Founder Control

December 2010Someone we funded is talking to VCs now, and asked me how common  
it was for a startup's founders to retain control of the board after  
a series A round. He said VCs told him this almost never happened.Ten years ago that was true. In the past, founders rarely kept  
control of the board through a series A. The traditional series A  
board consisted of two founders, two VCs, and one independent member.  
More recently the recipe is often one founder, one VC, and one  
independent. In either case the founders lose their majority.But not always. Mark Zuckerberg kept control of Facebook's board  
through the series A and still has it today. Mark Pincus has kept  
control of Zynga's too. But are these just outliers? How common  
is it for founders to keep control after an A round? I'd heard of  
several cases among the companies we've funded, but I wasn't sure  
how many there were, so I emailed the ycfounders list.The replies surprised me. In a dozen companies we've funded, the  
founders still had a majority of the board seats after the series  
A round.I feel like we're at a tipping point here. A lot of VCs still act  
as if founders retaining board control after a series A is unheard-of.  
A lot of them try to make you feel bad if you even ask — as if  
you're a noob or a control freak for wanting such a thing. But the  
founders I heard from aren't noobs or control freaks. Or if they  
are, they are, like Mark Zuckerberg, the kind of noobs and control  
freaks VCs should be trying to fund more of.Founders retaining control after a series A is clearly heard-of.  
And barring financial catastrophe, I think in the coming year it  
will become the norm.Control of a company is a more complicated matter than simply  
outvoting other parties in board meetings. Investors usually get  
vetos over certain big decisions, like selling the company, regardless  
of how many board seats they have. And board votes are rarely  
split. Matters are decided in the discussion preceding the vote,  
not in the vote itself, which is usually unanimous. But if opinion  
is divided in such discussions, the side that knows it would lose  
in a vote will tend to be less insistent. That's what board control  
means in practice. You don't simply get to do whatever you want;  
the board still has to act in the interest of the shareholders; but  
if you have a majority of board seats, then your opinion about  
what's in the interest of the shareholders will tend to prevail.So while board control is not total control, it's not imaginary  
either. There's inevitably a difference in how things feel within  
the company. Which means if it becomes the norm for founders to  
retain board control after a series A, that will change the way  
things feel in the whole startup world.The switch to the new norm may be surprisingly fast, because the  
startups that can retain control tend to be the best ones. They're  
the ones that set the trends, both for other startups and for VCs.A lot of the reason VCs are harsh when negotiating with startups  
is that they're embarrassed to go back to their partners looking  
like they got beaten. When they sign a termsheet, they want to be  
able to brag about the good terms they got. A lot of them don't  
care that much personally about whether founders keep board control.  
They just don't want to seem like they had to make concessions.  
Which means if letting the founders keep control stops being perceived  
as a concession, it will rapidly become much more common.Like a lot of changes that have been forced on VCs, this change  
won't turn out to be as big a problem as they might think. VCs will  
still be able to convince; they just won't be able to compel. And  
the startups where they have to resort to compulsion are not the  
ones that matter anyway. VCs make most of their money from a few  
big hits, and those aren't them.Knowing that founders will keep control of the board may even help  
VCs pick better. If they know they can't fire the founders, they'll  
have to choose founders they can trust. And that's who they should  
have been choosing all along.Thanks to Sam Altman, John Bautista, Trevor Blackwell, Paul  
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