

**The decision to adopt a classified board of directors at IPO: The effects of venture capital backing, Sarbanes-Oxley and the premium for good governance**

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ABSTRACT

This paper examines the factors that explain whether or not managers of IPO companies elect to adopt a classified board of directors, a governance arrangement that has an antitakeover effect and is typically considered an indicator of poor corporate governance. In a sample of 795 companies that raised over \$50 million in their IPO between 1996 and 2006, 69% of companies adopt a classified board at the time of IPO. The effect of venture capital backing on the likelihood the company adopts a classified board is positive and large. Conditional on the CEO not being Chairman of the board, the estimated marginal effect of venture capital on the probability the company adopts a classified board is 26 percentage points. When the CEO is Chairman, the marginal effect of venture capital involvement is smaller although still positive at around 6 percentage points. The results are consistent with venture capital involvement, internal governance and monitoring by the market for corporate control being substitute governance devices.