPOs

moved into private markets after the GFC by investing in late-stage and secondary transactions of Facebook and other social media firms. Thus, founder control was indirectly approved already by public market investors *before* tech start-ups went public, thereby lending credibility to dual-class IPOs. Scott Kupor (a16z managing partner) declared in *Forbes* in 2013: "Sorry CalPERS, Dual-class Shares Are A Founder's Best Friend" (Kupor 2013).

3.4. Post-2015: founder-controlled monopolies as the new model of VC

Influenced by the post-IPO performance of Google and Facebook, enabling the formation of founder-controlled tech monopolies became the new model for VC between 2012 and 2022. While most of the largest VC-backed tech IPOs in 2017–22 were dual-class (see Table 8, Supplementary Appendix 1), single class, nonfounder-controlled firms became the exception among the largest exit deals.

Taking inspiration from Google, Facebook, and LinkedIn, the founder-CEOs of the "unicorn" firms emerging around 2010 pushed for founder control while seeking outside capital (see Fig. 2 for the highest valued US unicorns as of 2015). New VC entrants were the key enablers. Thiel and Founders Fund backed Airbnb and two of the fastest growing, defense tech start-ups at the time: Palantir—where Thiel was investor, co-founder, and board chair—and SpaceX—led by Musk as founder-CEO. While Tesla went public via a single-class IPO in 2010, Musk would neither make the same mistake as he did at PayPal—where Sequoia and Thiel ousted him as CEO—nor as the Tesla founders Eberhard and Tarpenning—who Musk forced out as the largest outside investor to become Tesla CEO in 2008—when it came to SpaceX, which he kept under absolute founder control (SpaceX 2021). With the growing differentiation of financing options—esp. angel, seed, and growth equity investments, which enabled the extension of the funding timeline—and the uptake of platform business models that could absorb more capital, the new model of VC became investing in "hypergrowing" tech start-ups (Cooiman 2024) to enable the formation of *founder-controlled* tech monopolies.

Due to the success of new VC entrants, established VC investors that were not among the early adopters—for example, Greylock, Accel, and Sequoia—widely accepted founder control to stay competitive in pursuing deals—a VC market environment that was later characterized as "founder friendliness." This group of "late adopters" included VC firms such as Lightspeed Venture Partners, General Catalyst, and Benchmark Capital, all of which led early-stage founding rounds in the second exit wave: founder-controlled unicorns. Three examples demonstrate this: Snap, Uber, and WeWork, all funded by Benchmark Capital as Series A lead investor. At Snap, Benchmark's GP Mitchell Lasky approved of the firm's reincorporation in 2016 to establish a class of supervoting shares for Evan Spiegel and Brian Murphy and a share class with *no* voting rights which the company would sell—as the first firm in US history—through the IPO in 2017 to public market investors (Lee and Dotan 2016).

Even before Snap, Benchmark's GPs Bill Gurley and Bruce Dunlevie used their board seats to approve dual-class share structures at Uber (Series C in 2013) and WeWork (Series D in 2014), where founder-CEOs Travis Kalanick and Adam Neumann sought supervoting rights. The GPs approved the measures not only due to the anticipated outsized capital gains that could be realized through both firms' anticipated IPOs, but also because the VCs were afraid that opposing founder control would represent a detrimental signal to other

founders, thereby risking the firm's future access to the most promising early-stage deals. However, when the realization of anticipated capital gains from the exit was threatened, the implicit agreement between the VCs and founder-CEOs that underpins founder control—that founders can stay in control as long as they deliver outsized returns for VCs—broke down. As the cases of Uber and WeWork demonstrated, the former had to revert to lawsuits, public smear campaigns, and building alliances with late-stage investors (incl. SoftBank) and investment banks to replace the latter once VCs had enabled founder control (Brown and Farrell 2021: 90–2; Fontanella-Khan and Kruppa 2021; Mallaby 2022: 343–5, 359–60).

In other words, founder control reinforces VCs' lock-in position in an investment until the exit—it is a bargain in which VCs trade voting rights for potential capital gains. But Uber and WeWork were rare cases among the highest valued unicorns because investment banks and late-stage investors were also generally in support of founder control to seek profits.

The major Wall Street investment banks—which competed since the 1980s to generate fees from underwriting the largest tech IPOs—accepted founder control. In the post-dotcom era, banks started to invest directly (via equity and debt) in privately-held and founder-controlled unicorn firms to establish potentially highly profitable business relationships prior to the IPO. For instance, Goldman Sachs—which led Facebook's $1.5bn Series E round in 2011 to be in a better position to arrange the firm's IPO in 2012—sought to take the crown of Morgan Stanley as the primary underwriter of Tech IPOs (Massoudi, Espinoza et al. 2019) by becoming one of the largest unicorn investors itself (Goldman made 56 unicorn investments, see Table 2, Supplementary Appendix 1). The relationship between unicorn founder-CEOs and investment bankers was clear: the latter fiercely competed to get a piece of the IPO pie—demonstrated by the fact that large tech firms could reduce the underwriting fees from the standard rate of ~7 per cent to 1.1 per cent (Oran and Kim 2013)—which meant that opposing tech firms' authoritarian governance structures was self-defeating except for rare cases such as WeWork (see Mallaby 2022: 343).

Besides investment banks, other "nontraditional" and late-stage investors were crucial in backing founder-controlled unicorns. In the low-interest rate environment instituted by central banks post-2008, a growing number of hedge funds, PE firms, mutual funds, and other larger investment managers started to channel unparalleled amounts of capital into US Tech start-ups seeking higher yields. The value of tech start-up deals with "nontraditional" investors increased from $16.1bn in 2010 to $268.3bn in 2021 (PitchBook 2022). These investors invested larger sums of capital than their VC counterparts into more mature start-ups at later points in their funding life cycle (see Fig. 5, Supplementary Appendix 1). Among the most dominant "nontraditional investors" were the US hedge funds Tiger Global and Coatue Management, the PE firm Insight Partners, as well as the $98.6 billion "Vision Fund" set up by SoftBank in 2017. Adopting a "pay and spray" investment strategy, Tiger and SoftBank deployed capital quickly and paid high prices to build massive portfolios of equity stakes in loss-making unicorns often close to anticipated exits, which propped up equity valuations. Exemplifying a broader trend among nontraditional investors to remain "passive" start-up investors (see Fan 2022), SoftBank and Tiger typically did not take board seats in exchange for late-stage deals and tolerated founder control (Massoudi and Inagaki 2019; Kruppa and Parkin 2021).

Softbank's founder-CEO Masayoshi Son—who approved of Jack Ma's partnership agreement at Alibaba in 2010 to solidify founder control before Alibaba's IPO (Alibaba Holdings 2013) that resulted in one of the most profitable VC investments of all time (Mishkin 2014)—exemplified the "founders first" approach:

> We identify the entrepreneurs who have the greatest vision to solve the unsolvable … [t]hey need to have the strongest passion. And then we provide the cash to fight. (quoted in Massoudi, Inagaki, and Lewis 2019)

3.5. The "winners-take-all" imperative: the concentration of capital and corporate control

One of the counterintuitive findings of this article is that even though *more* VC firms were formed and more "nontraditional" investors started to invest in a growing number of US start-ups (i.e. an increasing number of investors *and* start-ups), the capital became more (not less) concentrated in a small number of the top VC-backed, founder-controlled start-ups ("unicorns") and top-tier VC firms primarily based in Silicon Valley. Driven by the "winners-take-all" logic, a substantial gap emerged over the last decade between a small group of leaders and the vast majority of laggards among start-ups ("unicorns" vs. other start-ups) as well as VC firms (top-tier vs. other VC firms). In other words, capital became concentrated in fewer hands.

The "winners-take-all" imperative in VC operates through two interlinked mechanisms: (1) Start-ups seek funding from top-tier VC firms because the latter's networks and reputation based on track records of past successes increase the start-up's credibility in the eyes of future investors, tech workers, users, regulators, and others. (2) Once a start-up is deemed "hot" by VCs—that is, if it is characterized by a combination of a platform business model through which investors could anticipate "hypergrowth" (Cooiman 2024), a "strong" founder-CEO such as Brian Chesky (Airbnb) or Sam Altman (OpenAI), and a superior technology such as OpenAI's ChatGPT—most VCs try to invest *but* top-tier VC firms are more likely to get access to deals due to (1). Moreover, reputable early investors (e.g. YC, Sequoia, or Benchmark) serve as investment signals for late-stage and growth investors. The signals of past successes and from "gaining traction" via rapid corporate expansion (e.g. revenue or user growth) in combination with the cult of the founder and fetishization of technologies such as AI (see Kampmann 2024) can kick off a self-reinforcing loop of investor interest fueled by FOMO among investors seeking to buy into unicorn deals even at expensive equity valuations.

Despite the number of VC-backed tech firms in 2023 (13,009) having more than doubled compared to 2010 (5,196) (NVCA 2024a), the capital raised by start-ups became increasingly concentrated in a small but growing number of "unicorn" firms, which increased from 32 in 2010 (Dealroom 2024) to 692 at the end of 2023. Of the total aggregated valuation of VC-backed US start-ups in 2024 (~$4 trillion), unicorns' aggregated valuation accounted for around 68 per cent ($2.7 trillion) (Pitchbook and NVCA 2025). This means that ~5 per cent of start-ups accounted for more than 2/3 of the total aggregated equity valuation (NVCA 2025). Rather than funding 10 start-ups in the same sector competing through tech development and labor exploitation alone, VCs and growth investors channeled billions into few platform firms which fiercely competed through spending more capital on expansion, circumventing regulation, and predatory pricing to gain market share—as

exemplified by the rivalry between ride-hailing platforms Lyft and Uber. Since building a digital platform based on appropriating knowledge, data, and algorithms as intangible assets is capital-intensive (Rikap 2021; see also Kampmann 2024), investors withheld investments from laggards if frontrunner firms had spent billions in capital on the same technology already. As a result, an ever-smaller number of frontrunner "unicorn" firms attracted more capital, which enabled them to outspend competitors to capture a larger market share before seeking potential exits (see Ritter 2022). The fierce competition among investors in the post-GFC era put "unicorn" founders into an increasingly powerful position to shape the corporate governance of start-ups in their favor. It was precisely the "winning" founders of the leading unicorn firms which were able to secure founder control via instituting the legal regime of dual-class shares. At the same time, VC fueled the monopolization of incumbent, publicly listed Big Tech corporations—which systematically invested in and acquired start-ups and their intangible assets to cement their dominant positions (Rikap 2023)—representing a major exit route for VC and other investors.

One of the reasons for capital concentration among VC firms was that the top firms were better positioned to raise more capital from LPs to compete with nontraditional investors *and* to invest in follow-on rounds of winning unicorns at higher valuations. As valuations in early funding stages rose, VCs needed more capital to compete with "deeper pocketed" competitors in late-stage rounds. Established VC firms such as Sequoia and Accel faced a threat that stemmed not only from missing out on lucrative early-stage deals to the "new entrants" (e.g. Founders Fund and a16z), but also from getting bought out by firms such as Tiger Global and SoftBank through large capital injections in late-stages of start-ups that these VC firms had already invested in. The potential late entry of big players who invested over shorter horizons would pose a threat of dilution for early-stage investors.

To compete, some leading VC firms such as Benchmark stuck to their early-stage strategy and small fund sizes. For follow-on investments in winning unicorns, others such as Sequoia, Lightspeed Venture Partners, General Catalyst, and YC imitated a16z to raise substantially more capital for multi-stage and dedicated growth funds from LPs, which in turn sought—in the enduring low-interest rate environment—to allocate more capital to top-tier VC firms due to their track record. In fact, winning VC firms manage a "small subset of outlier funds [that] yield significant returns [i.e. only 16 per cent of funds generated more than 3x invested capital], while the majority of funds achieve comparably modest performance" (British Business Bank 2023: 22). As a result, the top VC firms increasingly distanced themselves from VC laggards. The number of US "mega funds" with fund sizes of >$1bn—which were mostly raised by top firms—increased from three in 2012 and to thirty-five in 2022 (Pitchbook and NVCA 2023). This led to a significant concentration of AUM in the top segment of the US VC market with the top thirty VC firms holding ~$570 billion out of $1.2 trillion in total AUM. This means that of the 3,417 US VC firms active in 2023, the top 0.9 per cent of VC firms controlled around 47 per cent of total AUM. This goes hand in hand with geographical concentration, as eighteen of the top thirty VC firms by AUM are headquartered in the San Francisco Bay Area (see Table 1).

It is of little surprise that founder control became widely accepted in US Tech over the last decade. In the elite networks of Silicon Valley-based leading founders and VCs many laggards follow and imitate the few leaders, who were the major beneficiaries of founder-controlled tech firms such as Facebook, Airbnb, or SpaceX. Under conditions of "herding"—the effects of which were on display in the bank run on Silicon Valley Bank in 2023—whatever strategy produces the

Table 1. Concentration within venture capital: Assets under management of the 30 largest VC firms.

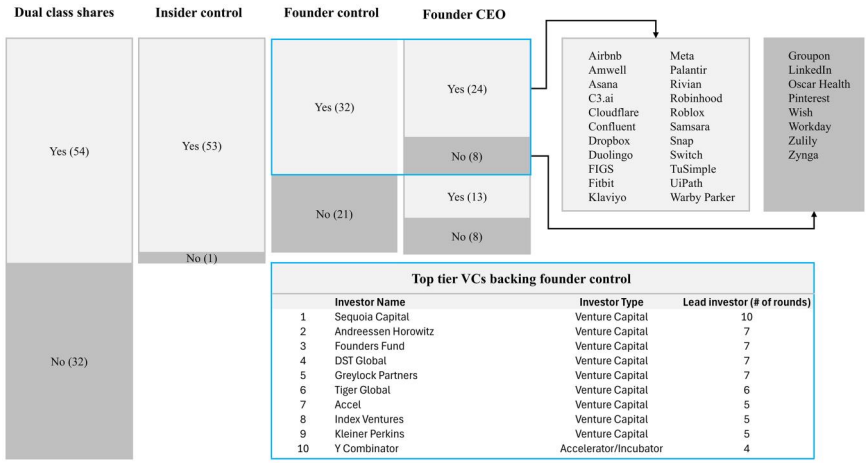
Rank	Name	Headquarter	Year founded	AUM (in $ billion)
1	Sequoia Capital	Menlo Park, CA	1972	85.0
2	Tiger Global Management	New York, NY	2001	75.0
3	Andreessen Horowitz	Menlo Park, CA	2009	35.0
4	General Catalyst	Cambridge, MA	2000	25.0
5	Lightspeed Venture Partners	Menlo Park, CA	2000	25.0
6	New Enterprise Associates	Lutherville-Timonium, MD	1977	25.0
7	Greenspring Associates	Owings Mills, MD	2000	22.0
8	TCV	Menlo Park, CA	1995	21.0
9	Kleiner Perkins	Menlo Park, CA	1972	20.0
10	Bessemer Venture Partners	Redwood City, CA	1911	20.0
Top 10: AUM				353.0
Top 10: Share of total AUM				29%
11	Battery Ventures	Boston, MA	1983	16.8
12	Thrive Capital	New York, NY	2009	16.0
13	Third Point Ventures	Menlo Park, CA	2000	16.0
14	Khosla Ventures	Menlo Park, CA	2004	15.0
15	Deerfield Management	New York, NY	1994	13.0
16	Norwest Venture Partners	Menlo Park, CA	1961	12.5
17	Ribbit Capital	Palo Alto, CA	2012	11.9
18	Founders Fund	San Francisco, CA	2005	11.0
19	Greenoaks Capital Partners	San Francisco, CA	2012	10.4
20	Sapphire Ventures	Austin, TX	2011	10.0

continued

Table 1. *Continued*

Rank	Name	Headquarter	Year founded	AUM (in $ billion)
Top 20: AUM				485.6
Top 20: Share of total AUM				40%
21	Bain Capital Ventures	Boston, MA	1984	10.0
22	GGV Capital US	Menlo Park, CA	2000	9.2
23	Bedrock Capital	Austin, TX	2017	9.0
24	Paradigm (Crypto Fund)	San Francisco, CA	2018	8.7
25	IVP	Menlo Park, CA	1980	8.7
26	Altimeter Capital Management	Boston, MA	2008	8.6
27	Altos Ventures	Menlo Park, CA	1996	7.6
28	Redpoint Ventures	Woodside, CA	1999	7.2
29	Industry Ventures	San Francisco, CA	2000	7.0
30	Highland Capital Partners	Cambridge, MA	1988	7.0
Top 30: AUM (share of total AUM)				568.6
Top 30: Share of total AUM				47%
Total US VC AUM (2023)				1,212.9
Total Number of US VC firms				3,417
Top 30 share of total number of VC firms				0.9%

Source: Author analysis based on data provided by PitchBook and NVCA (2024) Yearbook 2024.
Notes: Data on total AUM of all 3,417 US VC firms for 2023 taken from NVCA (2024) Yearbook 2024. The NVCA's estimate is based on total capital raised through VC funds within the last 8 years. Pitchbook's AUM estimates are based on GP and LP reporting, which typically refers to capital raised rather than the financial valuation of equity shares. According to PitchBook, Accel did not disclose its AUM, while Benchmark Capital's AUM was $1.6bn.



Top tier VCs backing founder control

	Investor Name	Investor Type	Lead investor (# of rounds)
1	Sequoia Capital	Venture Capital	10
2	Andreessen Horowitz	Venture Capital	7
3	Founders Fund	Venture Capital	7
4	DST Global	Venture Capital	7
5	Greylock Partners	Venture Capital	7
6	Tiger Global	Venture Capital	6
7	Accel	Venture Capital	5
8	Index Ventures	Venture Capital	5
9	Kleiner Perkins	Venture Capital	5
10	Y Combinator	Accelerator/Incubator	4

Figure 4. Overview of 86 Tech IPO with voting control and top 10 investors by number of rounds as lead investor (from "Exit sample").

Source: Author analysis based on data provided by PitchBook and financial disclosures.

Notes: Tiger Global, Kleiner Perkins, and Index Ventures also led secondary rounds in later funding/pre-IPO stages which are included in the total count. For Y Combinator, we included in the lead investor count all companies that went through the YC program and the Series C lead by Sam Altman (then-YC President) in Asana.

highest profits will be imitated and widely adopted. The core financiers of funder-controlled US start-ups were the new VC entrants a16z, Founders Fund, and DST as well as the early adopters among the established VC firms—that is, Accel, Greylock, and Sequoia (see Fig. 4 and Table 3, Supplementary Appendix 1).

Yet, the VC-backed concentration of corporate control in the hands of founders goes beyond the institutionalization of dual-class shares. This was on display when Microsoft and Sequoia—alongside other OpenAI investors Thiel, Khosla Ventures, Thrive Capital, and a16z—helped to reestablish co-founder Sam Altman as OpenAI's CEO after the latter was fired by the board in 2023 (Konrad and Jeans 2023). "Altman, used to maneuvering quickly in the opaque world of VC, had so much de factor power" making VCs afraid about losing their investments if the CEO left the firm (Hagey 2025: 7), which demonstrates the well-connected Altman's sway over OpenAI's investors even though he did not have control via supervoting power over the nonprofit (Mathews 2023). Capturing the centrality of the founder in Tech, Thiel put it aptly by stating that Altman is at "the absolute epicentre … of a Silicon Valley zeitgeist" (quoted in Hagey 2025: 4)—which is the zeitgeist of founder control. Perhaps no founder has come to personify this zeitgeist as much as Musk, who became the richest capitalist in the world in 2021. As Tesla CEO and SpaceX founder-CEO, Musk was backed in 2022 by Sequoia and a16z investing $1.2bn as part of the $44bn LBO of Twitter, which Musk took private. The Twitter episode demonstrates that it is not always the original founders who benefit from founder control, but the winners.

Strikingly, it is precisely since the recent VC market *downturn* in 2022–23 that the winners-take-all logic has become most pertinent when LPs doubled down on top-tier GPs.

Only nine VC firms raised more than 50 per cent of total capital in the USA in 2024, with a16z, Thrive Capital, and Founders Fund raising massive growth funds of $7.2bn, $5.5bn, and $4.6bn, respectively, for follow-on investments in their largest portfolio firms such as OpenAI and SpaceX (Bradbury 2024). These two "decacorns" in turn raised their largest funding rounds ever valuing both firms at more than $400bn in 2025. According to a PitchBook analyst, "VC isn't what it used to be. The days of boutique firms elbowing each other aside for the best deals have been replaced by an elite cohort of GPs dictating rules and valuations" (Bradbury 2024). At the same time, the winners can raise capital for new ventures *almost* independently of market conditions—for example, Altman's OpenAI or Musk's xAI—while an increasing number of loss-making VC-backed unicorns without a clear exit strategy take on increasing levels of debt to finance operations to keep afloat. In market downturns, capital further concentrates at the top as the prospects of laggard VC-backed start-ups as well as VC firms are even more uncertain than in market upswings.

4. Concluding discussion: "winners-take-all" and the politics of founder control

This article demonstrated that founder control—the idea that founder-CEOs can stay in absolute control of tech firms as long as VCs can anticipate "outsized" returns—is the product of the winners-take-all logic underpinning US VC. New VC entrants used founder control as a strategy to win the most promising start-up deals. When those turned out to be the most profitable of the first exit wave after dotcom around 2010, founder control—the winning investment strategy—was imitated and became widely accepted as the new corporate governance ideology in the unicorn era of 2014–22. Consequently, many unicorns remained founder controlled after going public, as investment banks and public market invested sought to profit from underwriting and investing in the largest IPOs at the time.

Importantly, the uptake of founder control cannot be explained alone by the moral hazard of VCs presumably focusing exclusively on the exit (c.f. Howard 2024: 94). This abstract moral hazard argument ignores the actual historical manifestations of competition in the VC market in the USA: what was an equally important consideration for VCs in granting a founder voting control were the consequences of (not) doing so for the chance of getting access to the best deals *in the future*, perhaps even in a firm started by the same founder. Getting access to deals was facilitated by *signaling* to founders that a VC firm had a track record of "founder friendliness." As "unicorn" founders increasingly demanded voting control in exchange for accepting capital, VCs who used board seats to vote against founders risked losing access to the best deals.

The findings challenge two elements of the main conception of VC in the literature: the structural power and cyclical nature of VC. First, accounts arguing for the structural power of GPs over start-ups in abstract and ahistorical terms miss the mark. Rather, this article suggests 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-à-vis VCs. That is why the claim that founders *in general* have moved into a powerful position vis-à-vis VCs would be equally misleading. In fact, = a so far neglected insight can help us to better understand the political economy of VC: the concentration of capital and corporate control driven by the "winners-take-all" logic that has come to underpin the investor, founder *and* the business

side of VC-driven start-up investing in the USA in the post dotcom era. While Cooiman (2024) located the "winners-take-all" logic on the business side at the level of portfolio companies to highlight how the winners among competing start-ups can reach a monopoly position, this article centers the "winners-take-all' logic as the core dynamic of how the US VC market has come to operate post-dotcom as founder-controlled monopolies—epitomized by Facebook—became the new model for VC. The new VC entrants helped to "imprint"—in Cooiman's terms—an authoritarian corporate governance structure onto tech start-ups. The winners of this model are 'unicorn' tech firms that successfully monopolize a certain market, founder-CEOs who retain absolute control over tech monopolies (and often become billionaires through unrealized capital gains), and top-tier VC investors realizing "outsized" capital gains through exit deals—be it dual-class IPOs or acquisitions by incumbent tech companies.

Second, the fact that exit waves reinforce the concentration of capital and corporate control at the top calls into question cyclical readings of VC as recurring investment bubbles (e.g. Perez 2009; Goldfarb and Kirsch 2019). The story of "booms and busts"—which neglects the "winners-takes-all" logic and resulting trend of capital concentration—has misleadingly been used to characterize the unicorn bubble as deflating since the heights of the exit market in 2021–2. This analytical lens cannot account for path dependencies in VC and Tech more broadly. Peters (2024) stressed this important point when tracing the history of how the GP-LP relationship was legally codified to argue that the latter represents a durable, financial infrastructure that helped to create economic inequalities. The insight that this article adds to this is that path dependencies in VC do not stem from the LP as a legal instrument alone, but from exit waves that (1) reinforced the concentration of capital via outsized capital gains and (2) concentrated corporate control in the hands of few winners. In fact, what is often referred to as VC-fueled "tech bubbles" should be understood as exit waves that tend to reinforce capital concentration at the top. In other words, the driver of path dependence in VC is the winners-take-all imperative through which past investment successes beget future success, and capital is attracting ever more capital. This resonates with capital concentration trends in alt-finance—for hedge funds, see Sgambati (2024)—as well as among Tech incumbents (e.g. Rikap 2021). Regardless of fluctuating investment flows into start-ups, the VC-Tech sector features *already* substantial levels of concentration in capital and corporate control, which underpin the power of the capitalist elite fraction at the US Tech-Finance nexus.

Two major issues warrant further investigation. First, the link between VC, capital concentration through exit deals, and exploding wealth inequalities urgently requires further research. Due to the winners-take-all logic, a small stratum of tech billionaires and multimillionaires has formed at the top of the hierarchy in US start-up investing, where the boundary between investors and founders has become increasingly blurred. Founder-VC tech billionaires such as Elon Musk, Peter Thiel, Reid Hoffman, Jeff Bezos, Larry Page, Sergey Brin, Mark Zuckerberg or Sam Altman founded and invest in start-ups as angel investors or through their VC firms, family offices, foundations, or directly through founder-controlled tech conglomerates. At the top, US venture capital has become an insider game of tech billionaires profiting from funding each other in the opaque, largely unregulated world of "private finance" by drawing in capital from around the globe for their own benefit. While it seems clear that—in the aggregate—the steadily increasing concentration of capital and corporate control at the US American Tech-Finance nexus is

unparalleled, how the power of this tech elite fraction operates through VC and more broadly how financial profits are systematically redistributed to the top via private financial markets is still poorly understood.

Second, the article suggests a link between corporate authoritarianism in US Tech which originated in US VC, and political authoritarianism—an important issue that requires further research. The proliferation of authoritarian corporate control poses a profound political question because the small fraction of new founder-VCs at the helm of US Tech—the business of which has been inextricably linked to the development of advanced digital technologies for surveillance and social control on an unprecedented scale—has come to increasingly promote techno-authoritarian politics that go hand in hand with increasing investments in military tech (Schwarz 2025). What is called for is a systematic historical exploration of the various links between the Tech-VC fraction and Trumpism that goes beyond the direct financial and political support of Musk, Zuckerberg, Thiel, Andreessen, and other tech billionaires for the second Trump administration in 2024–5. The more general issue to be explored here is the problematic of the capitalist state and its relations to VC and Tech. For instance, we need to better understand the strategic attempts of Tech as the now dominant class fraction to shape the foundations of the US state and the operations of its apparatuses in its interest. Exploring these two issues is not only of scholarly value but indispensable to better understand the concentration of capital and power at the US Tech-Finance nexus to develop political counter-strategies for liberatory purposes.

Acknowledgements

I would like to thank the editors and three anonymous reviewers as well as Stefano Sgambati, Paul Langley, Cecilia Rikap, David Pinzur, Judy Wajcman, Nils Peters, Tim White, and Eva Spiekermann for their encouraging and helpful feedback. Based on research conducted for my PhD at the LSE, I presented previous versions of this article at the SASE 2024 Annual Conference, the "Capitalization and the Start-Up Economy" workshop at the University of Geneva in May 2024, and the "Society[ies] in Crisis" conference hosted by the LSE Sociology Department in November 2022.

Supplementary data

Supplementary data is available at *SOCECO Journal* online.

Funding

None declared.

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