World Journal of Advanced Research and Reviews
eISSN: 2581-9615 CODEN (USA): WJARAI
Cross Ref DOI: 10.30574/wjarr
Journal homepage: https://wjarr.com/

(REVIEW ARTICLE)

IPO SHOCK AND EMPLOYEE WELL-BEING: THE ROLES OF CEO COMMUNAL LEADERSHIP AND MANAGERIAL DISCRETION

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World Journal of Advanced Research and Reviews, 2026, 32(02), 812–817

Publication history: Received on 03 October 2026; revised on 14 November 2026; accepted on 16 November 2026

Article DOI: https://doi.org/10.30574/wjarr.2026.32.2.2879

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ABSTRACT

An initial public offering (IPO) is one of the most consequential transitions in a firm's life cycle, yet research has largely treated its human cost, the deterioration of employee well-being, as an unavoidable by-product of going public. This article develops a conceptual model that treats the IPO as a systemic shock to job demands and job resources and asks: How does going public relate to employee well-being, and how do the CEO's leadership orientation and the discretion available to the CEO shape this relationship? Integrating Job Demands-Resources (JD-R) theory, upper echelons theory, and the managerial discretion literature, three propositions are offered in this study. First, going public is negatively related to employee well-being. Second, a CEO's communal leadership orientation functions as a firm-level job resource that buffers this relationship. Third, the buffering effect of communal leadership depends on managerial discretion and is stronger when the CEO has the latitude to act on relational priorities. The article seeks to advance JD-R theory, strategic leadership research, and research on IPOs, and it offers guidance for boards and investors managing the IPO transition.

Keywords: Initial Public Offering, Employee Well-Being, CEO Communal Leadership, Managerial Discretion, Upper Echelons Theory, Job Demands-Resources Theory, Conceptual Framework

1 INTRODUCTION

An initial public offering (IPO) is arguably one of the most significant and disruptive events in a firm's life cycle. While shifting from private to public ownership expands a firm's access to equity capital and enables rapid market expansion (Babina et al., 2025; Bernstein, 2015), it simultaneously subjects the organization to intense scrutiny from external stakeholders (Bradshaw, Drake, Pacelli, & Twedt, 2019). Viewed through the lens of Job Demands-Resources (JD-R) theory, this transition destabilizes the internal workforce by abruptly escalating job demands while stripping away critical job resources (Demerouti et al., 2001). After going public, firms must respond to a broad coalition of regulators, investors, and financial analysts who prioritize quarterly earnings and operational efficiency (Certo, 2003; Pollock et

al., 2010). To navigate these pressures, organizations frequently undergo internal transformation: adding hierarchical management layers, reducing spans of control, and pivoting toward rigid, efficiency-driven routines (Bradshaw et al., 2019). By eroding individual autonomy and sharply increasing administrative burdens (Mai, 2024), this structural shock can deteriorate employee well-being and threaten the very human capital that fueled the firm's pre-IPO success.

While prior studies emphasize the negative impacts of post-IPO structural and financial changes, the role of internal strategic leadership in mitigating this organizational shock remains underexplored. Strategic management and finance research has predominantly viewed IPOs through a macro-structural lens, focusing on market valuation, governance changes, and financial performance (Babina et al., 2025; Ritter & Welch, 2002). In doing so, it has largely treated employee burnout and cultural degradation as an unavoidable friction cost of going public (Bernstein, 2015). This perspective discounts internal organizational agency and leaves open how leaders actively manage the human element of an IPO transition. Research on strategic leadership and research on IPOs have also developed largely in parallel, and JD-R theory has rarely been applied to firm-level events or to the role of top executives.

The purpose of this article is to address this gap by developing a conceptual model of how going public affects employee well-being and under what conditions the CEO can buffer that effect. Drawing on complementary theoretical perspectives, JD-R theory (Demerouti et al., 2001), upper echelons theory (UET; Hambrick & Mason, 1984), and the managerial discretion literature (Hambrick & Finkelstein, 1987), this study seeks to answer the following question: *How does going public relate to employee well-being, and how do a CEO's communal leadership orientation and managerial discretion shape this relationship?*

Building on UET, it argues that the CEO acts as a sensemaker and a strategic filter during the turbulence of an IPO. As the public market pushes the firm into a "hyper-agentic" state focused on aggressive financial targets and tight monitoring, a CEO with a communal leadership orientation, one that prioritizes interpersonal warmth, relational transparency, and employee development, can serve as a counterweight and help maintain relational stability. However, a CEO's protective power does not operate in a vacuum. It is contingent on managerial discretion, the structural latitude afforded to the executive to act on such priorities (Hambrick & Finkelstein, 1987). The IPO introduces a paradox: the firm gains financial capital, but intense external scrutiny may strip the CEO of operational autonomy.

This article defines communal leadership as a CEO orientation that emphasizes caring for others, collaboration, relational transparency, and employee development, in contrast with an agentic orientation that centers on personal goals, achievement, and task efficiency (Abele et al., 2008; Bakan, 1966; Trapnell & Paulhus, 2012). Employee well-being is treated as the organization-wide climate that results from the balance between job demands and job resources, rather than as an individual-level outcome. CEO is the focus of the study because the CEO sits at the strategic apex of the firm and is the leader whom employees most readily perceive as a proxy for organizational support (Berson et al., 2008).

The article proceeds as follows. The next section reviews how going public reshapes job demands and resources and develop a proposition on its relationship with employee well-being. It then draws on UET to theorize CEO communal leadership as a buffer and introduces managerial discretion as a boundary condition. The propositions are integrated into a conceptual model (Figure 1), followed by a discussion of the article's theoretical contributions, practical implications, limitations and future research suggestions.

2 THEORETICAL BACKGROUND AND PROPOSITIONS

2.1 Going Public and Employee Well-being

An initial public offering represents a fundamental strategic event in a firm's life cycle and functions as a "double-edged sword": it provides growth capital (Bernstein, 2015) while simultaneously imposing intense external pressures (Bradshaw et al., 2019). On one hand, the transition from private to public ownership increases a firm's access to capital, enabling it to expand operations, invest in new technologies, and compete in new product markets. On the other hand, the firm is exposed to intense scrutiny from a broad coalition of stakeholders, including regulators, analysts, and competitors (Bias et al., 2026; Li & Pinto, 2025).

JD-R theory offers a useful lens for understanding how this shift affects employees. The theory posits that employee well-being results from the balance between job demands, the physical, social, or organizational aspects of a job that require sustained effort, and job resources, which help employees achieve work goals and reduce the costs of those demands (Demerouti et al., 2001). Although JD-R theory is typically applied to job- and team-level conditions, its logic extends to the firm level when an organization-wide event changes the demands and resources of the whole workforce at once.

An IPO abruptly increases job demands by pushing the firm into a "hyper-agentic" state focused on aggressive financial targets and tight monitoring. To meet stringent regulatory requirements and the expectations of public market investors, firms frequently undergo internal transformations: adding hierarchical management layers, creating smaller spans of control, and pivoting toward rigid, formalized routines (Bias et al., 2026; Bradshaw et al., 2019). The result is a high-intensity environment characterized by heavier administrative burdens and the pressure of constant reporting on profit and growth. At the same time, the transition often erodes job resources that were inherent to the firm's private state. The shift from a flexible private entity to a formalized public corporation tends to reduce spans of control and erode individual autonomy (Bradshaw et al., 2019). This erosion is particularly detrimental because autonomy is a primary resource that allows employees to cope with rising work pressures.

When the "IPO shock" escalates job demands, through external scrutiny and rigid efficiency, while stripping away resources such as flexibility and autonomy, the expected psychological consequence is burnout and a deterioration of overall employee well-being. For the internal workforce, then, the structural and cultural costs of going public may outweigh the perceived benefits of market expansion. This reasoning leads to the first proposition:

2.2 P1: Going public is negatively related to employee well-being.

2.2.1 CEO Communal Leadership as a Buffer

Upper echelons theory posits that a firm's strategic responses and internal environment are shaped by the characteristics, beliefs, and values of its top executives (Hambrick & Mason, 1984). Building on this logic, a CEO's communal leadership orientation weakens the negative relationship between an IPO and employee well-being, because the CEO's leadership buffers the effects of going public. Following an IPO, employees are likely to feel less satisfied because of heavier regulatory burdens, changes in internal culture and structure, new layers of monitoring, and the pressure of reporting profit and growth to external stakeholders (Li & Pinto, 2025).

This paper distinguishes between agentic and communal leadership orientations as drivers of organizational climate. Agentic traits focus on personal goals and motives, whereas communal traits focus on integrating oneself into the larger social group by caring for others, establishing relationships, and pursuing common goals (Abele et al., 2008; Bakan, 1966). Communal individuals seek meaningful relationships and foster a sense of belonging (Trapnell & Paulhus, 2012). Research on leadership suggests that communal traits benefit both leaders and their followers by enabling more effective leadership styles (Rosette & Tost, 2010).

As the IPO environment forces the firm into a "hyper-agentic" state, the CEO's leadership orientation becomes a critical filter for how the firm treats its human capital (Hambrick, 2007). Because employees perceive support from the CEO as a proxy for organizational support (Berson et al., 2008), communal traits can play a key role in buffering the effects of a shocking event such as an IPO. In JD-R terms, a communal CEO's relational transparency, empathy, and employee-focused behavior act as a firm-level job resource that offsets part of the added demands and the lost autonomy. Such behavior is collaborative, empathetic, and relation-focused (Zyung, 2025). Thus, this argument suggests the second proposition:

2.3 P2: A CEO's communal leadership orientation moderates the relationship between going public and employee well-being, such that the negative relationship is weaker when the CEO's communal leadership is higher.

2.3.1 Managerial Discretion as a Boundary Condition

While a communal leadership orientation provides the motivation to protect employees, whether that motivation can be realized depends on managerial discretion, defined as the degree of leeway or "latitude of action" executives have in making strategic choices for the firm (Hambrick & Finkelstein, 1987). Firm behavior and strategic initiatives depend on the degree of discretion available, which may be "totally outside the control of its top managers, completely within their control, or more typically somewhere in between" (Finkelstein et al., 2009, p. 26). The greater the managerial discretion executives possess, the more significant their influence on organizational outcomes becomes (Wangrow et al., 2015). Indeed, the extent to which a CEO can translate communal values into protective organizational practices is contingent on this discretion.

In the wake of an IPO, intense external scrutiny and structural rigidity may create a low-discretion environment that forces even the most communal CEOs to conform to short-term, agentic performance pressures (Guiso et al., 2015). Such constraints restrict the authority to sustain employee-focused investments or maintain relational stability. Conversely, high-discretion contexts, characterized by flexible governance or fewer industry constraints, provide the strategic flexibility a CEO needs to enact relational priorities that protect employee well-being during the transition. The buffering power of a communal orientation should therefore be strongest when the CEO has sufficient latitude to act on it. This leads to the third proposition:

2.4 P3: Managerial discretion moderates the buffering effect of a CEO's communal leadership orientation on the relationship between going public and employee well-being, such that the buffering effect is stronger when managerial discretion is high.

2.4.1 Conceptual Model

Taken together, the three propositions form an integrated model of IPO shock, leadership, and employee well-being. The model begins with the IPO as a systemic shock that raises job demands and removes job resources, which lowers employee well-being (P1). It then positions the CEO's communal leadership as a firm-level job resource that offsets part of this imbalance (P2). Finally, it specifies managerial discretion as a second-order boundary condition: communal orientation supplies the *motive* to protect employees, and discretion supplies the *means* to do so (P3). Figure 1 depicts the model.

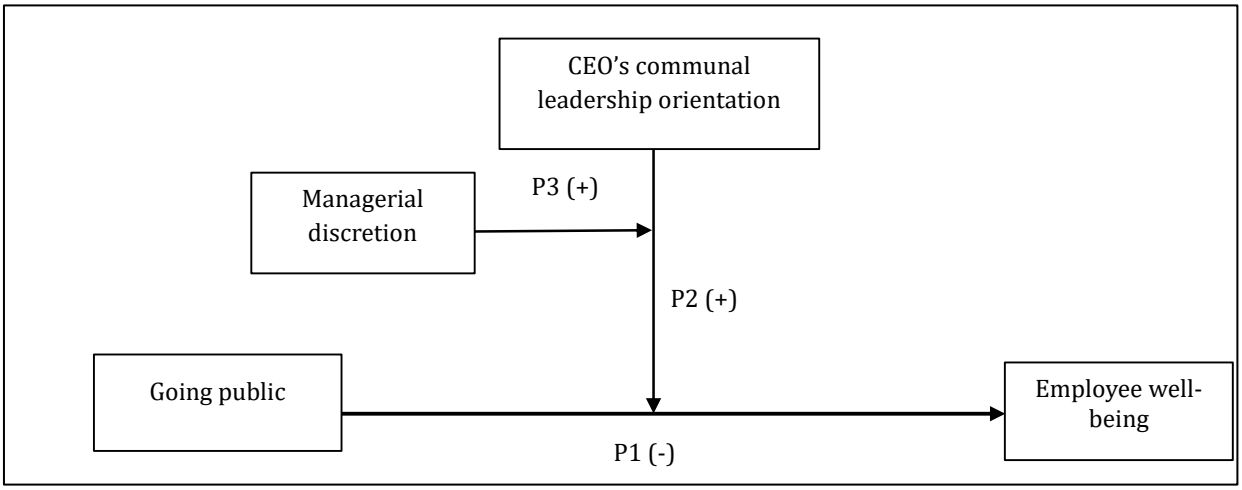


Figure 1: The Conceptual Model

3 DISCUSSION

3.1 Theoretical Contributions

The article makes three contributions. First, it advances JD-R theory by elevating its application to the strategic apex of the firm. Traditional JD-R research focuses on micro-level workplace conditions and interventions (Bakker & Demerouti, 2007). By conceptualizing a major financial transition as a systemic, organization-wide escalation of job demands, the model bridges the macro-micro divide. It also extends the boundaries of JD-R by positioning a top executive's behavioral orientation, specifically a communal leadership orientation, as a firm-level job resource that can buffer macro-environmental shocks.

Second, the article advances research on IPOs and strategic leadership by shifting the analytical focus from external financial outcomes to internal human capital dynamics. Prior research has largely treated the deterioration of employee well-being during an IPO as an unavoidable cost of going public (Babina et al., 2025; Bernstein, 2015; Li & Pinto, 2025). The model challenges this assumption by introducing the CEO as a filter against the external pressures and structural disruptions inherent to the IPO process. By centering on an actual communal leadership orientation rather than on demographic proxies such as gender, it suggests that relational, transparent, and employee-focused behaviors, enacted by executives of any demographic background, are strategic tools for navigating organizational shocks.

Third, by integrating managerial discretion as a boundary condition, the model specifies the structural limits of executive influence. A CEO's communal orientation does not operate in a vacuum; its protective power is contingent on the latitude afforded to the executive. The model thus highlights the interplay between an executive's relational priorities and the managerial capacity to act on them during high-stakes organizational transitions.

3.2 Practical Implications

Beyond its theoretical advancement, the model offers insights for boards of directors, investors, and top management teams navigating the IPO transition. First, it suggests that human capital degradation should not be accepted as an inevitable by-product of going public. Boards preparing for an IPO should recognize that an exclusive focus on satisfying external financial stakeholders can degrade the internal organizational climate, leaving employees disconnected and lacking organizational support. By selecting or developing CEOs who exhibit a communal leadership orientation,

characterized by relational transparency and employee-focused communication, firms can deploy a strategic buffer against the deterioration of employee well-being.

Second, the model is a cautionary note on post-IPO governance. Placing a communal CEO at the helm is insufficient if that CEO is immediately stripped of structural autonomy. If the public market imposes extreme monitoring and rigid efficiency mandates that eliminate managerial discretion, the CEO's ability to protect the workforce is neutralized. To preserve the innovative culture and human capital that made the firm successful as a private entity, governance structures should grant the CEO the latitude to prioritize employee well-being alongside quarterly financial targets.

3.3 Limitations and Future Research

While this conceptual article offers valuable insights, it also has several limitations that point to opportunities for future research. First, the conceptual model and propositions require validation through quantitative or qualitative research methods. Because the model is built on existing theory rather than new data, its propositions should be treated as theoretically grounded expectations, not established findings. Empirical testing would show whether the proposed relationships hold and how strong they are.

Second, the model is limited in scope. It focuses on the CEO's communal leadership orientation and managerial discretion, but other factors may also shape employee well-being after an IPO. These include the top management team, board characteristics, ownership structure, industry conditions, and the firm's pre-IPO culture. Future research could extend the model by examining how these factors interact with the mechanisms proposed here.

Third, the model is developed largely with the U.S. context in mind, where institutional, regulatory, and cultural conditions shape the pressures of going public. These conditions may differ in other countries, so future research should examine whether the proposed relationships generalize across institutional and cultural settings.

Finally, the effects of an IPO on employees are likely to unfold over time. The model does not specify how long the effects last or whether they change as the firm matures in the public market. Longitudinal research would help clarify the dynamics of the IPO shock and the evolving role of the CEO over time.

4 CONCLUSION

An initial public offering is a pivotal strategic transition that reshapes both a firm's external financial standing and its internal working environment, and its success relies heavily on the human capital that must navigate it. The conceptual model developed here suggests that the job demands and external scrutiny generated by an IPO need not lead to an inevitable deterioration of employee well-being. By positioning the CEO as a strategic filter, it proposes that a communal leadership orientation, when supported by sufficient managerial discretion, serves as a vital organizational resource. Navigating the structural shock of an IPO requires executives who are not only financially astute but who also have the discretion and the relational priorities necessary to protect their workforce through the transition. The propositions advanced here should be tested empirically, and doing so would advance our understanding of leadership during organizational shocks.

STATEMENTS ON COMPLIANCE WITH ETHICAL STANDARDS

Disclosure of conflict of interest

No conflict of interest to be disclosed.

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