British International Investment

FMO VENTURES

A startup governance journey

How to develop a phased governance framework for Venture Capital funded startups

Guidance

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Ministry of Foreign Affairs of the Netherlands

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Foreword

This Guidance Note is the second in a series of three which aims to bring practical, actionable advice about good practice to follow for Venture Capital fund managers in emerging markets and their portfolio companies, as well as other startup investors in the area of governance of startup companies.

BII and FMO have been among the 35 leading development finance institutions which promote the Corporate Governance Development Framework. This framework grades corporate governance practices from basic to best practices across different attributes using a *Progression Matrix*. The IFC has extended the general progression framework to develop methodology and tools for corporate governance, and has applied the progression matrix specifically to corporates as well as to family or founder-owned unlisted companies and to small and medium enterprises.

In a similar vein, others have more recently developed applied governance for startup companies. Among a growing list, we would like to acknowledge in particular, the 2019 *Corporate Governance for Early-Stage Innovative Companies,* the Resource Guide prepared by the Center for Financial Inclusion and FMO, and the 2023 *Startup governance playbook* published by Deloitte India and the Indian Venture Capital Association.

This Guidance Series seeks to build on and especially apply the insights from these frameworks to the context of fund managers and investors who shape and participate in the governance of their portfolio companies. Implementing governance measures at an early stage is highly likely to improve startup performance and increase investability.

The Notes are built around hypothetical case studies in which readers are invited to apply the frameworks to situations which are based on real life. However, these case studies are fictitious and are not based on actual BII or FMO investments. The Notes do contain stories based on published information from recent relevant cases.

Contents of this Guidance Note

Glossary

ABC	Anti-Bribery and Corruption (policy)
ARC	Audit and Risk Committee
CFO	Chief Financial Officer
ESG	Environmental, Social and Governance (measures or indicators).
FM	Fund Manager
GN	Guidance Note
Governance	The combination of structures, policies and controls by which organisations make decisions, align relationships to add value and oversee risk and compliance in order to achieve their purpose.
Governance Evolution plan	A part of a startup company's strategic plan, which sets out how governance structures, composition and practices will evolve over time so as to support and advance the business objectives of the company.
Governance Framework	The set of governance measures is expected to be in place at a specified stage of startup company growth.
IFRS/ GAAP	Accounting standards which may apply to companies.
NED	Non-executive directors may be independent or else appointed by shareholders or linked to founders/managers.

What this note is about and how to use it

This Guidance Note focuses on how to establish a phased governance framework, how to use this to identify and fill missing pieces, how to spot business milestones which trigger the need for additional measures and how to proactively manage early warning signals discussed in Guidance Note 1.

A **governance framework** consists of a set of measures that are expected to be in place at different stages of a company's evolution. Implementing these measures is highly likely to improve startup performance and increase investability. Remember, the board of directors is charged with implementing good governance, but investors can and should influence startups to strengthen it, securing written commitments where possible.

The diagram provides a simple process that investors can follow to monitor whether an investee company's governance is suitable for its stage. The content of this Guidance Note follows a startup through four stages. It can be read through for an overview and used as an ongoing resource for routine portfolio monitoring by revisiting the relevant section.

View Diagram

Who is the note for?

Staff at Fund Managers who are closely involved with the portfolio company including: a) on investee boards or b) part of a Fund Manager team (e.g. investment officers, ESG/Business Integrity officers) doing portfolio monitoring or providing advisory support to investees. Guidance for how best to influence and shape governance when an investor's equity share is diluted is provided in in a third Guidance Note.

Simple process that investors can follow to monitor whether a company's governance is suitable for its stage.

1. Establish the governance framework
2. Monitor and read signals
3. Take action

Secure commitment from company to build its governance system proactively in line with an agreed framework.

Include this in the **pre-investment shareholder agreement.**

		2. Monitor and read signals	3. Take action
1	PROACTIVE	Has the framework been implemented?	Recommend adoption of missing measures
2	PROACTIVE	Do you see business milestones that trigger action?	Recommend related measures in framework
3	REACTIVE	Are there warning signs? See Note 1	Specific action to address warning signals See Note 1

What is phased and proportionate governance?

Governance is the combination of structures, policies and controls by which organisations make decisions, align relationships to add value and oversee risk and compliance to achieve their purpose. To get value from governance systems, **founders should start building governance early and proactively**, rather than in response to crises. That said, governance should be phased and proportionate to the stage of a startup company.

Getting the intensity of measures right – neither too light nor too heavy – and then seeing the positive impact on performance will motivate portfolio companies to maintain good governance over time.

Too Light

- Poorly considered decisions.
- Loss of license to operate and forced closure.
- Founder/CEO with little support/guidance.
- Low engagement of team and advisors
- Gaps in risk management undermining performance.
- Loss of confidence by investors.

Optimal

- Effective meetings and high-quality decisions.
- High return on investment of CEO's time.
- Motivated team and advisors.
- Improved business performance.
- Better risk management.
- Increased investor confidence.

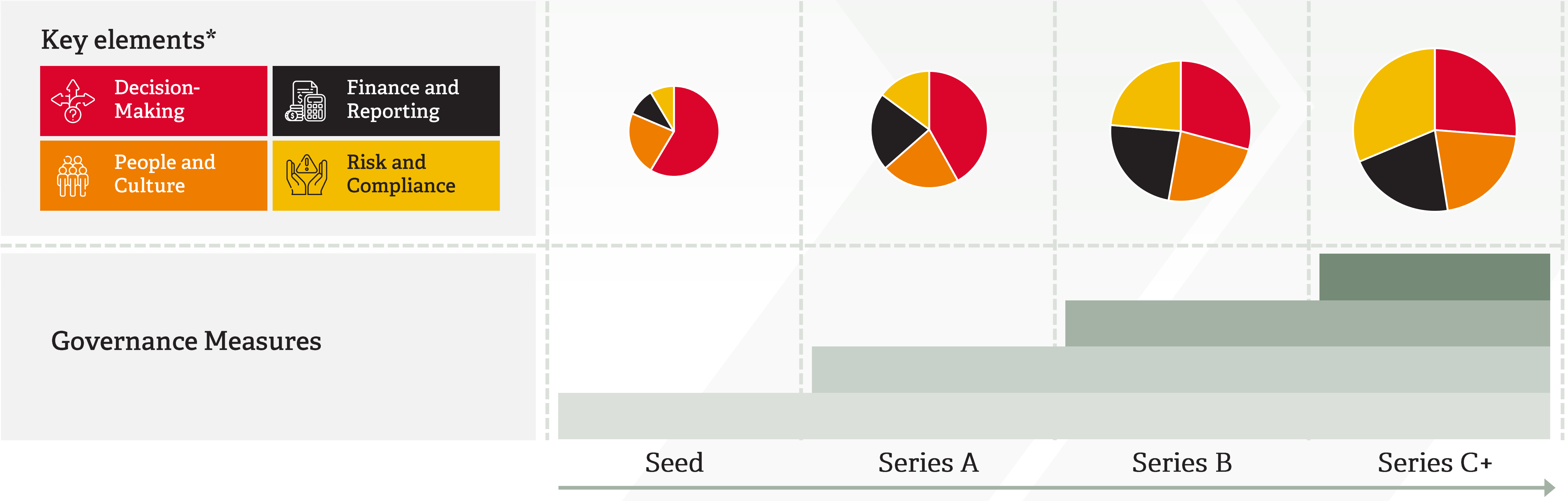
Too Heavy

- Slow, rigid, and bureaucratic decision-making process.
- Loss of competitive advantage and innovation.
- Heavy burden for CEO for little return.
- Low team engagement.

As governance builds, its focus changes

Phased and proportionate governance systems will improve business performance. As the size of the slices in the pie diagram below show, the weighting of the categories of governance measures changes as the company grows in size and complexity. There is a greater need for stronger financial management and reporting and to manage risk and compliance as the company raises more capital and expands.

Investors should monitor whether the level and mix of governance measures is appropriate for the company stage.



*See Guidance Note 1 page 7 for a fuller description of these four components of value adding governance.

How to assess the appropriate governance level?

Startup companies, with support from their investors, should establish a framework for how their governance should evolve as the company scales up. This process can build alignment between investors and investees and create a vision for startup governance, which improves business performance and investability.

Investment funding rounds are often the triggers for stage changes as more investors enter and invest more capital. The most recent funding round is often used as a proxy for a stage of governance development, but this is usually inadequate. For example, if a company trades in a regulated sector, it will likely require governance measures before its funding stage. Similarly, companies with more complex structures and operations across multiple jurisdictions will likely require more governance measures earlier than simple one-entity, one-currency operations.

To allow for this complexity, we have developed a **Stagefinder tool**. This is an Excel-based calculator available here which asks for your answers to 12 questions across five categories about a startup using drop-down menus, and then, based on a weighting of their importance to governance, proposes into which one of four stages of startup governance evolution – from Stage 1 (the most basic) to Stage 4 (the most sophisticated) the startup likely falls.

View Example

Applying the Stagefinder tool

This is an example of applying the Stagefinder tool.

This startup company is relatively large (revenues above $50m and over 100 employees), and operates in multiple jurisdictions, owning substantial physical assets.

Although it is not subject to intensive regulatory oversight, it does have more than five institutional investors as shareholders.

STARTUP STAGEFINDER

			YOUR ANSWER
Business size	1	How many Full Time Employees (FTEs) are there?	101-250
	2	What is annual revenue expected in the current year?	Above $50m
	3	How many departments are there headed by executives/ CXOs?	3
Business complexity	4	Does the company have activities in more than one country?	Yes
	5	How many currencies does the company receive or pay?	3-6
	6	How many separate legal entities are there within the group controlled by the company?	0-2
Physical operations	7	Which of these classes of physical assets is the most significant on the balance sheet?	Plant and machinery
	8	Does the company operate a complex supply chain involving multiple players?	Yes
Regulation	9	Does the company provide financial services subject to regulation?	No
	10	What is the nature of regulatory oversight and reporting for the core activity?	General and periodic
Investor base	11	How many investors are there who are *not* founders, or their family or friends?	6-10
	12	How many institutional investors (i.e. VC firms, financial institutions) are shareholders?	More than 5
		THIS COMPANY IS LIKELY AT	**Stage 4**

A closer look at the three steps

Earlier, we looked at the simple process that investors can follow to monitor whether a company's governance is suitable for its stage. In the next three sections, we will consider each of the three steps more closely.

STEP 1 — 1. Establish the governance framework

STEP 2 — 2. Monitor and read signals

STEP 3 — 3. Take action

Secure commitment from company to build its governance system proactively in line with an agreed framework.

Include this in the pre-investment shareholder agreement.

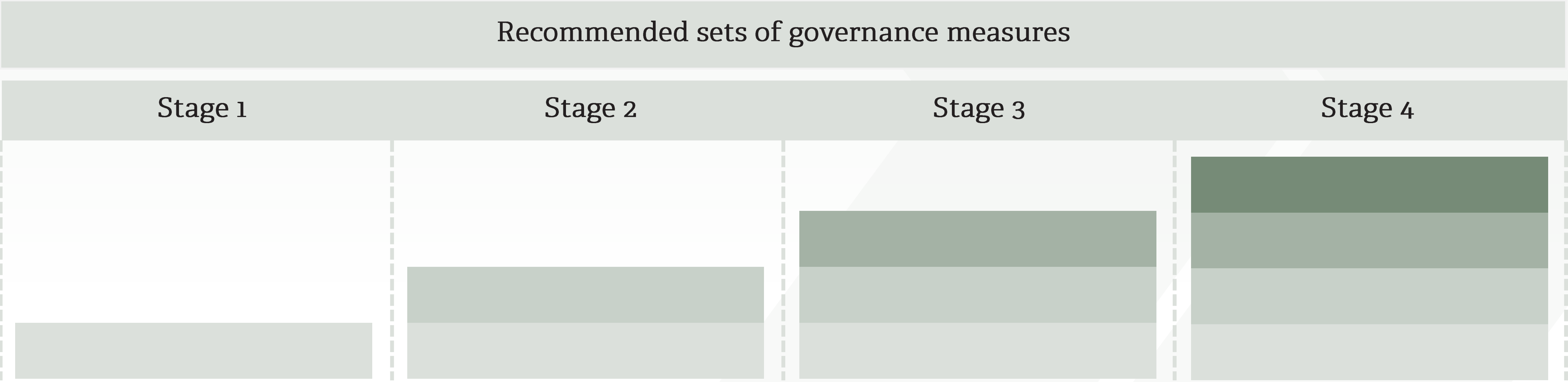
		2. Monitor and read signals	3. Take action
1	PROACTIVE	Has the framework been implemented?	Recommend adoption of missing measures
2	PROACTIVE	Do you see business milestones that trigger action?	Recommend related measures in framework
3	REACTIVE	Are there warning signs? See Note 1	Specific action to address warning signals See Note 1

Step 1: Establish the governance framework

STEP 1

Once you have a sense of the stage of governance complexity of a startup using the **Stagefinder**, you can **explore the recommended sets of governance measures applicable to the stage**. As expected, these measures increase over time.

Note that every startup has its particularities, so the sets of measures are bundles designed to serve as guidance rather than hard and fast rules for each stage.



Reference to existing frameworks

Reference to existing frameworks

Since existing frameworks of governance use different descriptions for stages, the sets of measures proposed here do not correspond exactly but are informed by the existing frameworks and largely coincide at either end of the spectrum, as shown below.

	Measures for Stage 1	Measures for Stage 4
CGDF Governance Framework	Basic	Advanced
FMO Corporate Governance Toolkit	Basic	Developed
FMO/ CFI Note: Corporate Governance for the early stage	Seed	Growth

By governance element

STEP 1

Starting with **Decision-Making,** we will consider each of the four governance elements to see the recommended measures across stages 1-4 by theme.

Decision-Making	Finance and Reporting
People and Culture	Risk and Compliance

See GN 1 page 7 for a fuller description of these four components of value adding governance.

Effective decision-making measures across the stages

Stage 1	Stage 2	Stage 3	Stage 4

1.1 Vision, mission, and values are clearly documented and visible to all stakeholders.

1.2 Where relevant, the CEO may be supported in decision-making by a group of advisors and/or early-stage investors with a mix of appropriate skills whom the CEO regularly informs/consults on evolving strategy.

1.3 A formal board can be established at this stage, but it is not essential. An advisory group can assist founders and should have terms of reference, but it is not a substitute for the accountability of a board.

Effective decision-making measures across the stages

Stage 1	Stage 2	Stage 3	Stage 4

2.1 A functional board of directors is established with composition including subject matter experts.

2.2 Board meetings are minuted, circulated to directors and approved.

2.3 The annual schedule of board meetings is set up in advance, with meetings held at least quarterly and the agenda and board briefing pack circulated timely.

Effective decision-making measures across the stages

Stage 1	Stage 2	Stage 3	Stage 4

3.1 The board discusses and approves the three-to-five-year strategy and annual business plans.

3.2 Shareholder, partner and minority shareholder rights are clearly stated in investment documents and enforced (see Guidance Note 3 for more details on this).

3.3 An independent board chair is appointed, and the board includes at least one other independent non-executive director who has value-adding skills.

3.4 The board has the opportunity to meet without the executive team present to discuss confidential issues such as the CEO's performance and feedback to the chair on board effectiveness.

Effective decision-making measures across the stages

Stage 1	Stage 2	Stage 3	Stage 4

4.1 Crisis scenarios are identified, and the board-approved plan is in place to address them.

4.2 The board approves the decision-making protocol, setting out how decisions are made for strategy, finance, and recruitment - i.e., who is responsible, accountable, consulted, and informed.

4.3 The governance roadmap is drafted and updated annually.

4.4 A Governance Committee is established and monitors overall governance performance with a lead as governance champion, including board effectiveness reviews every one-to-two years.

4.5 The board's composition is reviewed for skills, experience, and balance, including skills in governance, sustainable growth and risk management. Terms limits are established.

By governance element

STEP 1

Next, we will look at the recommended measures across stages 1-4 for **People and Culture**.

Decision-Making	Finance and Reporting
People and Culture	Risk and Compliance

See GN 1 page 7 for a fuller description of these four components of value adding governance.

People and culture measures across the stages

Stage 1	Stage 2	Stage 3	Stage 4

1.4 Founder/CEO roles are clearly documented. Where co-founders lead different functions, segregation of duties and proper oversight are introduced to ensure consultation on key decisions (e.g., to avoid working in silos).

1.5 Founder/CEO sets the tone from the start around the importance of good governance.

People and culture measures across the stages

Stage 1	Stage 2	Stage 3	Stage 4

2.4 Mechanisms for resolving conflict are set up – e.g., how co-founders resolve differences.

2.5 A policy for related party transactions is approved, and the Finance Manager reports any qualifying transactions to the board and stakeholders at least quarterly. This policy should cover business and shareholding-related transactions. The board ensures that related party transactions are being disclosed as per statutory requirements.

2.6 Structured support and mentoring are provided to the Founder / CEO.

2.7 Senior management and board roles and KPIs for the business are documented, widely shared, and monitored by the board. The board is now formally charged with overseeing management.

2.8 A Code of Conduct is adopted for the board and staff, with an associated policy on expense reimbursement. Finance Manager (FM) monitors implementation and reports breaches to the CEO and board.

People and culture measures across the stages

Stage 1	Stage 2	Stage 3	Stage 4

3.5 The board establishes a Human Resource Committee (sometimes called a Remuneration Committee) to oversee the CEO's performance and executive remuneration and take steps to mitigate key man risk.

3.6 A framework for the delegation of authorities is implemented, setting out who from the board and/or management is required to approve classes of business decisions, such as strategy, annual plans, budgets, expenditures, and financial transactions over specified thresholds. The CFO monitors implementation.

People and culture measures across the stages

Stage 1	Stage 2	Stage 3	Stage 4

4.6 The CEO's performance is measured against KPIs with remuneration linked to the achievement of goals.

4.7 The CEO's succession plan is in place.

4.8 A whistleblowing policy is set up for internal and external stakeholders to register incidents where the company Code of Ethics appears to be breached.

By governance element

STEP 1

Let us look at the recommended measures across stages 1-4 for **Finance and Reporting**.

Decision-Making	Finance and Reporting
People and Culture	Risk and Compliance

See GN 1 page 7 for a fuller description of these four components of value adding governance.

Finance and reporting measures across the stages

Stage 1	Stage 2	Stage 3	Stage 4

Early adoption of financial discipline from the start is key to preparing the company for receiving later rounds of capital.

1.6 A separate bank account is established for the company finances.

1.7 Secure electronic filing is established for key documents, including constitutional documents, share registers, financial statements, tax records, and legal agreements.

1.8 The cash flow forecast is regularly updated.

1.9 Consistent cycles of financial reporting to decision-making groups (e.g., the board or key investors) are set up and maintained.

1.10 Key Performance Indicators (KPIs) are set up and reported periodically to investors and the decision-making group (the board where it exists).

Finance and reporting measures across the stages

Stage 1	Stage 2	Stage 3	Stage 4

2.9 Board packs contain key metrics and tracking of forecasts to actuals.

2.10 A finance function is established, overseen by a senior finance manager, and supported by a team of financial controllers/professionals, as a minimum. A part-time/full-time CFO may be considered at this stage.

2.11 An independent financial auditor is appointed from a recognised firm and conducts the financial audit in line with national standards, completing them on time and presenting them to the board at least annually.

2.12 The senior finance manager is required to demonstrate to the board that accounting systems and policies are appropriate for the company's stage and aligned with national standards. At minimum to include Profit and Loss (P&L) statement, cash burn and runway, aged debtors, working capital analysis, and balance sheet, with bank reconciliations, accruals, depreciation, mark-to-market inventory and currency valuations.

Finance and reporting measures across the stages

Stage 1	Stage 2	Stage 3	Stage 4

3.7 The auditor is a recognised audit firm, and there is annual interaction between the auditor and the board or board Audit and Risk Committee.

3.8 A full-time CFO is hired to oversee the finance function and report Management Information (MI) to the board. CFO's responsibilities may include the Company Secretary's function of ensuring the company complies with relevant regulations and keeping board members informed of their legal responsibilities.

3.9 The finance function prepares monthly management accounts (cash flow and P&L statement) and quarterly board finance reports (P&L, balance sheet, and cash flow analyses). The CFO presents to the board and validates their accuracy.

3.10 Annual forecasts are prepared and tracked monthly, with a quarterly report to the board, including a plan to address variances noted.

3.11 Accounting policies reflect international standards (e.g. IFRS for SMEs/GAAP).

3.12 An internal audit function is established (although this can be outsourced).

Finance and reporting measures across the stages

Stage 1	Stage 2	Stage 3	Stage 4

4.9 External auditors review the delegation of authorities and the segregation of duties as a key financial control.

4.10 Investors, the board and advisors are provided comprehensive financial information and ESG performance on a regular basis.

4.11 Management Information System (MIS), the suite of software systems that capture key operational and financial data, is assessed regularly (e.g., biannually) by independent MIS specialists for relevance, with updates approved by the board.

4.12 A term limit is established for external auditors.

By governance element

STEP 1

Lastly, the recommended measures across stages 1-4 for **Risk and Compliance**.

Decision-Making	Finance and Reporting
People and Culture	Risk and Compliance

See GN 1 page 7 for a fuller description of these four components of value adding governance.

Risk and compliance measures across the stages

Stage 1	Stage 2	Stage 3	Stage 4

1.11 Articles of Association are adopted, and beneficial ownership of shares is disclosed.

1.12 Regulatory licenses and compliances, if needed, are secured from issuing authority/ies and disclosed as requested by investors or the board. The CEO/ Founder is familiar with the national corporate governance legislation, or equivalent if it exists, or has identified credible legal advisors to call on.

Risk and compliance measures across the stages

Stage 1	Stage 2	Stage 3	Stage 4

2.13 A code of Ethics is adopted to embed the company's values.

2.14 An Anti-Bribery and Corruption Policy is developed, which includes guidance on receiving and giving gifts and hospitality, prohibits facilitation payments and has protocols on how to deal with such requests.

2.15 The board approves a procedure defining conflicts of interest (e.g., a company contracting a supplier owned by a board member or board member/investor also a shareholder in a competitor or business/M&A partner) and how to report and manage them.

2.16 A legal register is introduced, recording regulatory compliance and reports to the board. A board member is assigned to provide mentoring and support to the CEO/CFO on regulatory compliance.

2.17 Training on the Code of Ethics, Anti-Bribery and Corruption and Conflicts of Interest policies is provided to staff and board members.

Risk and compliance measures across the stages

Stage 1	Stage 2	Stage 3	Stage 4

3.13 The board receives reporting on compliance, including tax payments and records, regulatory filings such as financial statements and companies house, and disclosures of company registrations, licenses, and persons of significant control.

3.14 A risk register is established and reviewed by the board, with mitigations and risk levels agreed upon.

3.15 A board Charter is agreed upon and documented, which also sets out the role of the Chair.

3.16 The conflicts of Interest register is updated, and an annual declaration of interests is completed by each director and officer.

3.17 An Audit and Risk Committee (ARC) of the board is set up and reviews audit reports, regulatory compliance and risks. An independent director chairs it - the ARC includes at least one finance expert.

3.18 Procurement procedures are established with protocols to ensure a competitive and transparent procurement process.

3.19 A staff grievance policy is implemented (including anonymous reporting), with a responsible board member assigned.

3.20 The board regularly reviews a summary of whistleblowing/grievances and customer complaints and a list of legal/regulatory actions taken against the company.

Risk and compliance measures across the stages

Stage 1	Stage 2	Stage 3	Stage 4

4.13 External stakeholder groups are identified, and the CEO leads an engagement strategy for each.

4.14 Measures to fulfil ESG obligations and to use ESG to build competitive advantage are identified and implemented, with a nominated ESG lead on the board.

4.15 An external audit of the company's secretarial function is undertaken.

4.16 The company discloses the remuneration of the board members and senior management.

4.17 The CFO or dedicated internal audit manager leads a cross-departmental internal audit team to monitor risk management, with quarterly reporting to the audit and risk committee of the board.

By company stage

STEP 1

The **bundled set of measures** below is recommended for startups at Stage 1 to 4. Note that the list is based on good practices, but is not intended to be exhaustive or prescriptive. Click through each stage to view the relevant set.

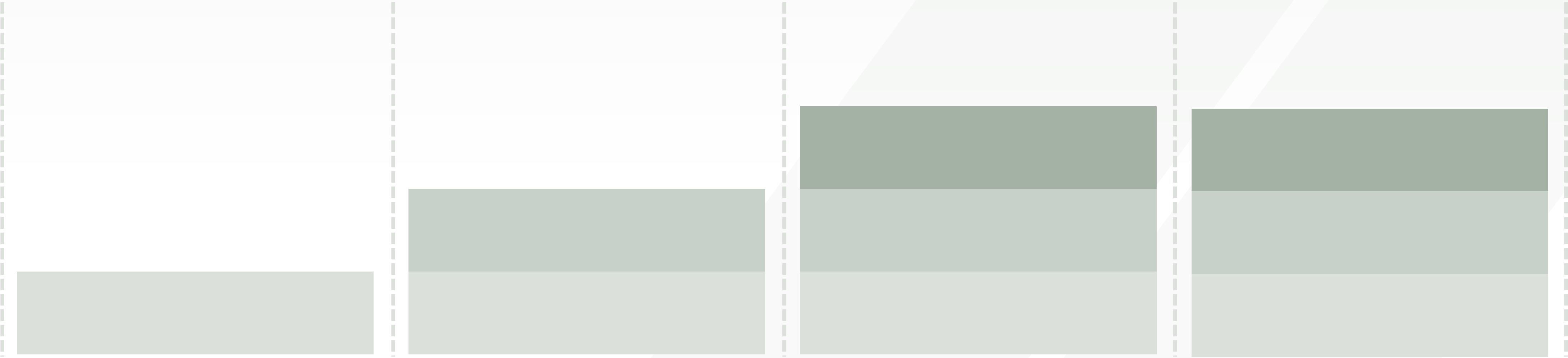
Recommended sets of governance measures

Stage 1

Stage 2

Stage 3

Stage 4



Recommended governance measures for a Stage 1 Startup

The **bundled set of measures** below is recommended for startups at Stage 1. Note that the list is based on good practices but is not intended to be exhaustive or prescriptive. Click through each element to view this set.

Decision-Making

People and Culture

Finance and Reporting

Risk and Compliance

1.1 Vision, mission, and values are clearly documented and visible to all stakeholders.

1.2 Where relevant, the CEO may be supported in decision-making by a group of advisors and/or early-stage investors with a mix of appropriate skills whom the CEO regularly informs/consults on evolving strategy.

1.3 A formal board can be established at this stage, but it is not essential. An Advisory Board can assist CEOs in decision-making, and should have a defined terms of reference, but does not formally hold the CEO to account as a board does.

Recommended governance measures for a Stage 1 Startup

The **bundled set of measures** below is recommended for startups at Stage 1. Note that the list is based on good practices but is not intended to be exhaustive or prescriptive. Click through each element to view this set.

- Decision-Making
- **People and Culture**
- Finance and Reporting
- Risk and Compliance

1.4 Founder / CEO roles are clearly documented. Where co-founders lead different functions, segregation of duties and proper oversight are introduced to ensure consultation on key decisions (e.g., to avoid working in silos).

1.5 Founder / CEO sets the tone from the start around the importance of good governance.

Recommended governance measures for a Stage 1 Startup

The **bundled set of measures** below is recommended for startups at Stage 1. Note that the list is based on good practices but is not intended to be exhaustive or prescriptive. Click through each element to view this set.

- Decision-Making
- People and Culture
- **Finance and Reporting**
- Risk and Compliance

Early adoption of financial discipline from the start is key to preparing the company for receiving later rounds of capital.

1.6 A separate bank account is established for the company finances.

1.7 Secure electronic filing is established for key documents, including constitutional documents, share registers, financial statements, tax records, and legal agreements.

1.8 The cash flow forecast is regularly updated.

1.9 Consistent cycles of financial reporting to decision-making groups (e.g., board or key investors) are set up and maintained.

1.10 Key Performance Indicators (KPIs) are set up and reported periodically to investors and the decision-making group (the board where it exists).

Recommended governance measures for a Stage 1 Startup

The **bundled set of measures** below is recommended for startups at Stage 1. Note that the list is based on good practices but is not intended to be exhaustive or prescriptive. Click through each element to view this set.

Decision-Making

People and Culture

Finance and Reporting

Risk and Compliance

1.11. Articles of Association are adopted, and beneficial ownership of shares is disclosed.

1.12. Regulatory licenses and compliances, if needed, are secured from issuing authority/ies and disclosed as requested by investors or board. The CEO/ Founder is familiar with the national corporate governance legislation, or equivalent if it exists, or has identified credible legal advisors to call on.

Milestone triggers

One way to prioritise Stage 1 measures is to implement them in response to reaching specific business milestones. Below are typical Stage 1 milestones. Continue to view the accompanying governance measures.

Company registered with angel, pre-seed and seed funding is secured.

Startup building a team, in addition to the founders.

Pre-revenue, or generating early revenues, and incurring regular business costs.

The first product/service is developed and starting to secure new customers.

Company registered with angel, pre-seed and seed funding secured.

1.12 Regulatory licenses and compliances, if needed, are secured from issuing authority/ies and disclosed as requested by investors or the board. The CEO/ Founder is familiar with the national corporate governance legislation, or equivalent if it exists, or has identified credible legal advisors to call on.

1.11 Articles of Association are adopted, and beneficial ownership of shares is disclosed.

1.7 Secure electronic filing is established for key documents, including constitutional documents, share registers, financial statements, tax records, and legal agreements.

1.6 A separate bank account is established for the company finances.

Decision-Making · People and Culture · Finance and Reporting · Risk and Compliance

Startup building a team, in addition to the founders.

1.1 Vision, mission, and values are clearly documented and visible to all stakeholders.

1.4 Founder / CEO roles are clearly documented. Where co-founders lead different functions, segregation of duties and proper oversight are introduced to ensure consultation on key decisions (e.g., to avoid working in silos).

1.5 Founder / CEO sets the tone from the start around the importance of good governance.

Decision-Making

People and Culture

Finance and Reporting

Risk and Compliance

Pre-revenue, or generating early revenues, and incurring regular business costs.

1.10 Key Performance Indicators (KPIs) are set up and reported periodically to investors and the decision-making group (the board where it exists).

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1.6 A separate bank account is established for the company finances.

Decision-Making | People and Culture | Finance and Reporting | Risk and Compliance

First product / service developed and starting to secure new customers.

1.10 Key Performance Indicators (KPIs) are set up and reported periodically to investors and the decision-making group (the board where it exists).

1.8 The cash flow forecast is regularly updated.

Decision-Making

People and Culture

Finance and Reporting

Risk and Compliance

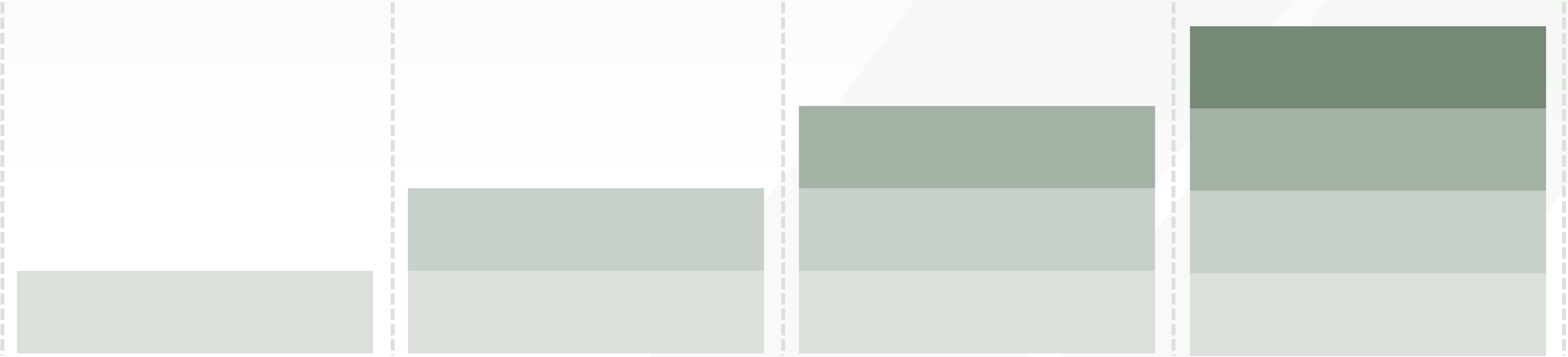
By company stage

STEP 1

The **bundled set of measures** below is recommended for startups at Stage 1 to 4. Note that the list is based on good practices but is not intended to be exhaustive or prescriptive. Click through each stage to view the relevant set.

Recommended sets of governance measures

Stage 1 | Stage 2 | Stage 3 | Stage 4



Recommended governance measures for a Stage 2 Startup

The bundled set of measures below is recommended for **startups at Stage 2**. Note again that the list is based on good practices but is not intended to be exhaustive or prescriptive.

Decision-Making

People and Culture

Finance and Reporting

Risk and Compliance

2.1 A functional board of directors is established with composition including subject matter experts.

2.2 Board meetings are minuted, circulated to directors and approved.

2.3 The annual schedule of board meetings is set up in advance, with meetings held at least quarterly and the agenda and board briefing pack circulated.

Recommended governance measures for a Stage 2 Startup

The bundled set of measures below is recommended for **startups at Stage 2**. Note again that the list is based on good practices but is not intended to be exhaustive or prescriptive.

Decision-Making	2.4 Mechanisms for resolving conflict are set up – e.g., how co-founders resolve differences.
People and Culture	2.5 A policy for related party transactions is approved, and the Finance Manager reports any qualifying transactions to the board and stakeholders at least quarterly. This policy should cover business and shareholding-related transactions. The board ensures that related party transactions are being disclosed as per statutory requirements.
Finance and Reporting	2.6 Structured support and mentoring are provided to the Founder / CEO.
Risk and Compliance	2.7 Senior management and board roles and KPIs for the business are documented, widely shared, and monitored by the board. The board is now formally charged with overseeing management.
	2.8 A Code of Conduct is adopted for the board and staff, with an associated policy on expense reimbursement. Finance Manager (FM) monitors implementation and reports breaches to the CEO and board.

Recommended governance measures for a Stage 2 Startup

The bundled set of measures below is recommended for **startups at Stage 2**. Note again that the list is based on good practices but is not intended to be exhaustive or prescriptive.

Decision-Making

People and Culture

Finance and Reporting

Risk and Compliance

2.9 Board packs contain key metrics and tracking of forecasts to actuals.

2.10 A finance function is established, overseen by a senior finance manager, and supported by a team of financial controllers/professionals, as a minimum. A part-time/full-time CFO may be considered at this stage.

2.11 An independent financial auditor is appointed from a recognised firm and conducts the financial audit in line with national standards, completing them on time and presenting them to the board at least annually.

2.12 The senior finance manager is required to demonstrate to the board that accounting systems and policies are appropriate for the company's stage and aligned with national standards. At minimum include Profit and Loss (P&L) statement, cash burn and runway, aged debtors, working capital analysis, and balance sheet, with bank reconciliations, accruals, depreciation, mark-to-market inventory and currency valuations.

Recommended governance measures for a Stage 2 Startup

The bundled set of measures below is recommended for **startups at Stage 2.** Note again that the list is based on good practices but is not intended to be exhaustive or prescriptive.

Decision-Making

People and Culture

Finance and Reporting

Risk and Compliance

2.13 A code of Ethics is adopted to embed the company's values.

2.14 An Anti-Bribery and Corruption Policy is developed, which includes guidance on receiving and giving gifts and hospitality, prohibits facilitation payments and has protocols on how to deal with such requests.

2.15 The board approves a procedure defining conflicts of interest (e.g., a company contracting a supplier owned by a board member or board member/investor is also a shareholder in a competitor or business/M&A partner) and how to report and manage them.

2.16 A legal register is introduced, recording regulatory compliance and reports to the board. A board member is assigned to provide mentoring and support to the CEO/CFO on regulatory compliance.

2.17 Training on the Code of Ethics, Anti-Bribery and Corruption and Conflicts of Interest policies is provided to staff and board members.

Milestone triggers

One way to prioritise Stage 2 measures is to implement them in response to reaching specific business milestones. Below are typical Stage 2 milestones. Continue to view the accompanying governance measures.

- First external investor secured as Series A capital.
- Growing team with departments, delegation, and reporting lines.
- Further growth requires regulatory approvals.
- More than three to four suppliers are needed to drive business operations.
- The CEO is significantly challenged by juggling an increasing number of priorities.
- Revenue is growing steadily or fast, the number of transactions is increasing, and a robust accounting system is in place.
- High-level purpose and mission are clear, with the product-market fit now emerging.
- A high proportion of sales on credit.

First external investor secured as Series A capital.

2.1 A functional board of directors is established with composition including subject matter experts.

2.7 Senior management and board roles and KPIs for the business are documented, widely shared, and monitored by the board. The board is now formally charged with overseeing management.

2.9 Board packs contain key metrics and tracking of forecasts to actuals.

2.10 A finance function is established, overseen by a senior finance manager, and supported by a team of financial controllers/professionals, as a minimum. A part-time/full-time CFO may be considered at this stage.

2.11 An independent financial auditor is appointed from a recognised firm and conducts the financial audit in line with national standards, completing them on time and presenting them to the board at least annually.

2.12 The senior finance manager is required to demonstrate to the board that accounting systems and policies are appropriate for the company's stage and aligned with national standards. At minimum, to include Profit and Loss (P&L) statement, cash burn and runway, aged debtors, working capital analysis, and balance sheet, with bank reconciliations, accruals, depreciation, mark-to-market inventory and currency valuations.

Decision-Making

People and Culture

Finance and Reporting

Risk and Compliance

Growing team with departments, delegation, and reporting lines.

2.5 A policy for related party transactions is approved, and the Finance Manager reports any qualifying transactions to the board and stakeholders at least quarterly. This policy should cover business and shareholding-related transactions. The board ensures that related party transactions are being disclosed as per statutory requirements.

2.7 Senior management and board roles and KPIs for the business are documented, widely shared, and monitored by the board. The board is now formally charged with overseeing management.

2.8 A Code of Conduct is adopted for the board and staff, with an associated policy on expense reimbursement. Finance Manager (FM) monitors implementation and reports breaches to the CEO and board.

Decision-Making

People and Culture

Finance and Reporting

Risk and Compliance

Further growth requires regulatory approvals.

2.16 A legal register is introduced, recording regulatory compliance and reports to the board. A board member is assigned to provide mentoring and support to the CEO/CFO on regulatory compliance.

Decision-Making

People and Culture

Finance and Reporting

Risk and Compliance

More than three to four suppliers are needed to drive business operations.

2.5 A policy for related party transactions is approved, and the Finance Manager reports any qualifying transactions to the board and stakeholders at least quarterly. This policy should cover business and shareholding-related transactions. The board ensures that related party transactions are being disclosed as per statutory requirements.

2.13 A code of Ethics is adopted to embed the company's values.

Decision-Making

People and Culture

Finance and Reporting

Risk and Compliance

The CEO is significantly challenged by juggling an increasing number of priorities.

2.6 Structured support and mentoring is provided to the Founder / CEO.

Decision-Making

People and Culture

Finance and Reporting

Risk and Compliance

Revenue is growing steadily or fast, the number of transactions is increasing, and a robust accounting system is in place.

2.9 Board packs contain key metrics and tracking of forecasts to actuals.

2.10 A finance function is established, overseen by a senior finance manager, and supported by a team of financial controllers/professionals, as a minimum. A part-time/full-time CFO may be considered at this stage.

2.11 An independent financial auditor is appointed from a recognised firm and conducts the financial audit in line with national standards, completing them on time and presenting them to the board at least annually.

2.12 The senior finance manager is required to demonstrate to the board that accounting systems and policies are appropriate for the company's stage and aligned with national standards. At minimum, to include Profit and Loss (P&L) statement, cash burn and runway, aged debtors, working capital analysis, and balance sheet, with bank reconciliations, accruals, depreciation, mark-to-market inventory and currency valuations.

Decision-Making

People and Culture

Finance and Reporting

Risk and Compliance

High-level purpose and mission are clear, with product-market fit now emerging.

2.9 Board packs contain key metrics and tracking of forecasts to actuals.

Decision-Making

People and Culture

Finance and Reporting

Risk and Compliance

A high proportion of sales on credit.

2.10 A finance function is established, overseen by a senior finance manager, supported by a team of financial controllers/professionals, as a minimum. A part-time/full-time CFO may be considered at this stage.

2.11 Independent financial auditor is appointed from recognised firm, and conducts the financial audit in line with national standards, completing them on time and presenting to board at least annually.

2.12 The senior finance manager is required to demonstrate to the board that accounting systems and policies are appropriate for the company's stage and aligned with national standards. At minimum to include: profit & loss (P&L) statement, cash burn and runway, aged debtors, working capital analysis, and balance sheet, with bank reconciliations, accruals, depreciation, mark-to-market inventory and currency valuations.

Decision-Making · People and Culture · Finance and Reporting · Risk and Compliance

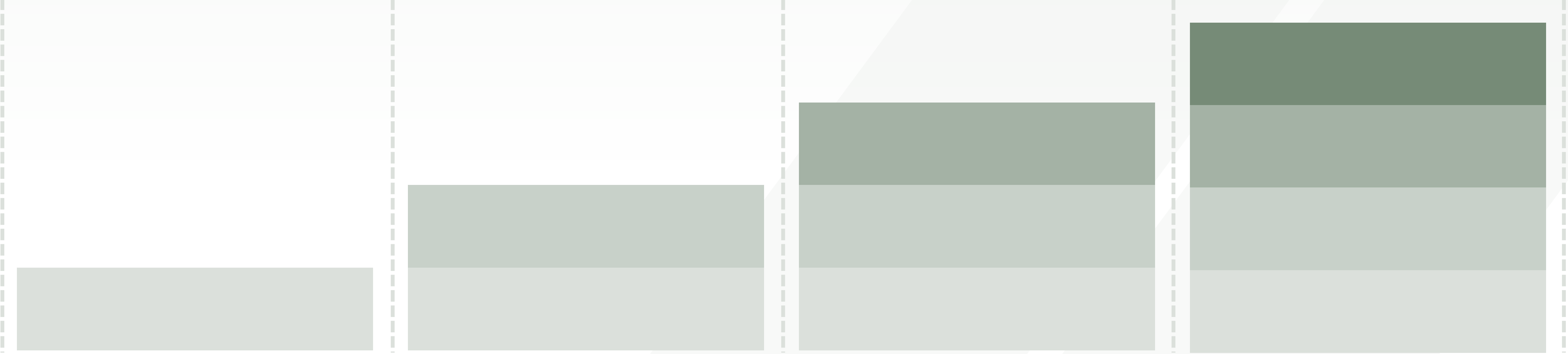
By company stage

STEP 1

The **bundled set of measures** below is recommended for startups at Stage 1 to 4. Note that the list is based on good practices but is not intended to be exhaustive or prescriptive. Click through each stage to view the relevant set.

Recommended sets of governance measures

Stage 1 | Stage 2 | Stage 3 | Stage 4



Recommended governance measures for a Stage 3 Startup

The bundled set of measures below is recommended for **startups at Stage 3**. Note again that the list is based on good practices but is not intended to be exhaustive or prescriptive.

Decision-Making

People and Culture

Finance and Reporting

Risk and Compliance

3.1 The board discusses and approves the three-to-five-year strategy and annual business plans.

3.2 Shareholder, partner and minority shareholder rights are clearly stated in investment documents and enforced (see Guidance Note 3 for more details on this).

3.3 An independent board chair is appointed, and the board includes at least one other independent non-executive director who has value-adding skills.

3.4 The board has the opportunity to meet without the executive team present to discuss confidential issues such as the CEO's performance and feedback to the chair on board effectiveness.

Recommended governance measures for a Stage 3 Startup

The bundled set of measures below is recommended for **startups at Stage 3**. Note again that the list is based on good practices but is not intended to be exhaustive or prescriptive.

Decision-Making

People and Culture

Finance and Reporting

Risk and Compliance

3.5 The board establishes a Human Resource Committee (sometimes called a Remuneration Committee) to oversee CEO performance and executive remuneration and take steps to mitigate key man risk.

3.6 A framework for the delegation of authorities is implemented, setting out who from the board and/or management is required to approve classes of business decisions, such as strategy, annual plans, budgets, expenditures, and financial transactions over specified thresholds. The CFO monitors implementation.

Recommended governance measures for a Stage 3 Startup

The bundled set of measures below is recommended for **startups at Stage 3**. Note again that the list is based on good practices but is not intended to be exhaustive or prescriptive.

Decision-Making

People and Culture

Finance and Reporting

Risk and Compliance

3.7 The auditor is a recognised audit firm, and there is annual interaction between the auditor and the board or board Audit and Risk Committee.

3.8 A full-time CFO is hired to oversee the finance function and report Management Information (MI) to the board. CFO's responsibilities may include the Company Secretary's function of ensuring the company complies with relevant regulation and keeping board members informed of their legal responsibilities.

3.9 The finance function prepares monthly management accounts (cash flow and P&L statement) and quarterly board finance reports (P&L, balance sheet, and cash flow analyses). The CFO presents to the board and validates their accuracy.

3.10 Annual forecasts are prepared and tracked monthly, with a quarterly report to the board, including a plan to address variances noted.

3.11 Accounting policies reflect international standards (e.g., IFRS for SMEs/GAAP).

3.12 An internal audit function is established (although this can be outsourced).

Recommended governance measures for a Stage 3 Startup

The bundled set of measures below is recommended for **startups at Stage 3**. Note again that the list is based on good practices but is not intended to be exhaustive or prescriptive.

- Decision-Making
- People and Culture
- Finance and Reporting
- **Risk and Compliance**

3.13 The board receives reporting on compliance, including tax payments and records, regulatory filings such as financial statements and companies house, and disclosures of company registrations, licenses, and persons of significant control.

3.14 A risk register is established and reviewed by the board, with mitigations and risk levels agreed upon.

3.15 A board Charter is agreed upon and documented, which also sets out the role of the Chair.

3.16 The Conflicts of Interest register is updated, and an annual declaration of interest is completed by each director and officer.

Recommended governance measures for a Stage 3 Startup

The bundled set of measures below is recommended for **startups at Stage 3**. Note again that the list is based on good practices but is not intended to be exhaustive or prescriptive.

Decision-Making

People and Culture

Finance and Reporting

Risk and Compliance

3.17 An Audit and Risk Committee (ARC) of the board is set up and reviews audit reports, regulatory compliance and risks. An independent director chairs it – the ARC includes at least one finance expert.

3.18 Procurement procedures are established with protocols to ensure a competitive and transparent procurement process.

3.19 A staff grievance policy is implemented (including anonymous reporting), with a responsible board member assigned.

3.20 The board regularly reviews a summary of staff grievances, customer complaints, and a list of legal/regulatory actions taken against the company.

Milestone triggers

One way to prioritise Stage 3 measures is to implement them in response to reaching specific business milestones. Below are typical Stage 3 milestones. Continue to view the accompanying governance measures.

The second round of investors is typically secured as Series B.	More/new regulatory compliance is required as a result of growth.	Materiality and the number of risks increased along with business growth.
The board members are recruited from outside the founders' immediate network.	The number and variety of interactions with stakeholders are significant and delegated to a range of staff.	The company adopts three-to-five-year strategic plans and annual operating plans.
Product or service carries an intrinsically high degree of risk to the environment/stakeholders.	The company enters into a contract with the government.	Three (or more) layers of reporting in the organisation structure and team in multiple locations.
Off balance sheet financing adopted.	Physical assets acquired or inventory financing and management are now practiced.	

The second round of investors is typically secured as Series B.

3.2 Shareholder, partner and minority shareholder rights are clearly stated in investment documents and enforced (see Guidance Note 3 for more details on this).

3.3 An independent board chair is appointed, and the board includes at least one other independent non-executive director who has value-adding skills.

Decision-Making

People and Culture

Finance and Reporting

Risk and Compliance

More/new regulatory compliance is required as a result of growth.

3.13 The board receives reporting on compliance, including tax payments and records, regulatory filings such as financial statements and companies house, and disclosures of company registrations, licenses, and persons of significant control.

- Decision-Making
- People and Culture
- Finance and Reporting
- Risk and Compliance

Materiality and the number of risks increased along with business growth.

3.14 A risk register is established and reviewed by the board, with mitigations and risk levels agreed.

3.17 An Audit and Risk Committee (ARC) of the board is set up and reviews audit reports, regulatory compliance and risks. Chaired by an independent director. The ARC includes at least one finance expert.

Decision-Making

People and Culture

Finance and Reporting

Risk and Compliance

The board members are recruited from outside the founders' immediate network.

3.15 A board Charter is agreed upon and documented, which also sets out the role of the Chair.

3.16 The Conflicts of Interest register is updated, and an annual declaration of interests is completed by each director and officer.

Decision-Making

People and Culture

Finance and Reporting

Risk and Compliance

The number and variety of interactions with stakeholders (government representatives, suppliers, customers, funders, etc.) are significant and delegated to a range of staff.

3.17 An Audit and Risk Committee (ARC) of the board is set up and reviews audit reports, regulatory compliance and risks. An independent director chairs it - the ARC includes at least one finance expert.

3.18 Procurement procedures are established with protocols to ensure a competitive and transparent procurement process.

3.19 A staff grievance policy is implemented (including anonymous reporting), with a responsible board member assigned.

3.20 The board regularly reviews a summary of staff grievances, customer complaints, and a list of legal/regulatory actions taken against the company.

Decision-Making | People and Culture | Finance and Reporting | Risk and Compliance

Company adopts three-to-five-year strategic plans and annual operating plans.

3.1 The board discusses and approves the three-to-five-year strategy and annual business plans.

3.5 The board establishes a Human Resource Committee (sometimes called a Remuneration Committee) to oversee the CEO's performance and executive remuneration and take steps to mitigate key man risk.

Decision-Making

People and Culture

Finance and Reporting

Risk and Compliance

Product or service carries an intrinsically high degree of risk to the environment/stakeholders.

3.14 A risk register is established and reviewed by the board, with mitigations and risk levels agreed upon.

3.17 An Audit and Risk Committee (ARC) of the board is set up and reviews audit reports, regulatory compliance and risks. An independent director chairs it - the ARC includes at least one finance expert.

3.20 The board regularly reviews a summary of staff grievances and customer complaints and a list of legal/regulatory actions taken against the company.

Decision-Making | People and Culture | Finance and Reporting | Risk and Compliance

The company enters into a contract with the government.

3.17 An Audit and Risk Committee (ARC) of the board is set up and reviews audit reports, regulatory compliance and risks. An independent director chairs it - the ARC includes at least one finance expert.

3.18 Procurement procedures are established with protocols to ensure a competitive and transparent procurement process.

Decision-Making

People and Culture

Finance and Reporting

Risk and Compliance

Three (or more) layers of reporting in the organisation structure and team in multiple locations.

3.5 The board establishes a Human Resource Committee (sometimes called a Remuneration Committee) to oversee the CEO's performance and executive remuneration and take steps to mitigate key man risk.

3.6 A framework for the delegation of authorities is implemented, setting out who from the board and/or management is required to approve classes of business decisions, such as strategy, annual plans, budgets, expenditures, and financial transactions over specified thresholds. The CFO monitors implementation.

3.19 A staff grievance policy is implemented (including anonymous reporting), with a responsible board member assigned.

Decision-Making

People and Culture

Finance and Reporting

Risk and Compliance

Off balance sheet financing adopted.

3.7 The auditor is a recognised audit firm, and there is annual interaction between the auditor and the board or board Audit and Risk Committee.

3.8 A full-time CFO is hired to oversee the finance function and report Management Information (MI) to the board. CFO's responsibilities may include the Company Secretary's function of ensuring the company complies with relevant regulations and keeping board members informed of their legal responsibilities.

3.9 The finance function prepares monthly management accounts (cash flow and P&L statement) and quarterly board finance reports (P&L, balance sheet, and cash flow analyses). The CFO presents to the board and validates their accuracy.

Decision-Making

People and Culture

Finance and Reporting

Risk and Compliance

Physical assets acquired or inventory financing and management are now practiced.

3.7 The auditor is a recognised audit firm, and there is annual interaction between the auditor and the board or board Audit and Risk Committee.

3.8 A full-time CFO is hired to oversee the finance function and report Management Information (MI) to the board. CFO's responsibilities may include the Company Secretary's function of ensuring the company complies with relevant regulations and keeping board members informed of their legal responsibilities.

3.9 The finance function prepares monthly management accounts (cash flow and P&L statement) and quarterly board finance reports (P&L, balance sheet, and cash flow analyses). The CFO presents to the board and validates their accuracy.

Decision-Making

People and Culture

Finance and Reporting

Risk and Compliance

By company stage

STEP 1

The **bundled set of measures** below is recommended for startups at Stage 1 to 4. Note that the list is based on good practices but is not intended to be exhaustive or prescriptive. Click through each stage to view the relevant set.

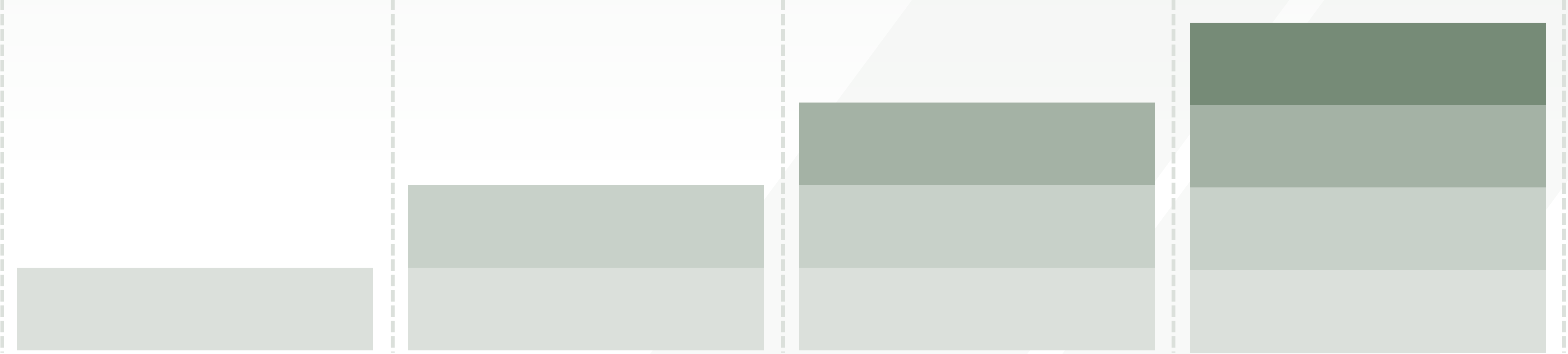
Recommended sets of governance measures

Stage 1

Stage 2

Stage 3

Stage 4



Recommended governance measures for a Stage 4 Startup

The bundled set of measures below is recommended for **startups at Stage 4**. Note again that the list is based on good practices but is not intended to be exhaustive or prescriptive.

Decision-Making

People and Culture

Finance and Reporting

Risk and Compliance

4.1 Crisis scenarios are identified, and the board-approved plan is in place to address them.

4.2 The board approves the decision-making protocol, setting out how decisions are made for strategy, finance, and recruitment - i.e., who is responsible, accountable, consulted, and informed.

4.3 The governance roadmap is drafted and updated annually.

4.4 A Governance Committee is established and monitors overall governance performance with a lead as governance champion, including board effectiveness reviews every one-to-two years.

4.5 The board's composition is reviewed for skills, experience, and diversity. Including governance, sustainable growth and risk management. Terms limits are established.

Recommended governance measures for a Stage 4 Startup

The bundled set of measures below is recommended for **startups at Stage 4**. Note again that the list is based on good practices but is not intended to be exhaustive or prescriptive.

Decision-Making

People and Culture

Finance and Reporting

Risk and Compliance

4.6 The CEO'S performance is measured against KPIs with remuneration linked to achievement of goals.

4.7 The CEO'S succession plan is in place.

4.8 A whistleblowing policy is set up for internal and external stakeholders to register incidents where the company Code of Ethics appears to be breached.

Recommended governance measures for a Stage 4 Startup

The bundled set of measures below is recommended for **startups at Stage 4**. Note again that the list is based on good practices but is not intended to be exhaustive or prescriptive.

- Decision-Making
- People and Culture
- **Finance and Reporting**
- Risk and Compliance

4.9 External auditors review the delegation of authorities and the segregation of duties as a key financial control.

4.10 Investors, the board and advisors are provided comprehensive financial information and ESG performance on a regular basis.

4.11 Management Information System (MIS), the suite of software systems that capture key operational and financial data, is assessed regularly (e.g., biannually) by independent MIS specialists for relevance, with updates approved by the board.

4.12 A term limit is established for external auditors.

Recommended governance measures for a Stage 4 Startup

The bundled set of measures below is recommended for **startups at Stage 4**. Note again that the list is based on good practices but is not intended to be exhaustive or prescriptive.

Decision-Making	
People and Culture	
Finance and Reporting	
Risk and Compliance	4.13 External stakeholder groups are identified, and the CEO leads engagement strategy for each. 4.14 Measures to fulfil ESG obligations and to use ESG to build competitive advantage are identified and implemented, with a nominated ESG lead on the board. 4.15 An external audit of the company's secretarial function is undertaken. 4.16 The company discloses the remuneration of the board members and senior management. 4.17 The CFO or dedicated internal audit manager leads a cross-departmental internal audit team to monitor risk management, with quarterly reporting to the audit and risk committee of the board.

Milestone triggers

One way to prioritise Stage 4 measures is to implement them in response to reaching specific business milestones. Below are typical Stage 4 milestones. Continue to view the accompanying governance measures.

The third round of investment is typically secured as Series C and beyond, now multiple investors.

The business is now operating in multiple markets and geographies with a range of products and services.

The scale of the company and the nature of the investors create a clear need for ESG strategy.

Company preparing for acquisition or merger.

Operating in multiple currencies.

The third round of investment is typically secured as Series C and beyond, now multiple investors.

4.3 The governance roadmap is drafted and updated annually.

4.4 A Governance Committee is established and monitors overall governance performance with a lead as governance champion, including board effectiveness reviews every one-to-two years.

4.5 The board's composition is reviewed for skills, experience, and diversity, including governance, sustainable growth and risk management. Terms limits are established.

4.6 The CEO's performance is measured against KPIs with remuneration linked to the achievement of goals.

4.7 The CEO's succession plan is in place.

Decision-Making | People and Culture | Finance and Reporting | Risk and Compliance

The business is now operating in multiple markets and geographies with a range of products and services.

4.5 The board's composition is reviewed for skills, experience, and diversity, including governance, sustainable growth and risk management. Terms limits are established.

4.9 External auditors review the delegation of authorities and the segregation of duties as a key financial control.

4.10 Investors, the board and advisors are provided comprehensive financial information and ESG performance on a regular basis.

4.13 External stakeholder groups are identified, and the CEO leads engagement strategy for each.

4.16 The company discloses the remuneration of board members and senior management.

4.17 The CFO or dedicated internal audit manager leads a cross-departmental internal audit team to monitor risk management, with quarterly reporting to the audit and risk committee of the board.

Decision-Making

People and Culture

Finance and Reporting

Risk and Compliance

The scale of the company and nature of the investors create a clear need for ESG strategy.

4.11 Management Information System (MIS), the suite of software systems that capture key operational and financial data, is assessed regularly (e.g., biannually) by independent MIS specialists for relevance, with updates approved by the board.

4.14 Measures to fulfil ESG obligations and to use ESG to build competitive advantage are identified and implemented, with a nominated ESG lead on the board.

- Decision-Making
- People and Culture
- Finance and Reporting
- Risk and Compliance

Company preparing for acquisition or merger.

4.4 A Governance Committee is established and monitors overall governance performance with a lead as governance champion, including board effectiveness reviews every one-to-two years.

4.5 The board's composition is reviewed for skills, experience, and diversity, including governance, sustainable growth and risk management. Terms limits are established.

4.15 An external audit is undertaken of the company's secretarial function.

Decision Making

People and Culture

Finance and Reporting

Risk and Compliance

Operating in multiple currencies.

4.9 External auditors review the delegation of authorities and the segregation of duties as a key financial control.

Decision-Making

People and Culture

Finance and Reporting

Risk and Compliance

Triggers

STEP
1

Startup companies should build up their governance proactively in a phased and proportionate way as they move through Stages 1 to 4. At the same time, there are **certain significant events or milestones in the life of a startup that can occur at any stage and trigger the need for added governance measures.**

Here is an indicative list of these; although a company may have different triggers based on its business model and operations, investors have a responsibility to help identify triggers and recommend the right measures to put in place. The numbers in brackets refer to the sets for each stage; e.g. 2.14 is a measure, that is part of a recommended Stage 2 set.

List of triggers

Triggers and related governance measures

Regulatory approval is required.	The company acquires physical assets.	The company builds a significant credit portfolio [e.g., customer receivables, e.g., >50% sales].
Product/service has an intrinsic high risk of negative impact on people or environment.	The company expands to a new country or is growing sales rapidly, including via a commission-based sales team.	The company is preparing for a merger or acquisition.
A red flag or incident indicates staff grievances are being suppressed or a spike in customer/staff complaints.	The company contracts with a government entity.	The company enters into negotiations with a new investor.
The investor is preparing for an exit.	Unexpected departure of founder/CEO.	

Regulatory approval required.

A legal register is introduced, recording regulatory compliance and reports to the board. A board member is assigned to provide mentoring and support to the CEO/CFO on regulatory compliance [2.16].

An Anti-Bribery and Corruption Policy is developed, which includes guidance on receiving and giving gifts and hospitality, prohibits facilitation payments and has protocols on how to deal with such requests [2.14].

Decision-Making

People and Culture

Finance and Reporting

Risk and Compliance

The company acquires physical assets.

A legal register is introduced, recording regulatory compliance and reports to the board. A board member is assigned to provide mentoring and support to the CEO/CFO on regulatory compliance [2.16].

The board receives reports on compliance, including tax payments and records, regulatory filings such as financial statements and companies house, and disclosures of company registrations, licenses, and persons of significant control [3.13].

The auditor is a recognised audit firm and there is annual interaction between the auditor and the board or board Audit and Risk Committee [3.7].

The finance function prepares monthly management accounts (cash and P&Ls) and quarterly board finance reports (P&L, balance sheet, and cash flow analyses) [3.9].

Decision-Making

People and Culture

Finance and Reporting

Risk and Compliance

The company builds a significant credit portfolio [e.g., customer receivables, e.g., >50% sales].

The auditor is a recognised firm, and there is annual interaction between the auditor and the board or Audit and Risk Committees [3.7].

The Finance Function prepares monthly management accounts (cash and P&Ls) and quarterly board finance reports (P&L, balance sheet, and cash flow analyses) [3.9].

Investors, board and advisors (where they exist) are provided with comprehensive financial information and ESG performance on a regular basis [4.10].

Decision-Making

People and Culture

Finance and Reporting

Risk and Compliance

Product/service has an intrinsic high risk of negative impact on people or environment.

Measures to fulfil ESG obligations and to use ESG to build competitive advantage are identified and implemented, with a nominated ESG lead on the board [4.14].

The board composition is reviewed for skills, experience, and balance [4.5].

Decision-Making

People and Culture

Finance and Reporting

Risk and Compliance

The company expands to a new country or is growing sales rapidly, including via a commission-based sales team.

An Anti-Bribery and Corruption Policy is developed, which includes guidance on receiving gifts and hospitality, prohibits facilitation payments and has protocols on how to deal with such requests [2.14].

Training on the Code of Ethics, Anti-Bribery and Corruption and Conflicts of Interest policies is provided to staff and board members [2.17].

A risk register is established and reviewed by the board, with mitigations and risk levels agreed upon [3.14].

A framework for delegation of authorities is implemented, setting out who from the board and/or management is required to approve classes of business decisions, such as strategy, annual plans, budgets, expenditures, and financial transactions over specified thresholds [3.6].

A full-time CFO is hired to oversee the finance function and report management information to the board [3.8].

Accounting policies reflect international standards (e.g., IFRS for SMEs/GAAP) [3.11].

Audit and Risk Committee (ARC) of the board is set up and reviews audit reports, regulatory compliance and risks [3.17].

Decision-Making | People and Culture | Finance and Reporting | Risk and Compliance

The company is preparing for a merger or acquisition.

A full-time CFO is hired to oversee the Finance Function and to report management information to the board [3.8].

Accounting policies reflect international standards (e.g., IFRS for SMEs/GAAP) [3.11].

Audit and Risk Committee (ARC) of the board is set up and reviews audit reports, regulatory compliance and risks [3.17].

A Due Diligence (DD) approach for M&A is in place (including financial, legal, tax, governance, and KYC reviews), and DD findings are discussed and reviewed by the board.

Decision-Making
People and Culture
Finance and Reporting
Risk and Compliance

A red flag or incident indicates staff grievances are being suppressed or a spike in customer/staff complaints.

A staff grievance policy is implemented (including anonymous reporting), with a responsible board member assigned [3.19].

Decision-Making

People and Culture

Finance and Reporting

Risk and Compliance

The company contracts with a government entity.

An Anti-Bribery and Corruption Policy is developed, which includes guidance on receiving gifts and hospitality, prohibits facilitation payments and has protocols on how to deal with such requests [2.14.

Procurement procedures are established with protocols to ensure a competitive and transparent procurement process [3.18].

Decision Making

People and Culture

Finance and Reporting

Risk and Compliance

The company enters into negotiations with a new investor.

The company conducts KYC checks on investors. A new investor and the company discuss and agree upon the governance framework.

Decision-Making

People and Culture

Finance and Reporting

Risk and Compliance

The investor is preparing for an exit.

The exiting investor and the company conduct a KYC due diligence process on the purchaser.

- Decision-Making
- People and Culture
- Finance and Reporting
- Risk and Compliance

Unexpected departure of founder/CEO.

The board establishes a Human Resource or Remuneration Committee to oversee the CEO's performance and executive remuneration and takes steps to mitigate key man risk [3.5].

Decision-Making

People and Culture

Finance and Reporting

Risk and Compliance

Step 2: Monitor progress and read the signals

STEP 2

Implementing governance measures **proactively** according to the company stage is a good way to build resilience and prevent many of the common challenges which result from weak governance. Investors can re-run a categorisation measure like the Stagefinder annually to **determine whether the stage has changed and, if so, whether the company's governance is keeping up.** This health check can also be done **reactively**, at any time, if investors see a significant number of warning signs arising at the same time across the different categories of the SMACS framework (explained in Guidance Note 1).

1	PROACTIVE	Has the framework been implemented?
2	PROACTIVE	Do you see business milestones that trigger action?
3	REACTIVE	Are there warning signs? (See Guidance Note 1)

Information sources for monitoring a portfolio company

Investor not on the board	Investor on the board	Investor teams
• Due diligence information at investment • MIS and financial reports and any other information sharing agreed upon under the shareholders' agreement • Annual financial statements • Reports from standard or bespoke audits or investigations • Information shared by other investors (e.g., with board representation) • Whistleblower reports	Likely to receive most materials outlined for investors not on the board plus: • Board packs • Board presentations • Special reports to the board • Board interactions • Meetings with other directors outside of the board • Meeting managers in and around board meetings	e.g., investment officers, ESG/Business Integrity/ Compliance teams • Meeting with management or board members • Engagement with staff during site visits • Whistleblower reports • Annual ESG/Compliance reports • Periodic due diligence refreshes (especially during follow-on rounds)

- Market news through contacts or events
- Reference checks
- News media reports
- Social media

Be mindful that there may be restrictions on how much of this information is made available to shareholders not on the board. Appropriate information rights to be included in shareholder agreement e.g., all board documents can be shared with and used by shareholders.

Step 3: Take action on missing governance measures

STEP 3

Investors can use their position as board members, shareholders and/or advisors to influence founders and senior management to address missing pieces or institutionalise their governance framework.

Have you..

- Identified missing governance measures?
- Seen opportunities for enhancing governance to add value?
- Tracked business milestones that should trigger action?
- Observed warning signs (SMACS)?

If yes

As a board member, you can:	As an advisor to the CEO/Management team, you can:
• Recommend the adoption of a governance framework (relevant to the stage), with an annual health check against this framework. • Leverage the information you obtain to promote the adoption of governance measures that are missing, being proactive, not just advising. • Work with the CEO to understand the expectations of new investors around governance so that the company can implement appropriate measures. • Request an annual update of the governance roadmap, highlighting strengths and weaknesses of the current governance framework, plus next steps for building.	• Assist the investee in adding missing measures. • Provide tools and training for the investee to conduct annual governance health checks, including benchmarking with peers. • Assist in drafting a governance roadmap. • Provide template policies, which companies can adapt and implement when required.

For more guidance on taking action, see Guidance Note 1 'Actions to take following warning signs'.

Step 3: Take action on missing governance measures

STEP 3

Fund managers should consider documenting their consistent approach to investee governance through guidance or a checklist. This may help to signal to investees their expectations around the role of investors – for example, on the company board.

Key messages around the investor **approach** to governance, for example:

- ‘Founder friendly does not mean no oversight or board.’
- ‘Boards and investors enhance upside and do not only manage risk.’
- ‘Wherever possible, we seek to include mutually agreed governance principles in shareholder agreements.’

The investor’s **interpretation of key principles** of governance such as:

- **It is phased:** Different sets of measures are needed at different stages of the startup growth; ‘we help portfolio companies develop a governance framework that addresses key risks and challenges over time.’
- **It should be proportionate:** Governance measures vary in intensity and nature based on the stage and size of the company and the risks to which it is exposed.
- **It should be adaptive:** Governance measures need to change based on learning and feedback about risks, priorities as well as new challenges or incidents.

Case study

GoHardy, India

During this case study, you will read the transcripts of a series of four audio clips. In each audio clip, you will hear about **governance-related issues arising at successive stages** of GoHardy's development as a startup.

GoHardy, India

GoHardy is a B2B platform for tools and household hardware, which was started by two co-founders in India in 2019. Up until its third year of operation, GoHardy had only an advisory board in place. However, after it raised $4.8m in a Series A round in its fourth year, additional VCs joined the cap table, and another joined the newly formed board.

Founders	**Atul Nayak** (CEO, 31 years old) and **Amit Basak** (CTO, 30 years old)
Investors	Co-founders (51%) Northwaze Ventures (25%) Local Angels (15%) Other seed investors (9%)
Advisory Board Composition at Stage 1	**Hari Sahu**, Chair (prominent local businessman and angel, recently appointed). **Atul Nayak**, CEO **Amit Basak**, CTO **Ranjit Patel** (Director at Northwaze Ventures) In attendance: **Aditi Das**, Finance Manager
Board Composition at Stage 2	Joining at Series A: **Priyanka Panjul** (Partner Oriyon Ventures) at Series A Meera Gupta, CFO (who was appointed post Series A)

Instructions

Imagine that YOU ARE **Ranjit Patel**, a director at Northwaze Ventures who first sits on the advisory board of GoHardy and later on the board.

Continue

This case study is fictitious and is not based on any BII or FMO investment.

1

GoHardy is in its 2nd year of operations. It launches its platform, funded by co-founders and seed investors and wins its first customers.

Applying the Stagefinder to GoHardy as shown below, Ranjit finds that they are indeed at **Stage 1** as expected.

STARTUP STAGEFINDER

			YOUR ANSWER
Business size	1	How many Full Time Employees (FTEs) are there?	25 or fewer
	2	What is annual revenue expected in the current year?	Above 0 less than $5m
	3	How many departments are there headed by executives/ CXOs?	2
Business complexity	4	Does the company have activities in more than one country?	No
	5	How many currencies does the company receive or pay?	1
	6	How many separate legal entities are there within the group controlled by the company?	0-2
Physical operations	7	Which of these classes of physical assets is the most significant on the balance sheet?	None
	8	Does the company operate a complex supply chain involving multiple players?	No
Regulation	9	Does the company provide financial services subject to regulation?	No
	10	What is the nature of regulatory oversight and reporting for the core activity?	None
Investor base	11	How many investors are there who are *not* founders, or their family or friends?	6-10
	12	How many institutional investors (i.e. VC firms, financial institutions) are shareholders?	5 or fewer
		THIS COMPANY IS LIKELY AT	**Stage 1**

You can find the set of governance measures expected to be in place for **Stage 1** companies on pages 34-37.

This case study is fictitious and is not based on any BII or FMO investment.

1

GoHardy is in its 2nd year of operations. It launches its platform, funded by co-founders and seed investors and wins its first customers.

Thinking of the set of measures expected to be in place for a **Stage 1** company, **read the transcripts** to the story on the next slide. Can you spot any warning signs that some of these measures may be missing and, therefore, represent opportunities for governance enhancements?

This case study is fictitious and is not based on any BII or FMO investment.

1 Audio clip 1 of 4

TRANSCRIPT

Atul and his co-founder Amit grew up helping with their families' trading businesses and were convinced that technology could bring huge efficiencies to supply chains in India. As engineers, they were excited to develop a software platform to make this happen. They set up GoHardy and started to test the platform with funding from friends and family. They were taken aback at the quick uptake and soon began to make larger sales, reaching US$125,000 in their second year. They used the revenue to pay their sales team of five staff members and outsourced their software development to Indian and US suppliers. Atul and Amit used their bank accounts to make and receive payments, so it was not easy to track separately from personal transactions, but they felt it was too early to set up a separate bank account for the business.

They met every few months with a family friend and angel investor, Hari, and a college friend, Jaya, to discuss sales data. They called this their 'Advisory Group.'

One day, noticing the growing revenue, Amit asked his co-founder: 'Shouldn't we recruit a dedicated finance person?'

Atul resisted: 'So far, we have had cash every month to pay our bills, so I think we are doing fine. As long as sales are strong, it should work out - that is all we need to measure.'

Noting the strong potential and early traction, Indian VC firm Northwaze Ventures participated in a seed funding round in the second year, which gave it a 25% equity share alongside three other investors. Northwaze director Ranjit Patel led the investment and managed to check in with Atul every few months about how things were going. When Ranjit asked Atul how he planned to build the company's governance over time to be ready for external investors, Ranjit responded, 'That is definitely something we can worry about later.'

After reading the transcript, do you think any of the below warning signs are relevant at this stage?

Meetings of the advisory group are irregular.	The co-founders had not set up a separate bank account.
No cash planning.	Atul does not maintain and share a formal risk register with the Advisory Group.
Management are focused only on revenue.	There is no internal audit function.
Hari is the only independent advisor and seems to have had little relevant experience.	Atul does not appear to recognise the value of building good governance from an early stage.

Continue to see which may be relevant and find out what should be done about them.

Relevant warning signs	Ranjit's recommendations
Meetings of the advisory group are irregular.	Schedule regular meetings of the decision-making group.
No cash planning.	Set up and regularly update cash flow forecasts.
Management are focused only on revenue.	Adopt and maintain a consistent approach for financial reporting cycles to decision-making groups (e.g., board or key investors).
Hari is the only independent advisor and seems to have little relevant sector experience.	'Invite an additional advisor to the Advisory Group with experience in the sector. Advisory Group to have defined terms of reference.'

Relevant warning signs	Ranjit's recommendations
The co-founders had not set up a separate bank account.	Establish a separate bank account for the company.’
Atul does not maintain and share a formal risk register with the Advisory Group.	This is not essential at this early stage.
There is no internal audit function.	This is not expected at this early stage.
Atul does not appear to recognise the value of building good governance from an early stage.	‘Encourage Atul to set the tone from the start around the importance of good governance.’

You have seen some of the actions which Ranjit may take. However, there may be different views on the best action to take. **Here are some opinions from different investors:**

GIULIA
Partner in a VC investor

'While GoHardy's offering sounds exciting, I would like to see the seed investors discussing their expectations about cash management and reporting with the founders at the start. Setting these basic expectations early on is so important and will help GoHardy focus on the most important things as it grows.'

JASPER
Associate at a VC fund

'I want to see Atul clearly show he appreciates the importance of strong financial management in winning the trust and confidence of investors from the start. It is always better for founders not to hold back on reporting bad news or results and to do this as transparently as possible so as to build trust with the investors. So this would be my starting point with Atul.'

2 GoHardy's business has grown strongly and it is preparing for its Series A round.

A year later, re-applying the Stagefinder based on the new evidence shows that GoHardy will enter **Stage 2** as it takes on institutional investors for the first time.

STARTUP STAGEFINDER

			YOUR ANSWER
Business size	1	How many Full Time Employees (FTEs) are there?	25 or fewer
	2	What is annual revenue expected in the current year?	Above 0 less than $5m
	3	How many departments are there headed by executives/ CXOs?	2
Business complexity	4	Does the company have activities in more than one country?	No
	5	How many currencies does the company receive or pay?	2
	6	How many separate legal entities are there within the group controlled by the company?	0-2
Physical operations	7	Which of these classes of physical assets is the most significant on the balance sheet?	None
	8	Does the company operate a complex supply chain involving multiple players?	Yes
Regulation	9	Does the company provide financial services subject to regulation?	No
	10	What is the nature of regulatory oversight and reporting for the core activity?	None
Investor base	11	How many investors are there who are *not* founders, or their family or friends?	6-10
	12	How many institutional investors (i.e. VC firms, financial institutions) are shareholders?	5 or fewer
		THIS COMPANY IS LIKELY AT	**Stage 2**

You can find the set of governance measures expected to be in place for **Stage 2** companies on pages 44-47.

2 GoHardy's business has grown strongly and it is preparing for its Series A round.

Thinking of the set of measures expected to be in place for a **Stage 2** company, **read the transcripts** to the story on the next slide. Can you spot any warning signs that some of these measures may be missing and, therefore, represent opportunities for governance enhancements?

2 Audio 2 of 4

TRANSCRIPT

As the business continued to expand into the third year of operations, Ranjit joined the Advisory Group meetings.

Aditi was hired as a Finance Manager after Atul finally accepted the need for this role. Her appointment raised the total staff to 25, including the sales team, which is now ten people strong, and an in-house software development team of nine, four of whom were based in the US.

One afternoon, in advance of a meeting with the Advisory Group, Aditi was nervous. She had struggled to piece together the management accounts from two months ago since the sales team was not very forthcoming with details about recent sales. She also had not had time to do bank reconciliations or prepare an updated cash flow forecast but was happy to note that at least sales were tracking exactly to the US$500,000 annual target.

At the meeting, Atul was delighted to see that the sales team was hitting its targets. He commended Aditi on her work pulling the revenue numbers together. Noting that there was no cash forecast or analysis of the quality of receivables, Ranjit queried how she had calculated the sales figures: 'When is revenue booked in the accounts as income?'

Aditi explained that customers paid 25% of GoHardy's fees on acquiring stock through the platform and then paid off the balance when they sold the stock. However, GoHardy booked all the revenue in the accounts upfront, raising a debtor for the balance. Ranjit suggested that they get advice from the auditors on whether this treatment was appropriate. He also asked her to prepare a regular analysis of how the debtor's book performed.

Atul resisted: 'Aditi is so busy right now; I would prefer she concentrate on preparing the basic profit and loss and updating the cash flow. I know most of these merchants very well - there is no risk of them defaulting.'

2 Audio 2 of 4

TRANSCRIPT

In his CEO report back, Atul was upbeat about the business results over recent weeks. 'Transaction volume and stocks are rising fast, and our retailer customers tell us that they have way more product choices on our platform than any other.'

Characteristically, co-founder Amit was more cautious. 'The high level of interest in our service is great news, but we are not yet sure whether our fees will cover all the staff, software and financing costs we now have. We also do not know much about the quality of our customer service. I think we need to be monitoring monthly indicators like customer payments, supplier delivery, finance cost per customer and also the numbers of suppliers.'

'Come on, Amit; you are always too cautious,' teased Atul. 'It's all about sales right now, and our KPIs are looking fine in that are.' Hari nodded in support.

Ranjit had started to encourage the co-founders to prepare for a Series A round. As part of this, Atul and Hari agreed to establish a formal board consisting of Hari as Chair, Ranjit (as a seed investor), and Atul and Amit as executive directors. Ranjit asked Atul how discussions with potential investors were going.

'We have three investors who are super-interested in funding us. Actually, I played 18 holes with one of them yesterday at the golf club. At the end of dinner, I presented him with a top-of-the-range set of clubs, which he loved. He has asked us for a load of documents, but once we deliver those, the investment could close in a few weeks. Which is great as our cash is getting quite low.'

'Are those sorts of gifts and entertainment usual at GoHardy?' asked Ranjit.

2 Audio 2 of 4

TRANSCRIPT

‘It’s how we do business here,’ interjected Hari. ‘I’ve known Atul since he was a boy, so I trust him to handle all this and even manage all his own expenses. You should know that he is very careful about business ethics. Only last month, he had to let go of one of the staff who paid a small facilitation payment to a municipal inspector who was checking on our licences.’

‘That’s good to hear. Do we already have a Code of Ethics?’ asked Ranjit. ‘We are now preparing for your Series A round, and investors will expect it. In fact, they will also expect to see some basic policies in place around Anti-Bribery and Corruption and defining and responding to conflicts of interest.’

‘Nice suggestion, Ranjit,’ replied Hari, ‘But we’re still so small. I am sure we will get to all that formality later when the team has more time. Right now, these investors seem to be knocking our door down to get in on the action, so they aren’t asking to do too much else!’

After reading the transcript, do you think any of the below warning signs are relevant at this stage?

Cash accounting is absent, and accounting methods look unreliable.	No system to control expenses and gifts and hospitality received or provided.
The CEO is not prioritising financial management or controls.	Sales to the government without a Code of Ethics and Anti-Bribery and Corruption controls in place heighten corruption risks. A staff member was fired for bribing a government official.
There is no external audit of the secretarial function.	Too narrow a focus on revenue, a high risk of cash crisis without an analysis of unit economics or a plan to reach break-even.
Cash balances falling, together with an overly optimistic account of incoming investment, suggests the company may not survive any investment delay.	There is no Governance Committee.

Continue to see which may be relevant and find out what should be done about them.

Relevant warning signs	Ranjit's recommendations
Cash accounting is absent, and accounting methods look unreliable.	Establish a finance function, overseen by a senior finance manager, supported by a team of financial controllers/professionals, as a minimum. A part-time/full-time CFO may be considered at this stage.
CEO is not prioritising financial management or controls.	Clarify roles of the CEO and CFO, ensuring that the CFO has an independent voice.
There is no external audit of the secretarial function.	This is not essential at Stage 2, more appropriate at Stage 4.
Cash balances falling, together with an overly optimistic account of incoming investment, suggests the company may not survive any investment delay.	The CFO provides a realistic cash forecast, including scenarios which reflect possible investment delays.

Relevant warning signs	Ranjit's recommendations
No system to control expenses and gifts and hospitality received or provided.	Develop an anti-bribery and corruption policy including guidance on gifts and hospitality, prohibition of facilitation payments and protocols on how to deal with such requests. All staff to be trained on application.
Sales to the government without a Code of Ethics and Anti-Bribery and corruption controls in place heighten corruption risks. A staff member was fired for bribing a government official.	Adopt a Code of Ethics to embed the company's values. Develop an Anti-Bribery and Corruption Policy, including guidance on gifts and hospitality, prohibition of facilitation payments and protocols on how to deal with such requests. Approve a procedure defining conflicts of interest and how to report and manage them by the board (e.g., the company contracting a supplier owned by a board member, or board member/investor is also a shareholder in competitor or business/M&A partner). Provide training to staff and Board on Code of Ethics, Anti-Bribery and Corruption and conflicts of interest.
Too narrow a focus on revenue, a high risk of a cash crisis without an analysis of unit economics or a plan to reach break-even.	Include key metrics and tracking of forecasts to actuals in board packs, including analysis of unit economics, and strategy and timing for reaching break-even.
There is no Governance Committee.	This is not essential at Stage 2, more appropriate at Stage 4.

But again, there may be different views on how he should act. Read the opinions from the same two investors below:

GIULIA
Partner in a VC investor

'My concern is that Atul is still not recruiting qualified finance staff, so the new board lacks visibility of the real numbers. And with Hari rarely challenging him as a family friend, the risk is that the financial results are overstated. I would push for an independent chair earlier and a qualified CFO. I want to see Atul develop a strategy for how and when GoHardy's service might reach break-even. This will ensure the board can focus on the right issues for the company to succeed.'

JASPER
Associate at a VC fund

'It seems clear that the financials are rather questionable. Extending credit for part of the fees also raises the level of risk. In the absence of a qualified CFO at this stage, I would push at least to have a dedicated debtors manager responsible for analysing and reporting portfolio at risk numbers and recommending on the approach to customer credit. This would lead to better risk management at least.'

GOHARDY

3 GoHardy is in its 5th year of operations. GoHardy experiences strong growth by expanding to new cities, but its governance systems are lagging behind.

Re-applying the Stagefinder two years later using new answers shows that GoHardy has now entered **Stage 3**.

STARTUP STAGEFINDER

			YOUR ANSWER
Business size	1	How many Full Time Employees (FTEs) are there?	101-250
	2	What is annual revenue expected in the current year?	$5m to $25m
	3	How many departments are there headed by executives/ CXOs?	4 or more
Business complexity	4	Does the company have activities in more than one country?	No
	5	How many currencies does the company receive or pay?	2
	6	How many separate legal entities are there within the group controlled by the company?	3-4
Physical operations	7	Which of these classes of physical assets is the most significant on the balance sheet?	Office buildings
	8	Does the company operate a complex supply chain involving multiple players?	Yes
Regulation	9	Does the company provide financial services subject to regulation?	No
	10	What is the nature of regulatory oversight and reporting for the core activity?	General and periodic
Investor base	11	How many investors are there who are *not* founders, or their family or friends?	More than 20
	12	How many institutional investors (i.e. VC firms, financial institutions) are shareholders?	More than 5
		THIS COMPANY IS LIKELY AT	**Stage 3**

You can find the set of governance measures expected to be in place for **Stage 3** companies on pages 58-62.

3

GoHardy is in its 5th year of operations. GoHardy experiences strong growth by expanding to new cities, but its governance systems are lagging behind.

Thinking of the set of measures expected to be in place for a **Stage 3** company, **read the transcripts** to the story on the next slide. Can you spot any warning signs that some of these measures may be missing and, therefore, represent opportunities for governance enhancements?

3 Audio 3 of 4

TRANSCRIPT

Fuelled by a successful US$4.8m Series A round, which attracted no less than seven new institutional investors, GoHardy sales had grown fast to exceed US$6.5m per annum in its fifth year, now serving 2,500 customers across Bhubaneswar and two other Odisha cities. The team had grown too, with 85 more staff members managing customers, suppliers and finance, alongside a sales team of 30, taking the total staff complement to over 100, managed in four different divisions. Ranjit was back in Bhubaneswar to attend the first meeting of GoHardy's newly formed board - Atul, Amit, Hari, Ranjit, plus a new investor: Priyanka Panjul, a partner in the VC firm Oriyon Ventures who had joined the board as a result of its investment.

'Quite a show we are seeing with GoHardy this last quarter!' Ranjit commented when he met Priyanka in the GoHardy offices going into her first board meeting.

'Yes,' said Priyanka, 'just what I was hoping for!'

Ranjit continued: 'Although I am a bit disappointed that the board pack only really covers sales, growth into new markets, and different valuations. I hope we will learn more in the meeting.' However, Priyanka's non-committal response suggested she didn't quite share Ranjit's desire for more rigorous financials, and the other directors were already at the board table, ready to start the meeting.

At the board meeting, Ranjit joined Hari and Priyanka in congratulating Atul on the strong revenue growth. But he voiced his disappointment that the analysis of unit economics, which he had requested at the previous board meeting, was not in the pack. Atul quickly reassured him that the new CFO, Meera, who had just been appointed several months before, was still working on this. She was getting a handle on the business after Aditi's sudden resignation and departure. Meera had prioritised coming up with profit and loss forecasts, which would reassure the board.

3

Audio 3 of 4

TRANSCRIPT

At his invitation, Meera presented a spreadsheet which projected GoHardy breaking even within 18 months. This was well received by the other directors, and no one questioned the projections. Ranjit felt that he was being given the run around on his requests, but then Atul seemed very confident that GoHardy would continue to hit revenue targets as it had to date, so he silenced his doubts and remained quiet.

Atul then described a new circumstance: a competitor, Logistak, had opened in the market. 'In response, I made the decision to extend credit terms to our largest customers, temporarily. We also opened up in two new cities to pre-empt them, despite my team having some doubts about whether this would work. But the numbers show who was right: those moves have maintained our sales growth and prevented any major customer attrition. Also, I am happy to tell Ranjit that customer payments remain broadly on track.'

'What exactly do you mean?' asked Ranjit. 'What percentage of customer payments are late?'

"Well, Meera is still working on the exact numbers: Aditi never did this and left her with a bit of a mess to sort out with the customer receivables. But I stay close to the sales process, and I know for a fact that our customers are extremely pleased with us, and so I have full confidence they will continue paying.'

Meera added: 'Yes, collections do seem okay, but cash is now quite tight. Last week, we had to negotiate a delay in payment to one of our principal lenders. Fortunately, our relationship with the bank is good, but I think we may need to bring forward the date of our Series B. We will need a good story as well as good numbers to do this.'

GoHARDY

3 Audio 3 of 4

TRANSCRIPT

‘We have a great story!’ Atul emphasised. ‘The entry of a new competitor actually got me thinking: attack is the best form of defence! This is the time to expand our business into new customer segments like supermarkets, which are starting to spring up, and also into some new states. That way, we will have the advantages of scale to pass on to our customers. So, I have contracted my cousin’s market research firm to landscape the market in Andra Pradesh, so we can devise the right customer acquisition strategy. By the way, we have also started providing hardware to the Bhubaneswar Municipal Corporation: they need plenty of supplies to maintain their offices and government-owned housing stock. Breaking into the local government market is huge! Do you know how many other cities in India are as big as Bhubaneswar? This is why it’s such a great story!’

Later in the Board meeting, during a discussion of the finance report, Meera mentioned that GoHardy had received a letter from the Tax Authority, who, following a recent audit, was claiming substantial retrospective taxes which GoHardy had not provided for and had given the company three weeks to pay. Failure to comply could lead to an order to suspend operations and to substantial penalties. However, Atul seemed unperturbed. He assured the board that this situation was not unusual and amounted to a shake-down by the tax inspectors. Taken aback, Ranjit looked around the board table. ‘I find this very worrying and quite a surprise. Assuming we find a way to resolve this immediate issue, can I propose that we contract an expert to prepare a report on our level of tax compliance in all the districts we work in?’

Hari quickly responded: ‘Don’t worry, Ranjit; it’s really not such a big deal. I have good connections in the tax office, and I will settle this quickly; there is no need to pay more expensive advisers.’

3 Audio 3 of 4

TRANSCRIPT

At the end of the finance report, Ranjit raised a question. 'Last night at the staff function, I was chatting with a member of the finance team who was concerned about whether the financials we see capture the full picture. I won't compromise the person by giving the name, but the person felt too nervous to raise the issue directly with the management and said they did not know how else to raise these concerns with the board. There is no HR policy, which would give guidance to cover this, and there is no board HR Committee either.'

Meera smiled. 'I think I know who that is! Don't worry; I will reach out to her and hear her concerns. I know it was a bit of a mess when I arrived, but I'm sure we can address the questions.'

Thinking he might have unintentionally exposed a staff member, Ranjit now threw caution to the wind: 'I am very worried about how we are going about making decisions at GoHardy at the moment. We need to think ahead to our next funding round. But, right now, I, for one, will not be in it unless I can get answers to my questions and we agree to improve our level of governance.

After reading the transcript, do you think any of the below warning signs are relevant at this stage?

Insufficient pushback from the board on the quality of financial information, uncertain unit economics and likely business viability, and not focusing sufficiently on the reality of GoHardy's cash situation.	Starting to do business with government clients introduces a new set of reputation, conflict and corruption risks.
There is no external audit of the company's secretarial function.	CEO surprises the board with the situation with the regulator, which could threaten business closure, and dismisses its importance. Hari suggests he will follow informal channels to resolve this.
CEO taking strategic decisions (expansion to new market segments, changed financing terms) without consulting the board indicates little understanding or acceptance of board vs CEO roles.	Absence of a process through which staff can raise concerns with the board.
Contracting his cousin for market research without declaration is a conflict of interest.	GoHardy does not carry out regular crisis scenario planning.

Continue to see which may be relevant and find out what should be done about them.

Relevant warning signs	Ranjit's recommendations
Insufficient pushback from the board on the quality of financial information, uncertain unit economics and likely business viability, and not focusing sufficiently on the reality of GoHardy's cash situation.	Appoint an independent Chair. Hire a full-time CFO to oversee the Finance Function and report Management Information (MI) to the board. CFO's responsibilities may include Company Secretary function of ensuring the company complies with relevant regulations and keeping the board members informed of their legal responsibilities. Set up an Audit and Risk Committee (ARC) of the board to review audit reports, regulatory compliance, and risks. Chaired by an independent Director and including at least one finance expert. The finance function should prepare monthly management accounts (cash and P&Ls) and quarterly board finance reports (P&L, balance sheet, and cash flow analyses). The CFO should present to the board and validate the accuracy and demonstrate to the ARC that accounting policies reflect international standards.
There is no external audit of the company's secretarial function.	This is not essential at this stage, more appropriate for Stage 4.

Relevant warning signs	Ranjit's recommendations
CEO taking strategic decisions (expansion to new market segments, changed financing terms) without consulting the board indicates little understanding or acceptance of board vs CEO roles.	Document senior management, Chair and board roles, including board formally overseeing management. Share widely among staff and board, and CFO reporting on implementation to the board. Implement a framework for the delegation of authorities, setting out whom from the board and/or management is required to approve business decisions, such as strategy, annual plans, budgets, expenditure, and financial transactions over specified thresholds. Implementation should be monitored by the CFO.
Contracting his cousin for market research without declaration is a conflict of interest.	Adopt a Code of Ethics and ensure all board and staff are aware of and understand it. It includes a definition of conflicts of interest and how to manage them.
Starting to do business with government clients introduces a new set of reputation, conflict and corruption risks.	Provide training to all staff on Code of Ethics, Anti-Bribery and Corruption (including guidance on gifts and hospitality) and conflicts of interest (which were all introduced by GoHardy at Stage 2).

Relevant warning signs	Ranjit's recommendations
CEO surprises the board with the situation with the regulator, which could threaten business closure, and dismisses its importance. Hari suggests he will follow informal channels to resolve this.	Board to identify forward- looking key risks and how to mitigate them (risk register). Management to start reporting regularly to the board on compliance, including tax payments and records, regulatory filings such as financial statements and companies house, and disclosures of company registrations, licences, and persons of significant control. Conflicts of Interest register and annual declaration of interests completed by directors and officers.
Absence of a process through which staff can raise concerns with the board.	Adopt a whistleblower policy (including anonymous reporting) and assign a board member to be the point of contact for staff.
GoHardy does not carry out regular crisis scenario planning.	This is not essential at this stage, more appropriate for Stage 4.

Again, there may be different views on how he should act. Read the opinions from these two investors below:

GIULIA
Partner in a VC investor

'I think Atul is putting his company at risk, and his Directors are not doing him any favours by allowing him to maintain an informal approach to business (expenses, procurement, investor negotiations, etc). We should quickly clarify the Board's and Atul's respective roles in decision-making; this will build trust among investors and help us ensure the best decisions are being made for GoHardy'

JASPER
Associate at a VC fund

'Learning to delegate and build teams is crucial to a founder's role. The absence of a phased organisational development plan is a key concern for me and I see too much decision-making concentrated around the CEO. I would request one urgently, showing how responsibilities will be delegated and better-qualified staff recruited sooner.'

4 GoHardy is in its 8th year of operation. GoHardy needs capital to fund its growth, but is struggling to attract Series C investors.

A year later, re-applying the Stagefinder based on the new evidence shows that GoHardy is now at **Stage 4**.

STARTUP STAGEFINDER

			YOUR ANSWER
Business size	1	How many Full Time Employees (FTEs) are there?	Above 250
	2	What is annual revenue expected in the current year?	$26m to $50m
	3	How many departments are there headed by executives/ CXOs?	4 or more
Business complexity	4	Does the company have activities in more than one country?	Yes
	5	How many currencies does the company receive or pay?	2
	6	How many separate legal entities are there within the group controlled by the company?	5-6
Physical operations	7	Which of these classes of physical assets is the most significant on the balance sheet?	Warehouses and fleet
	8	Does the company operate a complex supply chain involving multiple players?	Yes
Regulation	9	Does the company provide financial services subject to regulation?	No
	10	What is the nature of regulatory oversight and reporting for the core activity?	General and periodic
Investor base	11	How many investors are there who are *not* founders, or their family or friends?	More than 20
	12	How many institutional investors (i.e. VC firms, financial institutions) are shareholders?	More than 5
		THIS COMPANY IS LIKELY AT	**Stage 4**

You can find the set of governance measures expected to be in place for **Stage 4** companies on pages 76-79.

4

GoHardy is in its 8th year of operation. GoHardy needs capital to fund its growth, but is struggling to attract Series C investors.

Thinking of the set of measures expected to be in place for a **Stage 4** company, **read the transcripts** to the story on the next slide. Can you spot any warning signs that some of these measures may be missing and, therefore, represent opportunities for governance enhancements?

4 Audio 4 of 4

TRANSCRIPT

Ranjit was delighted to be in Cuttack for a two-day board strategic planning retreat with senior management. Meanwhile, GoHardy had managed to raise US$25m in its Series B round, though well below its target of US$48m. Annual sales had grown to US$35m, helped in part by GoHardy's expansion into Bangladesh, and staff levels had just reached 350. Hari had stepped down as a non-executive director, and the board had appointed an independent Chair.

At dinner the night before the meeting, Ranjit noticed a sense of unease as other non-executive directors compared notes informally.

'The board materials are always so long, and this board takes up more time than my other portfolio companies. Frankly, I am not sure we as a board are adding much value,' Priyanka said.

'Also, I don't think that Atul and our new chair are getting along too well, which doesn't help.' Ranjit agreed. 'The company is bigger, but we still don't have anyone on the board with experience in the fast-growing supermarket or municipal sectors. I suggested to the Chair that we set up a Governance Committee to look at the structure of the board and how we are performing as a board, but he just doesn't seem interested. Oh well, let's see how tomorrow goes – I may raise it again.'

The next morning, as the meeting started, Atul updated the board on recent news. 'Sales remain on target overall – we're good at that – although I do note that AP business has been slower to take off because retailers there have been using Logistak's platform. So this past month, I actually initiated discussions with Logistak around a potential merger and hoped to be able to report here that we had a deal. Negotiations started well but then fell through suddenly. They claimed that our responses during early due diligence were too slow and raised some concerns around the consistency of our figures.' Meera added that the delays in finalising GoHardy's most recent audit and the penalty for late payment of taxes that had followed hadn't helped.

4 Audio 4 of 4

TRANSCRIPT

Ranjit quizzed Atul about the stories reported widely in the local press about scam trading platforms stealing personal data. A State Minister had called for new licensing requirements for the platform sector and for shutting down all unlicensed trading platforms. Atul said that, following the recent departure of his communications manager, there was a shortage of skilled people to handle this degree of media interest. He had refused to take a flurry of calls from journalists asking for comment: 'I've had my hands full just keeping the sales going while I also find a replacement for our Chief Marketing Officer who moved over to Logistak – the traitor! But everyone knows we aren't a scam trading platform, so I think all the fuss will blow over soon.'

The day finished with a session on the fundraising outlook. Two new major investors were in the late stage of due diligence prior to closing, with a target raise of US$50m for the Series C round. Atul reported on the questions which had come up so far. The conversation quickly turned to how to get to close soon.

Ranjit challenged Atul: 'I know we are taking some steps to improve our governance. For example, I'm happy to see the Code of Ethics is now in place. Meera has told me about all the staff training you do on this, which is great. But I don't think it is enough to satisfy these "C" investors who write the bigger cheques. Look, we're facing questions around inconsistency in our numbers, high staff turnover, growing competition and even regulatory threats. The only way to address them is to show that we have appropriate oversight measures in place. For example, we still don't have a formalised CEO performance monitoring and appraisal process in place, and we still don't have an internal audit function to keep tabs on all these increasingly complex moving parts in our business. We really should have all that in place at our stage of development.'

'You may be right, Ranjit, but we're so close to closing the round now,' Atul said. "Let's just concentrate on closing, then we can worry about all these other things".

Just as he finished, Meera looked up from her phone with a frown: she blurted out the sobering news that one of the two major potential investors had withdrawn. The success of the whole Series C round was now at risk.

After reading the transcript, do you think any of the below warning signs are relevant at this stage?

CEO - chair relationship weak. Board composition has not evolved to meet the needs of the business. Board members are disengaged, and the Chair appears uninterested in board self-assessment.	Evidence of high churn of senior management.
The merger was delayed due to inconsistent financial data and management unresponsiveness during due diligence.	There is no formalised CEO performance monitoring and appraisal in place.
Significant and unforeseen risks from government licensing has the potential to close business, with no mitigation strategy and no communications plan to manage reputational risk.	There is no internal audit function to keep an eye on all these moving parts.
There is no framework (i.e. Institute of Chartered Accountants) listing a detailed documentation of risk control measures.	The emergence of Logistak could threaten GoHardy's future and is being understated as a risk.

Continue to see which may be relevant and find out what should be done about them.

Relevant warning signs	Ranjit's recommendations
CEO - chair relationship weak. Board composition has not evolved to meet the needs of the business. Board members are disengaged, and the Chair appears uninterested in board self-assessment.	Establish a Governance Committee to monitor overall governance performance with a lead as governance champion, including regular (one-to-two-years) board effectiveness reviews.
The merger was delayed due to inconsistent financial data and management unresponsiveness during due diligence.	With a CFO and Finance Controller already in place, this warning sign would call for an independent review of the adequacy of the financial control systems, reporting to the board Audit and Risk Committee.
Significant and unforeseen risks from government licensing has the potential to close business, with no mitigation strategy and no communications plan to manage reputational risk.	Verify that the regular compliance report to the Board is fit for purpose and has covered all immediate “license to operate” risks. Identify external stakeholder groups and implement an engagement strategy aimed at safeguarding reputation, led by the CEO. Draft crisis scenarios and approve mitigation strategy, including communications.
There is no framework (i.e. Institute of Chartered Accountants) listing a detailed documentation of risk control measures.	While this may be useful, it is not essential at this stage and would not address the immediate issues at GoHardy.

Relevant warning signs	Ranjit's recommendations
Evidence of high churn of senior management.	Establish a Human Resource Committee (sometimes called a Remuneration Committee) to oversee the CEO's performance and executive remuneration. Ensure staff engagement is included as a performance criterion.
There is no formalised CEO performance monitoring and appraisal in place.	Set up a committee of the board, led by the Chair, to oversee CEO performance and executive remuneration and take steps to mitigate key man risk.
There is no internal audit function to keep an eye on all these moving parts.	Establish an internal audit function (although this can be outsourced); this should have happened at Stage 3.
The emergence of Logistak could threaten GoHardy's future and is being understated as a risk.	Competitors will inevitably emerge in high potential markets and Atul seems to be transparent about Logistak's impact.

Again, there may be different views on how he should act. Read the opinions from these two investors below:

GIULIA
Partner in a VC investor

'I am pleased to see the sales growing and also the team. I still believe in the product, but Atul needs to show that the business fundamentals are still attractive, and that means focusing on the KPIs that really matter and resourcing the finance team sufficiently so that we can generate enough robust data to attract investors.'

JASPER
Associate at a VC fund

'At this point, the flaws in governance are having knock-on effects on staff morale and engagement so staff churn is high. Requesting Atul to set up a cross- department internal audit team, with direct access to the board would be a good way to highlight and resolve the issues much sooner.'

Case study

GoHardy, India

Congratulations! You have spotted some excellent opportunities to improve GoHardy's business performance by identifying measures to strengthen its governance in a phased and proportionate manner.

Now, let us consider how a **governance roadmap** can help startups take a more proactive approach to the evolution of their governance.

How to guide investees to develop a governance roadmap

A **governance roadmap is a living document** that sets out how governance structures, composition, and practices will evolve over time so as to support and advance the company's business objectives.

It should be linked to the overall business strategy and form part of the long-term strategic plan. A governance roadmap need not be complex but should allow for regular and easy updating as the company grows and responds to changing market circumstances.

The suggested structure below sets out the essential components to define.

Governance roadmap

You can **download an example of a governance roadmap for GoHardy** below. Suppose Atul had drafted something like this when GoHardy was at Stage 1. In that case, it is likely that the outcome would have been better decision-making, more engaged board members, staff and advisors, improved business performance and a successful Series B!

GoHardy governance roadmap

Suggested structure for governance roadmap

Objectives

Maintain **agile, effective decision-making processes** as we grow.

1

Build the value add with/from our partners, especially employees and investors.

2

Manage risk and compliance proportionately but proactively.

3

KPIs Decision-Making	Now	Year 2	Long Term
Advisory/ board composition			
Gender balance			
Skills profile: Directors with >5 years of experience in: [state desired areas]			
Geographies represented			
Board committees			
Independent chair			
Term for directors			
Board remuneration: each NED			
Board observers			
Management structure			
Frequency of meeting			

KPIs People and Culture	Now	Year 2	Long Term
Roles			
Conflict management			
CEO support			
Performance measurement			
HR related policies			

KPIs Finance and Reporting	Now	Year 2	Long Term
Finance			
Board reporting			

KPIs Risk and Compliance	Now	Year 2	Long Term
Board policy & practice[1]			
Policies adopted			
ESG reporting			

[1.] e.g. Keeping and safely storing good board minutes, documenting the board role, using a skills matrix for board skills planning, formalising a delegation of authorities, establishing board member term limits and letters of engagement, refreshing a governance roadmap.

Zoona, an African fintech

Mike Quinn was a co-founder and the CEO of Zoona, a company providing digital financial services to entrepreneurs and consumers across Zambia. In his 2021 book, *Failing To Win*, he shares the hard-learned lessons from setting up Zoona and building its governance through different stages. All the information below is drawn from this book.

What happened? Zoona was one of Africa's early FinTech startups. It was founded in 2009 by two Zambian entrepreneurs, Brad and Brett Magrath. They were joined by Mike Quinn, a Canadian engineer who originally came to Zambia with NGO Engineers without Borders. In 2012, Zoona raised $4m in a series A round from several international impact investors. Four years later, Zoona had successfully completed a Series B investment round. Zoona's business – providing for remittances enabled by mobile payments in Zambia – initially looked very promising as the mobile payments wave swept across the continent. However, the founders had not adequately defined their respective roles in the business nor how they would make decisions jointly. This led to tension, which manifested in slow and erratic decision-making, causing the growing staff team to get anxious. The founders realised that they needed to professionalise the management structure. Brad and Brett agreed to appoint Mike as CEO, demonstrating to investors a laudable intent to unify under one leader. However, in practice, the brothers continued to dominate decision- making. Without clear HR policies, decisions in areas like salaries seemed arbitrary, contributing to poor teamwork. Mike, in his first role as a CEO and without the benefit of experienced mentors, describes in his book how he took a clumsy approach to team appraisal and almost lost several senior staff members at a critical time.

Zoona, an African fintech

- **How did the governance work?** Zoona formed a board after the Series A round, and Mike had to spend significant effort to maintain the board, but with limited benefit to show from all the effort for the business. With all investors getting a board seat, there were seven directors, only one independent, and two observers. Most non-executive directors were geographically remote, making organising physical meetings difficult. Mike then embarked on the hasty recruitment of a second independent director to help give balance to the board but did not follow a structured process to identify the person. His preferred candidate was totally unsuited for the role, so after consuming much precious CEO time and energy, the appointment was not completed. Having learnt his lesson, Mike then decided to follow a more structured process to recruit other directors. This led to the appointment of two experienced board members, one of whom had overseen the growth of a major credit card company across Africa and the other a serial FinTech entrepreneur. One of these two became the chair of the board. Early board conversations were mainly like 'theatre' – management made verbose presentations (often repeating what was in board packs) to impress the board, resulting in a lack of time for meaningful debate about strategy. Mike dedicated long hours to preparing for meetings and even printed out thick board packs for directors. Regular preparatory calls with directors often served to heighten his feeling of anxiety about battles to come at the next meeting. Rehearsing his approach with his team served to deepen a 'us versus them' mindset between management and the board. Mike observed that some directors all too often wore their organisational hat as investors– rather than that of Zoona. He came to believe that all his efforts to build and maintain the board had added little value to the company.

- **How did this change?** Mike began to organise dinners the night before board meetings. He organised offsite activities for board members, which effectively built trust and got everyone up to speed informally before the meeting started. He also shortened meeting time and allocated more time on the agenda to strategy. He began to measure success by comparing the proportion of time he spent listening to talking. He set meeting dates a year ahead and streamlined board packs and agendas. At the start of each meeting, the chair explicitly asked each director to leave their hats at the door and put on a Zoona hat. As a result, Mike describes how he started to derive much more value from his board than before. However, despite these positive developments, Zoona's business suffered from swings in the market for mobile transaction services, undercutting its position as a payment provider independent of any one mobile network operator. A needed funding round collapsed at the last moment in 2018. Mike resigned in 2019 and then wrote his book about his experiences during a sabbatical before launching his next startup. Meanwhile, Zoona was forced to restructure, selling off its Malawian business in 2020, and ClipperCash, a Nigerian FinTech in 2022, finally acquired its remaining Zambian operations.

Zoona, an African fintech

» **What are the learnings from this experience?** In his book, Mike explains what he would do differently concerning governance at his next startup. Among these, he would have a smaller board (only three to five members) and would concentrate meetings on content, not process. He would not offer automatic board seats to all investors since they could be protected by entrenching minority shareholder rights. He would prioritise more face-to-face board time for members to get to know each other. He would submit shorter board packs centred around a single deck that framed the key questions for discussion at the meeting. He would expect that directors read the materials and raise questions in advance to help focus his preparations and save scarce meeting time. He would design board agendas for generating discussion rather than simply reporting or updating. On the basis that board members shared the belief that their principal responsibility as a board was to support the CEO and founding team and create value for the company, not extract or diminish it, he would also ensure that his team listened to board advice. In this way, the board would change from serving mainly as an oversight filter for investors to becoming a genuine strategic asset for the company.

Takeaways

- Governance of early-stage companies is important and **directly impacts business performance**.
- **Governance needs to be proportionate to a company's size and complexity**. Company value will be eroded when governance is too light or too heavy.
- Governance involves **key components** – decision-making, getting value from people, finance and reporting, and managing risk and compliance–the weighting of which changes as a company grows.
- A **governance framework** is a pre-planned set of governance measures expected to be in place at different growth stages. It is a powerful tool to help companies and investors align expectations and then monitor whether governance measures are proportionate to the company's growth stage.
- Investors can use their influence to address identified governance gaps through their board position, providing business support to management and making their expectations about governance clear to a prospective investee.

For further reading

- Governance Red Flags in Venture Capital Startups - Interpreting and Acting on Warning Signs - Guidance Note. British International Investment (BII) and FMO Ventures (2023). https://www.bii.co.uk/en/news-insight/insight/articles/governance-red-flags-in-venture-capital-start-ups-interpreting-and-acting-on-warning-signs/
- IFC Corporate Governance Progression Matrix for Small and Medium Enterprises (2019) and IFC Corporate Governance Progression Matrix for Family or Founder-owned listed companies (2019)
- Corporate Governance for Early Stage Innovative Companies – A practical Resource guide CFI Accion, FMO (2018)
- Business Integrity Guidance for VC Fund Managers - CDC Investment works (2021)
- FMO 2018 Corporate Governance Toolkit - Banks NBFIs and MFIs
- Startup Governance Playbook. A corporate governance guide for india's startup ecosystem. Deloitte IVCA IICA, Startup India
- Failing to Win By Mike Quinn. Publication copyright 2021 Burnet Media.

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