

# PE/VC Board Governance and Corporate Value—A Literature Review Based on the Technology and Internet Industry

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## Abstract

This study examines how private equity and venture capital (PE/VC) firms shape corporate value across the lifecycle of technology and internet companies through changes in board governance. Although many studies discuss the governance role of PE/VC firms, there is still no clear synthesis of their main governance methods, the debate over how well they work, and the conditions under which they are more or less effective. This review uses agency theory, control theory, and board function theory to build an analytical framework. Based on a systematic review of existing literature and a comparative analysis of two typical cases, Uber and Netflix, it explains the main ways PE/VC board governance affects corporate value. The theoretical contribution of this review is to offer insight into how a dynamic balance may be maintained between institutional investors and founders, and between securities regulators, listing compliance, and corporate strategic resilience.

## Keywords

board governance, corporate value, private equity, venture capital

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## 1. Introduction

As the technology and internet industry has expanded, many companies backed by private equity (PE) and venture capital (VC) have entered the market. PE/VC has given strong support to these firms and helped drive their early growth. But their role goes beyond funding. By taking board seats, joining major corporate decisions, and influencing the appointment of management personnel, PE/VC firms take part directly in corporate governance. In some cases, this influence becomes especially visible. Uber's founder was forced to resign as CEO, and at Netflix, shareholders voted on whether a long-serving VC director should keep his board seat.

A large body of research has already examined the governance role of PE/VC firms. Some studies look at how VC affects the board structure of IPO companies, while others find that VC participation on the board improves IPO performance. Other work focuses on changes in board governance after PE acquisitions. Even so, much of this literature studies one governance mechanism at a time, so the direct effect on corporate value is not always clear. The findings also do not always point in the same direction. One reason appears to be that

many studies do not pay enough attention to the corporate life cycle, or to the different stages of the governed corporation's lifespan.

In response to these gaps, this study asks three main research questions: Through which board governance mechanisms do PE/VC firms influence their portfolio companies? How do different governance paths differ in their effects on corporate value? These questions lead to the following research objectives.

**Research Objective 1:** Examine the system (methods) of PE/VC board governance.

**Research Objective 2:** Assess the impact of PE/VC on the board governance system.

**Research Objective 3:** Analyze the mechanism through which PE/VC board governance methods affect corporate value and their enhancement effect.

## **2. Theoretical Background**

PE and VC firms influence corporate value through the board of directors and its governance role. The process is not simple, so it helps to spell out the logic behind it. This study looks at how external capital is turned into internal influence, and how that influence affects governance and value creation, through three perspectives on corporate governance: Agency Theory, Control Rights Theory, and Board Function Theory.

### **2.1 Agency Theory**

Agency theory explains why conflicts of interest can arise between external investors and internal management. It argues that when ownership and control are separated, the principal (shareholders) and the agent (management) may pursue different goals, and information asymmetry can make that gap worse [1]. This issue appears especially clearly in technology and high-growth companies. In fast-growing technology and internet companies, information asymmetry is often more severe, which can increase agency costs. Founders or management teams may use capital in ways that strengthen their own power or support expansion plans, even when this harms the overall interests of shareholders. Some studies find that PE/VC participation on boards can reduce agency costs. The picture is mixed, though. The same involvement may also hurt the long-term development of portfolio companies when decisions are driven too strongly by short-term.

### **2.2 Control Rights Theory**

Control rights theory examines how the distribution of control affects corporate governance efficiency. Aghion & Bolton argued that control should be allocated in a state-contingent way based on company performance. If the company performs poorly, investors gain control; if it performs well, entrepreneurs keep control [2]. In PE/VC investments, this logic appears in the allocation of board seats, veto power, and protective clauses. The board is where these rights are negotiated and exercised in practice. Through this arrangement, the boundaries of management's decision-making power are set, and the rights of PE/VC firms are protected. This gives PE/VC firms a legal and direct way to intervene when corporate value is being damaged.

### **2.3 Board Function Theory**

Board Function Theory explains the main ways boards intervene in company operations. It groups board functions into three areas: monitoring, strategy, and resource provision. Monitoring means supervising and restricting founders' or management's compliance-related behavior. Strategy and resource provision are more directly linked to value creation. In this framework, the strategy function refers to participation in major strategic decisions, while the resource function relies on personal networks to support portfolio companies. Through these channels, PE/VC directors can speed up company development and increase corporate value [3, 4].

### **3. Literature Review**

#### **3.1 The Instrumental Framework of PE/VC Board Governance**

Firstly, the allocation of board seats is the most direct tool for participating in corporate governance. According to Baker & Gompers' research, board independence decreases with increasing CEO power and increases with increasing external investor power [5]. This indicates that acquiring board seats means acquiring more power; for PE/VC firms, more seats mean more decision-making power in key decisions.

Furthermore, the power to appoint and dismiss management is a concrete manifestation of PE/VC's supervisory governance function through the board. Hellman & Puri's research provides evidence that VC investors are not merely fund providers; they will use the power of board appointment and dismissal to promote the professionalization of the company when necessary [6]. Acharya notes that after acquiring a company, PE firms often restructure the board soon afterward to remove underperforming managers and improve operating efficiency [7]. In companies backed by outside investors, replacing the founder/CEO with a more suitable and more experienced external manager is fairly common. PE/VC firms can also use the board of directors to push through management changes, correct internal problems, and improve operations.

Control clauses also show how PE/VC firms exercise governance power through the board. Kaplan & Strömberg's empirical research shows that in VC financing, VCs can independently stipulate cash flow rights, board rights, voting rights, liquidation rights, and other control rights in a single contract [8]. So the amount of capital invested does not, by itself, decide how much control they hold over the company. The contract does. This research also finds that control in most companies shifts with company performance. When performance is strong, the company usually continues to develop under senior management's decisions and creates value. If performance declines, VC firms can use their control rights to protect their interests [8]. In addition, phased financing is another institutional form of control allocation. At each financing round, VCs keep the option to reinvest in the company. This gives investors another way to monitor management and shape incentives.

#### **3.2 Governance Effectiveness**

Existing literature on the impact and differentiation of PE/VC board governance systems on corporate value reaches different conclusions, and the findings are not consistent.

Some studies support a positive effect of PE/VC governance on corporate value. Bernstein et al. demonstrated that more frequent external investment board monitoring is associated with higher-quality company innovation, which significantly raises the probability of startups going public or being acquired [9]. In Chemmanur's research, total factor productivity (TFP) is used as a core indicator of overall company productivity and, in this context, also as a way to judge the effectiveness of VC governance. The study found that these companies had higher TFP than non-VC-backed companies even before receiving further funding, which points to VC selection. After funding, however, their TFP growth rate was significantly faster than before [10]. That difference matters. It suggests that VC post-investment management improved efficiency, and this later appeared in higher product sales. For companies backed by high-reputation VCs, the efficiency gains also came from better control of production costs. Taken together, these governance effects increased corporate value. In later-stage PE acquisitions, Davis demonstrated that PEs achieve TFP expansion through large-scale business restructuring [11]. Under stricter board control, PE firms close low-productivity factories and shift resources to high-productivity locations, leading to strategic restructuring and more efficient resource allocation.

Other studies, however, find that PE/VC governance has limited effects, and in some cases even negative ones, on corporate value. Some literature argues that PE/VC firms may be more short-term oriented, with greater emphasis on increasing valuations before investor exit after an IPO than on long-term sustainable development. Garg & Eisenhardt's research points out that, in VC-backed companies, the relationship between the CEO and external investor directors involves an inherent trade-off between resources and power. To secure the resources needed for company development, the founder/CEO must give up part of that power to external investor directors, and this can create the conditions for later conflict. Problems often start there. When institutional investors perceive higher risks and respond with aggressive intervention, conflicts between founders and external investors can intensify and develop into power struggles [12]. Once trust breaks down, founders may withhold information from external investors. This can increase information asymmetry, weaken

strategic decision-making, and reduce corporate value. External investor intervention can also, in some cases, restrict management's autonomy in innovation.

These different conclusions mainly come from ignoring the time dimension. The standards used to judge outcomes are not the same at different stages, and short-term operating friction needs to be considered against longer-term gains. The effect of PE/VC board governance on corporate value is not linear. Ewens and Marx examined the actual effects of board-led appointments and dismissals on corporate value in detail. Their results show a clear change over time. When a founder-CEO is forcibly removed by a VC firm, systemic risk and operational volatility rise in the short term. Later, however, the same intervention can push the firm toward professional management, with faster sales growth and better innovation quality appearing over time [13]. Davis reached a similar conclusion in earlier work. In controlling acquisitions, board-driven restructuring produced a short-term drop in earnings, but later led to stronger earnings growth [11].

So the positive and negative findings are not logically inconsistent. They appear because researchers observed companies in different situations and at different points in time.

### **3.3 Boundary Conditions**

These effects do not appear under all conditions. PE and VC investment strategies differ in clear ways. VC usually targets early-stage high-tech companies and pays more attention to long-term value creation and innovative development. PE, by contrast, more often selects mature companies with stable cash flow and places greater weight on cost control.

The degree of board intervention also changes across stages of company development. VC mainly invests in early-stage firms, including many emerging technology companies. When these companies run into crises, their internal governance problems may require major restructuring by VC firms so they can move toward more professional management. In such cases, strong VC intervention is often hard to avoid. The situation is different for mature companies. Once a company has gone public and then receives investment from or is acquired by PE, too much intervention may work against the company's own operations and weaken its innovative development capacity.

The founder's internal power structure also shapes how effective board governance can be. This point matters. If the founder holds super voting rights or the company uses a dual-class share structure, that founder may retain near-complete control over corporate decisions. Bebchuk and Kastiel pointed out that this form of technology contract design breaks with the basic logic of traditional board governance and weakens the supervisory power of external investors [14]. Under these conditions, institutional investors with board seats may struggle to exercise meaningful oversight. As a result, PE/VC firms face greater difficulty when trying to bring about change in portfolio companies.

## **4. Key Findings**

Based on an in-depth case study of the vertical evolution of two tech giants, Uber and Netflix, this chapter systematically extracts two core logics and theoretical presentations of PE/VC board governance.

### **4.1 Governance Logic and Theoretical Presentation**

#### **4.1.1 “Supervision-Intervention” Logic (Uber)**

The “supervision-intervention” logic is a concentrated manifestation of agency theory and control rights theory. When a company faces a governance crisis or the founder's behavior deviates from shareholder interests, PE/VC firms intervene through the board of directors, exercising supervisory power until management is replaced. In the Uber case, faced with a series of scandals involving Kalanick, regulatory evasion, and other improper behaviors that prevented effective corporate governance and even damaged corporate value, the external investor board, led by Benchmark Capital, initiated a mandatory corrective mechanism [15]. Control rights theory is reflected here: when a company falls into a bad state due to a crisis, remaining control concentrates with external institutional shareholders, at which point the board of directors forcibly removes the founder. Introducing more experienced external managers lays the foundation for subsequent corporate compliance and successful IPOs, thus increasing corporate value. Data shows that Uber's valuation plummeted

by 30% during governance conflicts (\$68B → \$48B), but rebounded by 72% (\$82.4B) after the conflict was resolved and governance reforms were implemented [16, 17].

#### **4.1.2 The “Long-Term Symbiosis – Standardization” Logic (Netflix)**

“Long-Term Symbiosis – Standardization” primarily manifests when corporate governance is relatively stable, with PE/VC firms primarily fulfilling the strategic advice and resource support functions under the board's theoretical framework. PE/VC firms act more like strategic partners. In Netflix's case, Jay Hoag, the initial VC investor, and founder Reed Hastings jointly experienced Netflix's growth from its early DVD rental days to its current global expansion as a digital streaming service. Hoag maintained continuous shareholding and governance involvement for over two decades [18]. However, this relationship is not static. Market regulatory forces impose higher independence and performance requirements on PE/VC directors with long-term symbiotic relationships; in 2025, he was rejected for re-election by shareholders with 78% of the votes against him. However, the Netflix board ultimately rejected Hoag's resignation and allowed him to continue serving [19]. This reflects the stable and long-term strategic symbiosis between the founders and external investors. It also indicates that, compared to term limits, under this logic of long-term symbiosis, companies and external investors place greater emphasis on business interests and strategic stability.

The two typical cases of Uber and Netflix compare the differentiated operating mechanisms of PE/VC board governance in “conflict scenarios” and “stable scenarios,” deriving a dynamic framework evolution: Resource Provision → Strategic Support → Independent Supervision.

## **4.2 Segmented Characteristics of Governance**

Therefore, we can conclude that in the technology and internet industry, PE/VC board governance evolves along a dynamic framework of “Resource Provision → Strategic Support → Independent Supervision”. In the resource provision stage, startups are extremely lacking in resources, and the PE/VC board mainly plays a role in injecting resources and introducing the company to the industry's ecosystem network. In the strategic support stage, when companies face technological gaps or business model transformations (Netflix's shift from DVD to streaming), PE/VC plays a role in strategic adjustment. In the independent regulatory phase, as companies approach their IPO, PE/VC firms leverage their board seats and influence to push for the appointment of highly reputable independent directors (Uber's board strongly intervened in appointments and removals). This enhances the company's compliance and ultimately facilitates an IPO or ensures a high premium for subsequent monetization and a smooth exit. Overall, PE/VC board governance in the tech and internet industry increases corporate value.

## **5. Discussion**

### **5.1 Application Insight**

#### **5.1.1 For PE/VC Firms: Commitment and Independence**

For external investment institutions like PE/VC firms, fulfilling their responsibilities effectively under different circumstances is crucial. The Netflix case demonstrates that external investment institutions deeply integrate into a company's long-term development strategy, providing valuable strategic resources and building long-term trust with management. However, as portfolio companies mature from startups and governance standards become more standardized, this overly close symbiotic relationship can lead to a dulling of the PE/VC's oversight function. The Uber case, on the other hand, shows that while decisive intervention in management appointments and removals can quickly professionalize board compliance when serious governance issues arise, it also completely undermines the bond of trust between PE/VC and management. Therefore, when appointing directors, PE/VC firms should dynamically adjust the “transformation between different functions and independent oversight” according to the current business cycle. In the early stages of a startup, the focus should be on strategic advice, while as the business approaches maturity, independent oversight should be appropriately strengthened, perhaps by increasing the number of board seats or appointing more independent directors.

### **5.1.2 For Company Founders: Voting Rights and Control Arrangements**

For founders of technology and internet companies, control should not be static, but rather a dynamic balance of power should be maintained between the founder and the PE/VC. In the early funding stages, founders can hold a relatively strong position of control, but as the company grows and stabilizes, the terms should gradually shift towards co-governance with the PE/VC. Transition is crucial for achieving a long-term symbiotic development strategy. Overly centralized or overly decentralized control arrangements can lead to governance failure.

### **5.1.3 For Regulators: Balancing Early-stage Capital with Later-stage Governance Norms**

Regulators, similar to securities regulators or exchanges, should maintain a certain degree of institutional tolerance towards high-growth, innovative technology companies, allowing for strategies or systems conducive to stable development, but all within the bounds of laws and regulations. As these companies mature, necessary auditing and independent regulatory systems are required to ensure compliance. Maintaining a stable dynamic balance between protecting the legitimate rights and compliance of public shareholders and upholding the company's strategy is essential.

## **5.2 Research Limitations and Future Directions**

This study compares the cases of Netflix and Uber, two Silicon Valley giants, and uses them to examine two sharply contrasting scenarios of external institutional capital in board governance. That choice gives the paper a clear contrast, but it also creates limits. Two cases cannot fully represent the wider range of governance patterns found across technology companies. The institutional environment, legal regulatory systems, and cultural trust mechanisms also differ across emerging markets, such as China and Europe, within the tech and internet industry. For that reason, the theoretical framework and conclusions of this paper may not apply equally to all regions.

There is another constraint. The actual voting process of corporate boards and the internal decisions of PE/VC boards are usually confidential business secrets. As a result, the data in this study mainly comes from publicly disclosed market information, publicly available court documents, and media reports. Detailed first-hand board meeting minutes and similar records were not available. This limits how precisely the study can trace dynamic power struggles, especially when key disagreements were never made public.

As a literature review combined with case analysis, the study also has limits that should be stated directly. The cases are restricted to US technology companies, so any extension of the conclusions to other institutional environments needs to be cautious. In the same way, because the case data primarily relies on publicly available information, direct observation of the board's internal decision-making process was not possible.

Future research could address these limits by adding cases from other regions and comparing firms across different regulatory and institutional settings. Work based on broader cross-national evidence may show whether the patterns identified here hold outside the US technology sector. If access to less public forms of evidence becomes possible, future studies could also examine board dynamics in more detail and test how far public records match internal decision-making.

## **6. Conclusion**

This study employs agency theory, control theory, and board function theory to construct an analytical framework, systematically reviewing the means, effectiveness controversies, and boundary conditions of PE/VC board governance. By comparing the cases of Uber and Netflix, it analyzes how PE/VC influences corporate value through board governance. The article pointed out PE/VC primarily influences corporate value through three board governance mechanisms. The allocation of board seats, the power to appoint and dismiss management, and the design of control clauses to achieve effective control over the company. Subsequently, strategic advice and resource injection are used to achieve corporate value enhancement based on these three mechanisms.

**PE/VC Boards** There are two typical paths to corporate governance. "Monitoring-intervention" and "long-term symbiosis". The Uber case demonstrates the monitoring-intervention path. When the founders' actions deviate from the interests of the company's shareholders, PE/VC firms will take mandatory intervention

measures to drive management change. Although the change may cause a short-term decline in company valuation, the subsequent correct planning, development, and compliance lead to a much greater increase in corporate value. The Netflix case reveals that under the “long-term symbiosis” path, PE/VC firms can also achieve harmonious governance with the company's management, realizing corporate value enhancement through strategic and collaborative governance. Furthermore, the governance focus of PE/VC is not static, but rather evolves dynamically along a spectrum of “resource provision → strategic support → independent oversight”.

This review integrates fragmented governance methods and case evidence into a unified dynamic analysis framework, revealing the stage-based and path-based differences in PE/VC board governance, and providing a theoretical foundation for subsequent research in this field.

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