

Watching the Shop from the Front Seat:
Determinants of Venture Capitalists' Representation on the
Board*

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Abstract

Oversight and involvement are essential for a venture capital firm to influence the destiny of the portfolio company. This paper focuses primarily on the venture capital firm's decision to take a formal responsibility through joining the board. Our study uses a large sample of private British companies that received institutional investment between 1999 and 2002. We examine the determinants of board composition and board size. Contrary to common belief, only 30% of the companies have any institutional investor (a "VC") on board. The decision to take a formal board seat is based on the ability to make a contribution: specifically, on the stage of the portfolio firm, the industry fit between the investment and the venture capital firm, and the overall experience of the latter. Two aspects of British venture capital firms inhibit their role in governance. First, firms that are organised as a public corporation (and not as a partnership) refrain from undertaking a formal board responsibility. Second, some of the more established institutions are organised around branches. We find that the VC firms with branches are less involved with board membership. Finally, we report (but are helpless to rationalize) a sizeable number of cases in which a VC firm is represented on the board yet did not invest in the firm.