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## **EXTENDED ABSTRACT**

### **(1) Title and Abstract Page**

#### **Title: Effectiveness of Early Venture Boards: A Grounded Theory Study**

#### **Abstract**

There is evidence that some boards of early investor-backed tech ventures propel them to the next stage of growth, whilst some others leave founders and shareholders question their effectiveness. Although the research on venture boards has grown considerably over the past ten years, very little is still known about what goes on within the boardroom, especially during the crucial early stages of venture development.

This extended abstract paper consolidates the preliminary findings of an exploratory grounded theory study into the director experiences on early boards of investor-backed tech ventures in the UK. Early results offer a fresh take on the relationship model between board attributes, board role and company performance.

**Key words:** early venture boards, board effectiveness

## **(2) Textual Discussion of the Empirical Study**

### **INTRODUCTION**

Over the past decade, ventures, understood as private entrepreneurial firms backed by professional investors, have redefined global industries and become the “crown jewels” of many economies (Gilson, 2003, p.1068, Garg and Furr, 2017). In turn, their boards, situated at the apex of the strategic decision making, have also become “theoretically important” for the field of corporate governance research because of their significant potential to shape the growth performance of the venture (Garg and Furr, 2017, p. 326).

Venture boards are similar to the boards of public firms as they “exist in a complex network of relationships” between directors, systems, processes and their market environment (Pye, 2004, 63). However, they are distinctly different in ways they are composed; their directors have very different attributes and characteristics, and they face very different issues internally and externally (Garg, 2013). More significantly, venture boards change their composition, role and purpose when ventures transition from stage to stage in the venture development lifecycle (Pollman, 2019). Whilst there has been some work on the inner workings of venture boards, there is lack of understanding of boards and their effectiveness during the critical early stages of the venture’s development lifecycle. This extended abstract paper contributes to this gap.

### **METHOD**

This empirical study used classic grounded theory method developed by Glaser and Strauss (1967) to investigate director experiences on early boards of venture-capital-backed tech ventures in the UK. This method allows for the generation of concepts and the theoretical relationship between them directly from systematically collected data (Urquhart, 2013). The method is consistent with research goals to explore a previously little-known area. It is also justified by the lack of the theoretical insight into the inner workings of the early venture boards and studies with inductive methods employed by others (Van Ees, Gabrielsson and Huse, 2009, Minichilli et al 2011, Eisenhardt, Graebner and Sonenshein, 2016). Overall, employing this method allowed for the emergence of novel concepts from the data, and, thus a fresh look on a theoretical model of complex inter-relationships between board attributes, role and venture performance in a specific context of early venture boards.

Data was systematically collected over the period between August 2017-August 2019, via interviews with 24 directors, including Venture Capital investor directors, non-executive directors and founders, together representing experiences of an estimated couple of hundreds of the UK early ventures. Data analysis took place concurrently with data collection in accordance with the procedures of the classic grounded theory method (Glaser and Strauss, 1967, Glaser 1992, 2001). Crucially, the method emphasised the emergence of the theoretical logic from the

data and required the emergent data to be constantly compared to the existing literature as a “fluid movement” allowing for conceptualisation of what is happening and accounting for all variations in data (Isabella, 1990, p.12, Eisenhardt, Graebner and Sonenshein, 2016). The conceptualisations presented in this paper are a result of a complex process of interpretation grounded in data and theory and in accordance with the procedures of the method.

## KEY FINDINGS AND DISCUSSION

Boards operate behind closed doors and early venture boards are no different. Not surprisingly, the data revealed that the central concern of early board directors pertained to achieving exponential growth:

*“Ultimately needing to secure growth in the portfolio company is the most important thing for a VC.”*

*“We are trying to grow huge companies.”*

*“What we are after is not necessarily profit but big growth.”*

*“The growth curve had to hit a certain range.”*

It also emerged from the data that the role of early venture boards is to provide strategic help, as opposed a traditional corporate governance role involving monitoring:

*“Making sure it’s being more strategic, making sure the companies are thinking occasionally strategically rather than just tactically all the time.”*

*“The governance part of it, is really directors and shareholders checking up that the company has been doing a good job and the CEO has been doing a good job.”*

*“If you think corporate governance is your role on the board, you are missing the point.”*

The grounded theory method allowed for the development of a set of concepts encompassing board attributes and board role, and relative to the goal of attaining growth. This set of concepts consists of traditional board attributes, such as board composition, director attributes, board norms and processes (Zahra and Pearce, 1989). It also includes several novel board and director attributes, such as mindset and mindset alignment, which emerged directly from data and were located in the literature on entrepreneurial cognition (Mitchell et.al, 2002, Eggers and Kaplan, 2013).

One clear finding of the study was a complex inter-relationship between the venture board and the venture growth, where growth has emerged as a proxy for traditional measure of company performance during early stages of development. In corporate governance literature, this relationship is at the forefront of enquiry, and it is often depicted by integrative theoretical models linking three essential variables: board attributes, such as board composition, director attributes, board norms, board roles, such as monitoring and strategic help, and company performance, such as

share price or a proxy of it (Zahra and Pearce, 1989, McNulty, Zattoni and Douglas, 2013).

Consolidating the findings, this research offers to extend Zahra and Pearce (1989) work and offers a fresh model of inter-relations and inner workings of early ventures boards. The model includes novel board attributes, as illustrated in red in the Figure 1 below:

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Insert Figure 1 Here  
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Thus, board attributes of early venture boards, such as director attributes, board composition, board norms, and board processes, are a result of internal and external context contingencies. The findings offered two novel board attributes - director mindset attribute (Mitchell et.al, 2002, Eggers and Kaplan, 2013) and alignment of collective director mindset (Wirtz, 2011); as important characteristics that explain variation in board experiences, suggesting these novel attributes are just as important to consider as other director demographic characteristics, including skills and experience.

More significantly, early venture boards prioritise the board role of strategic help, as opposed to monitoring. The extant literature on corporate governance often argues that the undertaking of the board role is determined by board attributes (Zahra and Pearce, 1989). Thus, boards attributes are considered as antecedents of company performance. However, since this study examined nascent and early board experiences, the outcome suggests that the relationship between the board role and board attributes is more inter-dependent. The study proposed that the degree of board fit for the purpose of providing strategic help shapes its ability to optimise for growth. In other words, in early ventures, board role influences the structuring of board attributes. This outcome challenges monitoring as the most important role of the board during the early stages, suggesting that strategic help is a priority. The important implication here is, if boards are structured to monitor, they are not fit for the purpose of strategic help.

The venture outcome has emerged as a set of growth characteristics. In the context of early venture, these growth characteristics are more relevant measures of company performance as opposed to traditional companies' performance metrics. The study revealed that growth characteristics include not only company growth attributes but also Founder Becoming CEO behavioural attributes, thus providing a novel insight into the nature of performance of early ventures.

Significantly, the method allowed to capture variations in each attribute. Consequently, these variations has been interpreted as characteristics of effective and ineffective early boards, as shown in Table 1:

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Insert Table 1 Here  
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Having captured variations and the relationship between director attributes, board roles, board processes, and company performance, the research findings thus explain the differences in director experiences on early venture boards. The key differences appear to arise when the early venture boards are fit for the purpose of monitoring as opposed to providing strategic help.

### **CONTRIBUTION**

This study contributes to the corporate governance literature by proposing a novel integrative model of the relationship between board attributes, board roles and company performance opening up the black box of inner workings of early venture boards. The offered contribution integrates previously distinct perspectives from corporate governance and entrepreneurial cognition, whilst also enriching the research on venture boards. The research extended existing theoretical models of with strong, data-grounded insights (Eisenhardt, Graebner and Sonenshein, 2016).

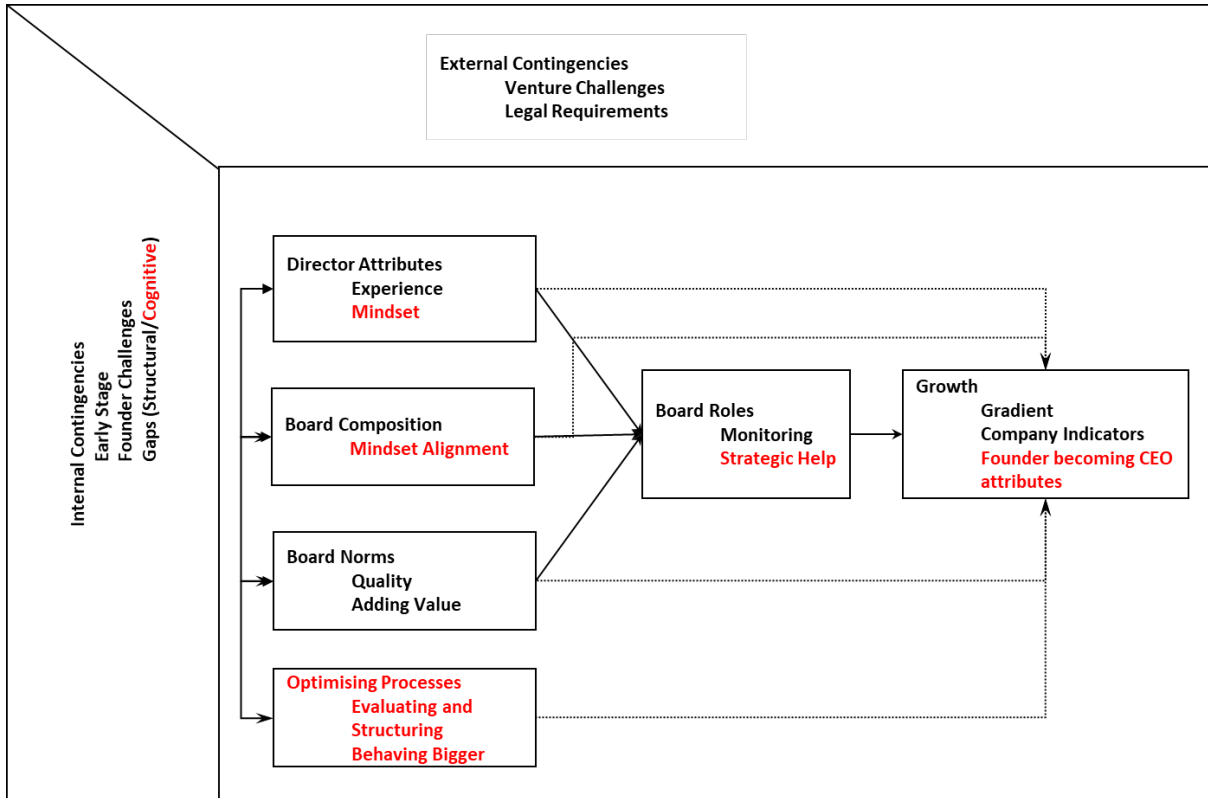
### (3) References, Figures and Tables

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# FIGURES

Figure 1. Model of Board Attributes, Board Roles and Growth



Source: Developed based on Zahra and Pearce (1989)



## TABLES

**Table1. Effective vs Ineffective Properties of Board Attributes**

<b>Property</b>	<b>Effective</b>	<b>Ineffective</b>
Director Attributes	Experience balanced Mindset (positive coachability, receptiveness to advice, susceptibility to value board)	Experience not balanced Mindset (negative coachability, receptiveness to advice, susceptibility to value board)
Board Composition	Aligned Mindset	Misaligned Mindset
Board Norms	Quality of Information High Notice Period Timely Level of Preparation Prepared Strategic Discussion Quality High	Quality of Information Low Notice Period Late Level of Preparation Unprepared Strategic Discussion Quality Low
Optimising processes	Evaluating and structuring against structural and cognitive gaps Behaving bigger – quality added value to meet venture and founder challenges	Evaluating and structuring mostly against structural gaps Behaving bigger – monitoring and number chasing against growth targets
Board Role Growth	Strategic Help Steep and fast Founder becoming CEO behavioural attributes	Monitoring Lack of growth Founder not displaying attributes of becoming CEO

*Developed by the Author, 2020*