WHERE DO BOARDS COME FROM?
IMPRINTING EFFECTS OF EARLY STAGE BOARD COMPOSITION AND PERFORMANCE OF VENTURE-BACKED STARTUPS (INTERACTIVE PAPER)

Bret R. Fund
University of Colorado Boulder, fund@colorado.edu

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Principal Topic

Board composition has been shown to influence a number of organizational outcomes (e.g. Dalton, Daily, Ellstrand & Johnson, 1998; Beatty & Zajack, 1994; Hoskisson, Johnson & Moesel, 1994). Most scholars have focused almost explicitly on the degree to which the board is dominated by either “insiders” or “outsiders.” Some research, grounded in agency theory, suggests that the most effective boards are those governed by a greater number of outside directors (e.g. Lorsch & Maclver, 1989; Zahra & Pearce, 1989). A smaller group of scholars have appealed to stewardship theory to argue that a greater number of inside directors can drive better firm performance (e.g. Kesner, 1987; Vance, 1968). The vast majority, if not all, of these studies have examined boards of directors for large public firms. But where do these boards come from? And how, in the case of equity financed startups, does the initial composition of investors who act as board members influence the subsequent composition of the board and performance of the firm? This research aims to answer these questions by looking at investor syndicates for young technology startups that evolve over time.

Methods & Results

We tested our hypotheses using data from the Thomson Reuters VentureXpert database. We first identified all VC funded firms in the software and biotech industries that were founded more than 75 miles from traditional hubs of VC financing over the period 1990-2010. Following prior literature (e.g. Chen et al., 2010) we defined Boston, New York, and San Francisco metro areas to be our three main hubs of VC funding. This resulted in a total of 715 firms in the sample.

Conclusions and Implications

Preliminary examination of the data suggests that the founding conditions of the company in investors selection does in fact influence subsequent board composition and firm performance. These results, although early-stage, contribute to multiple streams of research. First, this research contributes to the imprinting literature by demonstrating imprinting can apply to board composition along with other organization variables. Second, this research contributes to the board composition literature by providing new insights and theory as to how composition choices in the early years of a company can influence future governance decisions and firm performance. Finally, we also contribute to the upper echelons literature by answering the questions of where boards come from.

CONTACT: Bret Fund; fund@colorado.edu; (T): 303-492-1175; 419 UCB, Leeds School of Business, Boulder, Colorado, 80309.