Does the Boards’ Entrepreneurship Boost Firms’ Risk-Taking? The Moderating Effect of the Directors’ and Officers’ Liability Insurance

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ABSTRACT

Literature regarding the impact of boards’ structure on firm’s research and development (R&D) spending focuses on how the board’s independence can mitigate the agency problems to facilitate R&D investments. Few have ever been on the influence of board’s career experience. This paper investigates whether board directors who have had the venture capital experience are likely to implement risker policy choices. We hand-collect firm directors with venture capital experience and match with those without venture capital experience to investigate the relationship between boards’ experience and risk-taking policy. The risk-taking policy includes firms’ R&D investment and firm focus. The results indicate that firm boards with venture experience are more likely to invest on R&D and increase firm focus. This paper further examines the moderating role of the adoption of directors’ and officers’ (D&O) liability insurance. The result indicates the relationship between boards’ entrepreneurship and risk-taking is intensified for the firms purchasing D&O liability insurance, indicating that the protected directors are more willing to take risks.

Keywords: entrepreneurship; venture capital; R&D investment; firm focus; directors’ and officers’ liability insurance

REFERENCES