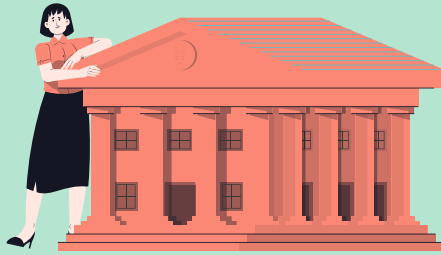# VELOCITY VENTURES

CORPORATE GOVERNANCE FOR STARTUPS

Why is Corporate Governance Important?

1) Good Corporate Governance practices provides startups with a competitive edge

2) Corporate Governance is a strategic tool that delivers value to both startups and investors

5 Principles of Corporate Governance

1. Accountability
2. Transparency
3. Impartiality
4. Awareness
5. Responsibility

Corporate Governance Playbook for Startups

Keeping up with Corporate Governance can be hard for startups, here are our recommendations on how to kickstart and adhere to Corporate Governance best practices

CORPORATE GOVERNANCE PRACTICES	PRE-SEED	SEED	SERIES A/B	SERIES C & ABOVE	IPO
Frequency of Internal/External audits	Establishing Internal Controls & CRM Systems	Non-audited financial statements updated quarterly	Non-audited financial statements updated quarterly	Audited financial statements with regular internal and external audits	Audited financial statements with regular internal and external audits
Employee Agreement	✓	✓	✓	✓	✓
Active Stakeholder Engagement	✓	✓	✓	✓	✓
Performance Measurement	Simple roadmap on what the startup aims to achieve in the short term	Detailed roadmap with a to-do list on what the startup aims to achieve in the mid to long term	Detailed roadmap with a to-do list on what the startup aims to achieve in the mid to long term	• Well-written plan on the KPIs the firm wishes to attain with objectives clearly specified • Follow up meetings to review the KPIs	• Well-written plan on the KPIs the firm wishes to attain with objectives clearly specified • Follow up meetings to review the KPIs
Reporting of Financial Performance	Quarterly reporting of financial and operating metrics	Monthly reporting of financial and operating metrics	• Monthly reporting of financial & operating metrics • Internal audited financial statements	• Monthly reporting of financial & operating metrics • Both internal and external audited financial statements	• Monthly reporting of financial & operating metrics • Both internal and external audited financial statements
Good Board Meeting Practices	Take good minutes, encourage participation	Take good minutes, encourage participation	Board to decide on frequency and length of meetings	• Board to decide on frequency and length of meetings • Board meeting agenda to be set by Chairman in collaboration with the CEO and other directors, and sent out at least 2 weeks before to the meeting	• Board to decide on frequency and length of meetings • Board meeting agenda to be set by Chairman in collaboration with the CEO and other directors, and sent out at least 2 weeks before the meeting
Timely and Balanced Disclosure Practices	Announcements are factual and presented to stakeholders	Announcements are factual and presented to stakeholders	Announcements are factual and presented to all stakeholders in a clear and balanced way	Announcements are factual and presented to all stakeholders in a clear and balanced way	• All investors have equal and timely access to material information • All announcements are factual and presented in a clear and balanced way
Audit Committee	NA	NA	NA	✓	✓
Resolutions of material complaints received by shareholders	Addressed in an informal setting (internal meetings)	Addressed in formal settings with all stakeholders	Addressed in formal settings with all stakeholders	• Addressed in formal settings with all stakeholders • All matters disclosed in writing	• Addressed in formal settings with all stakeholders • All matters disclosed in writing
Exercising of Shareholder Rights	✓	✓	✓	✓	✓
Fair Remuneration policy for C-suite/Senior Management	Basic Remuneration package with ESOP clearly stated in writing	Basic Remuneration package with ESOP clearly stated in writing	• Basic Remuneration package with ESOP clearly stated in writing • Regular reviews	• Basic Remuneration package with ESOP clearly stated in writing • Quarterly reviews	• Basic Remuneration package with ESOP clearly stated in writing • Quarterly reviews
Policies for reconciling conflicts of interest	Establish internal guidelines to identify and handle conflict of interest	Establish internal guidelines to identify and handle conflict of interest	• Establish internal policies and processes to identify and handle conflict of interest • Appoint personnel to manage all conflicts of interest matters	• Establish internal policies and processes to identify and handle conflict of interest • Appoint team to manage all conflicts of interest matters	• Establish internal policies and processes to identify and handle conflict of interest • Appoint team to manage all conflicts of interest matters

CORPORATE GOVERNANCE PRACTICES	PRE-SEED	SEED	SERIES A/B	SERIES C & ABOVE	IPO
Risk Management	Board and Management Team to identify key risks in the company	Board and Management Team to identify key risks in the company	• Board and Management Team to identify key risks in the company • Formulate a risk assessment framework	• Review adequacy and effectiveness of the company's risk management strategies • Review and approve the risk management framework	• Review adequacy and effectiveness of the company's risk management strategies • Review and approve the risk management framework
Talent Management	Identify key talent gaps within company	• Identify key talent gaps within company • personnel in charge of hiring	• Identify key talent gaps within company • Development of human resource teams to attract and retain talent	• Identify key talent gaps within company • Development of human resource teams to attract and retain talent	• Identify key talent gaps within company • Development of human resource teams to attract and retain talent
Strategic Planning	Structure Roles and Responsibilities of Partners	• Set up company and organise rules regarding rights and duties of partners • Include first considerations about the purpose of organisation	• Strengthen understanding of difference between partner and executive • Defined hierarchical levels for decision making	• Strengthen understanding of difference between partner and executive • Defined hierarchical levels for decision making	• Use of strategic planning, structured decision-making process • New formal process for review and approval of medium- and long-term strategy, • Uphold ethics and code of conduct
Board of Directors and Management's engagement with shareholders	• Board of Directors oversees company's management and business strategy • Advisory role	• Board of Directors oversees company's management and business strategy • Advisory role	• Board of Directors oversees company's management and business strategy • Approves company's strategic plan and evaluate its implementation	• Board of Directors oversees company's management and business strategy • Approves company's strategic plan and evaluate its implementation • Has decision making authority over company's capital allocation process and strategy	• Board of Directors oversees company's management and business strategy • Approves company's strategic plan and evaluate its implementation • Has decision making authority over company's capital allocation process and strategy
Appointment of Board of Directors	Formal and transparent processes for board appointments	• Formal and transparent processes for board appointments • At least 1 Board member from investor group	• Formal and transparent processes for board appointments • At least 2 Board members from investor group • Diverse Board	• Formal and transparent processes for board appointments • At least 3 Board members from investor group • Diverse Board	• Formal and transparent processes for board appointments • At least 3 Board members from investor group • Diverse Board • Establishment of a nominating/corporate governance committee to lead the board
Assessment of Board Performance	Review Board performance on a yearly basis	Review Board performance on a yearly basis	• Review Board performance every half yearly • Evaluation of Board's performance using peer comparisons and other objective third party benchmarks	• Review Board performance every half yearly • Evaluation of Board's performance using peer comparisons and other objective third party benchmarks • Seek resignation or new members added to Board	• Review Board performance quarterly • Evaluation of Board's performance using peer comparisons and other objective third party benchmarks • Seek resignation or new members added to Board
Succession planning policy	NA	NA	Board to hold early conversations to establish company's succession plan	• Board to engage in dialogue to establish company's succession plan • Full board to review company's succession plan annually	• Board to engage in dialogue to establish company's succession plan • Full board to review company's succession plan and its effectiveness annually
Ethical climate of company	Board takes the lead to demonstrate company's commitment to integrity and legal compliance	Board takes the lead to demonstrate company's commitment to integrity and legal compliance	Board takes the lead to demonstrate company's commitment to integrity and legal compliance	Board takes the lead to demonstrate company's commitment to integrity and legal compliance	Presence of CSR, ESG practices in the company, guided by ethical frameworks (i.e., PwC's Radar)

Summary

While there is no one-size fits all approach to Corporate Governance, this checklist aims to provide founders with an exhaustive to-do list to help them get started. Effective corporate governance is essential for a startup's long-term success. Therefore, it is crucial to draw learning points from events such as Zilingo's collapse to avoid similar mistakes in the future. By prioritizing good Corporate Governance practices, startups can prevent costly mistakes and damage of reputation, which would also help them to gain access to capital and provide them with an edge over their competitors.

The best time for startups to implement good Corporate Governance practices is now.