33 Maude Rd #02-01 YTC Building Singapore 208344
Tel: +65 6297 5361 | www.velocityventures.vc
(UEN:201921105W)

This publication is authored by the Investment Team at Velocity Ventures. The team is led by Partner & Investment Director Bennett Lee, CFA, CAIA, and the team members are Foo Hai Yang, Yang Yang.

Topic: How proper governance could avert startup failures

Executive Summary:

This paper presents Velocity Ventures' findings on good corporate governance practices that founders could apply to their startups, regardless of their growth stage. We looked at what constitutes effective corporate governance and grouped all its best practices under the five guiding principles of Transparency, Accountability, Impartiality, Awareness, and Responsibility. We then listed the qualities of good corporate governance that startups may adhere to, helping them to achieve long-term success on their entrepreneurial journey.

Introduction: Why are we talking about Corporate Governance?

Just last year, fashion start-up Zilingo came to everyone's attention for the wrong reasons – its Chief Executive Officer Ankiti Bose was fired as CEO after allegations of financial irregularities surfaced. While this news shocked many, it was not surprising given that similar incidents have occurred in the past. For instance, Theranos' founder, Elizabeth Holmes, who was poised to be the next 'Steve Jobs', was sentenced to more than 11 years in prison, after it was discovered that her claims about blood-testing technology were false.

As these incidents came full circle, it became clear that all of these misfortunes could have been averted if good corporate governance practices had been implemented. Corporate Governance is defined as a system of rules, practices, and processes by which a firm is directed and controlled. To do so, it is crucial to balance the interests of the various stakeholders in a company. This paper will explain the importance of Corporate Governance, listing out the principles and qualities that make up good governance, followed by actionable steps startups can take to implement good corporate governance practices.

Why is Corporate Governance Important?

For many founders, in their journey to become the next Apple, Netflix or Amazon and attain unicorn status, their main priorities would include fundraising, achieving product-market fit, ensuring that their product/service is scalable, etc. This typically puts Corporate Governance at the lower end of their priorities. However, rather than being an impediment, the benefits far outweigh the inconveniences. An effective corporate governance structure will enable an efficient decision-making process and will promote trust among investors, key partners, and employees.

Benefits of Corporate Governance

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

Corporate governance is a strategic tool that when done right and in an appropriate manner, gives them an edge over their competitors. With the rise of sustainability frameworks such as ESG (Environmental, Social, Governance), there is greater expectation for firms to be socially responsible.

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

Communication is a vital component of good corporate governance and it will help to boost overall investor confidence. This will in turn facilitate fundraising, particularly when corporate goals are aligned with the interests of the board, management, shareholders and other stakeholders.

In a company with a good corporate governance framework, it should have aspects that:

- Cover every aspect of management
- Provide clear action plans
- Entrench internal controls

33 Maude Rd #02-01 YTC Building Singapore 208344
Tel: +65 6297 5361 | www.velocityventures.vc
(UEN:201921105W)

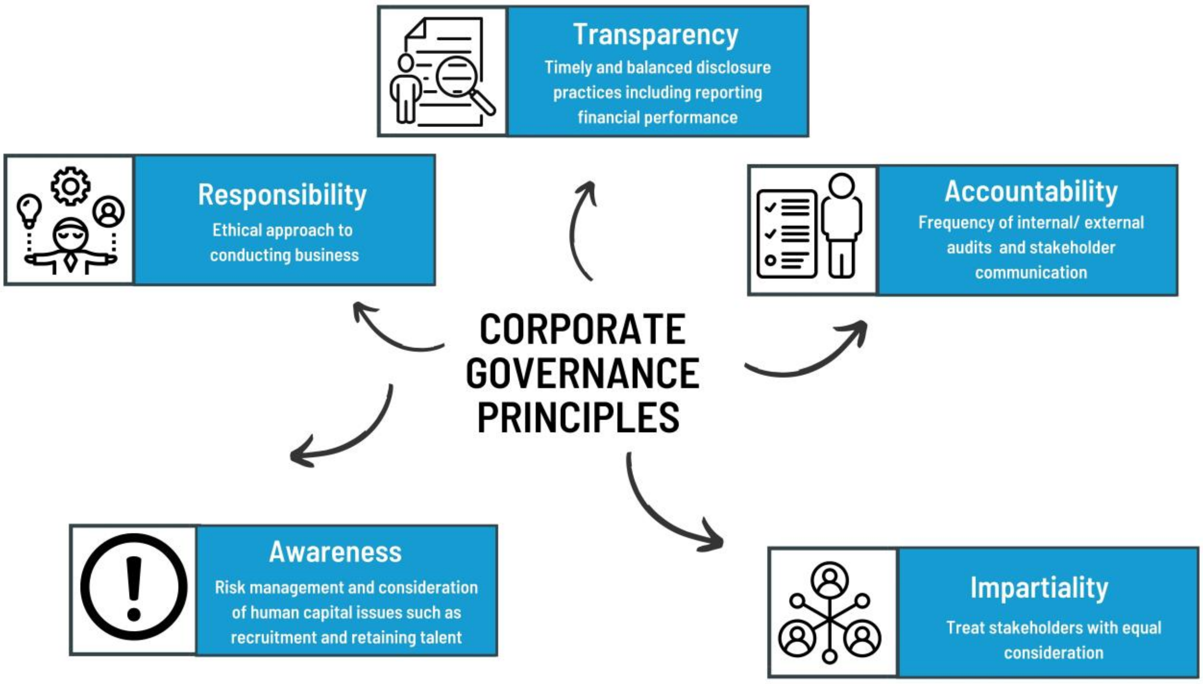
- Improve Performance measurement and corporate disclosure
- Improves risk management framework
- Ensures regulatory compliance

The outcome of good corporate governance is for companies to be profitable and be a good corporate citizen. Corporate citizenship refers to a set of activities or responsibilities of an organization that helps them make a positive contribution to society.

Thus, implementing good corporate governance practices means protecting the interests of all stakeholders such as shareholders, employees, customers, vendors, and communities. Stakeholders are defined as parties that have an interest in a company and they can both affect or be affected by the actions taken forth by the business. The typical stakeholders include Investors, employees, customers, suppliers, communities, and governments.

Sir Adrian Cadbury, the producer of Cadbury Report, a code of best practice which served as a basis of reform of corporate governance globally, once said 'Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The corporate governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations, and society.'

Pillars of Good Corporate Governance



The principles of good corporate governance can be classified into 5 principles, Transparency, Accountability, Impartiality, Awareness and Responsibility.

33 Maude Rd #02-01 YTC Building Singapore 208344
Tel: +65 6297 5361 | www.velocityventures.vc
(UEN:201921105W)

The table below is created by the Investment Team at Velocity Ventures, after consulting notable sources such as Harvard Law School, Deloitte & Touché LLP, Corporate Governance Institute, Instituto Brasileiro de Governança Corporativa (IBGC) and PwC, amongst others. It compiles the key takeaways and categorizes each practice into one of the 5 key principles.

Table 1: Corporate Governance Practices, categorised into the 5 key principles

Accountability	Transparency	Impartiality	Awareness	Responsibility
The frequency of Internal/External Audits and how issues are handled	Reporting of financial performance	Resolution of complaints received by shareholders	Risk Management	Board of Directors and Management Team's engagement with long-term shareholders that affect company's long-term value creation
Employee Agreement	Good Board Meeting Practices	Shareholder Rights	Talent Management (Human Capital)	Appointment and Assessment of the Board of Directors
Active Stakeholder Engagement	Timely and Balanced disclosure practices	Fair Remuneration policy for C-suite and Senior Management	Strategic planning	Succession planning policy
Performance Management	Audit Committee	Policies for reconciling conflicts of interest		The "ethical tone" of the company, and how the company conducts itself

Source: Velocity Ventures, Business Roundtable, Corporate Finance Institute, Corporate Governance Institute, Deloitte & Touché LLP, IBGC, PwC

The principles and practices of Good Corporate Governance

Accountability

The first pillar, Accountability, emphasises the board's role in explaining the purpose of a company's activities and the results of its conduct. Since the board and management are accountable for the company's capacity, potential and performance, it is crucial to have prompt and regular communication with the necessary stakeholders i.e., Regulators, Shareholders, Employees, etc. The practices under Accountability include:

1) Frequency of internal/ External Audits and how issues are handled
2) Employee Agreement
3) Active Stakeholder Engagement

4) Performance Management

Transparency

This pillar highlights the Board's role of providing timely, accurate and clear information to its stakeholders. Such disclosures include the financial state of the company, potential conflicts of interest, and any risks to shareholders and other stakeholders.

The 4 practices highlighted in this pillar are:

1) Reporting of financial performance
2) Good board meeting practices
3) Timely and balanced disclosure practices
4) Audit Committee

Impartiality

The impartiality pillar suggests that the board of directors must treat shareholders, employees, vendors, and communities fairly and equally. This could be done by:

1) Ensuring the rights of shareholders
    a. Effective communication and provision of ready access to information about the company
2) Ease for them to participate in general meetings
3) Fair remuneration package for C-suite and senior management
4) Policies to address reconciling conflicts of interest

Awareness

This pillar focuses on the board's and management's ability to identify the risks present and execute potential risk mitigation strategies. This entails informing all relevant stakeholders of the existence and nature of existing risks. This can be achieved through:

1) A sound framework for risk management
2) Talent management
3) Strategic Planning

Responsibility

The Responsibility pillar outlines the board's undertaking to oversee all corporate matters and management activities. It must be aware of and support the successful, ongoing performance of the company. It must act in the best interests of a company and its investors. The practices under the pillar aim to achieve these objectives, through:

1) Board and Management formulation and alignment on Company's long-term strategy
2) Appointment and Assessment of Board of Directors
3) Succession Planning
4) Ethical Climate of the Company

33 Maude Rd #02-01 YTC Building Singapore 208344
Tel: +65 6297 5361 | www.velocityventures.vc
(UEN:201921105W)

With the 5 pillars, these principles seek to offer a comprehensive, simple to read list on the aspects of Corporate Governance and what it takes for a company to be both profitable and a good corporate citizen.

Corporate Governance Playbook for Startups

Since a "one-size-fits-all" approach cannot be applied to companies at different growth stages, we have outlined below the key actionable steps for start-ups to kickstart their corporate governance journey.

Table 2: Corporate Governance Practices, implemented through the growth stages

Growth Stage	Angel/ Pre-Seed	Seed	Series A/B	Series C & Above to IPO	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 company aims to achieve in the short term	Detailed roadmap with a to-do list on what the company aims to achieve in the mid to long term	Detailed roadmap with a to-do list on what the company aims to achieve in the mid to long term	A well-written plan on the KPIs the firm wishes to attain with objectives clearly specified, and follow up meetings to review the KPIs	A well-written plan on the KPIs the firm wishes to attain with objectives clearly specified, and follow up meetings to review the KPIs
Reporting frequency of Financial and Operating Performance	Quarterly reporting of financial and operating metrics	Monthly reporting of financial and operating metrics	Monthly reporting of financial & operating metrics with internal audited financial statements	Monthly reporting of financial & operating metrics with both internal and external audited financial statements	Monthly reporting of financial & operating metrics with 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, longer meetings to explore key issues in depth, shorter meetings to go through	Board to decide on frequency and length of meetings. Longer meetings to explore key issues in depth, shorter meetings to go through periodic updates. Board meeting agenda to be set by Chairman in collaboration with the CEO and other	Board to decide on frequency and length of meetings. Longer meetings to explore key issues in depth, shorter meetings to go through periodic updates. Board meeting agenda to be set by Chairman in collaboration with the CEO and other directors,

			periodic updates	directors, and sent out at least 2 weeks before the meeting.	and sent out at least 2 weeks before the meeting.
Timely and Balanced Disclosure of all material matters	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 concerning the company, 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, through internal meetings	Addressed in formal settings, with all stakeholders, in an open manner	Addressed in formal settings, with all stakeholders, in an open manner	Addressed in formal settings, with all stakeholders, with all matters disclosed in writing	Addressed in formal settings, with all stakeholders, with 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 in addition to regular reviews to ensure that salaries are competitive with the market	Basic Remuneration package with ESOP clearly stated in writing in addition to quarterly reviews to ensure salaries are competitive with the market	Basic Remuneration package with ESOP clearly stated in writing in addition to quarterly reviews to ensure salaries are competitive with the market
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. To appoint personnel to manage all conflicts of interest matters.	Establish internal policies and processes to identify and handle conflict of interest. To appoint team to manage all conflicts of interest matters.	Establish internal policies and processes to identify and handle conflict of interest. To appoint team to manage all conflicts of interest matters.

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 in addition to formulating a Risk Assessment Framework	To review the adequacy and effectiveness of the company's risk management strategies and review and approve the risk management framework	To review the adequacy and effectiveness of the company's risk management strategies and review and approve the risk management framework
Talent Management	Identify key talent gaps within company	Identify key talent gaps within company and having personnel in charge of hiring	Identify key talent gaps within company and development of human resource teams to attract and retain talent	Identify key talent gaps within company and development of human resource teams to attract and retain talent	Identify key talent gaps within company and development of human resource teams to attract and retain talent
Strategic planning and structured decision-making process	Structure Roles and Responsibilities of Partners	Set up company and organise rules regarding rights and duties of partners, including first considerations about the purpose of the organization	Strengthen understanding of differences between partner and executive, with defined hierarchical levels for decision making	Strengthen understanding of differences between partner and executive, with defined hierarchical levels for decision making	Use of strategic planning, structured decision-making process, new process of formal process for review and approval of medium- and long-term strategy, uphold ethics and code of conduct
Board of Directors and Management team's engagement with shareholders that affect the company's long-term value creation	Board of Directors to oversee the company's management and business strategy, while serving in an advisory capacity	Board of Directors to oversee the company's management and business strategy, while serving in an advisory capacity	Board of Directors to oversee the company's management and business strategy, by approving the company's strategic plan and evaluate the implementation of plans	Board of Directors to oversee the company's management and business strategy, by approving the company's strategic plan and evaluate the implementation of plans. Board to also have decision making authority over company's capital allocation process and strategy to find the right balance between short-term and long-term economic returns to shareholders.	Board of Directors to oversee the company's management and business strategy, by approving the company's strategic plan and evaluate the implementation of plans. Board to also have decision making authority over company's capital allocation process and strategy to find the right balance between short-term and long-term economic returns to shareholders.

VELOCITY VENTURES

33 Maude Rd #02-01 YTC Building Singapore 208344
Tel: +65 6297 5361 | www.velocityventures.vc
(UEN:201921105W)

Appointment of Board of Directors	Formal and transparent processes for board appointments	Formal and transparent processes for board appointments with at least 1 Board member from the investor group	Formal and transparent processes for board appointments with at least 2 Board members from the investor group. Appointment of a diverse board that reflect a diversity of thought, backgrounds, skills, experiences and expertise and a range of tenures.	Formal and transparent processes for board appointments with at least 3 Board members from the investor group. Appointment of a diverse board that reflect a diversity of thought, backgrounds, skills, experiences and expertise and a range of tenures.	Formal and transparent processes for board appointments with at least 3 Board members from the investor group. Appointment of a diverse board that reflect a diversity of thought, backgrounds, skills, experiences and expertise and a range of tenures. Establishment of a nominating/corporate governance committee to lead the board and periodically consider what method or combination of methods will result in a meaningful assessment of the board and its committees.
Assessment of Board	Review Board performance on a yearly basis	Review Board performance on a yearly basis	Review Board performance on a half yearly basis, with an evaluation of Board's performance using peer comparisons and other objective third party benchmarks	Review Board performance on a half yearly basis, with an evaluation of Board's performance through the use of peer comparisons and other objective third party benchmarks. Where appropriate, new members are to be added to the board, or seek resignation of directors.	Review Board performance on a quarterly basis, with an evaluation of Board's performance through the use of peer comparisons and other objective third party benchmarks. Where appropriate, new members are to be added to the board, or seek resignation of directors.
Succession planning policy	NA	NA	Board to begin conversations with CEO and other senior management team to establish company's succession plan	Board to engage in dialogue about possible CEO and other senior management positions. Full board to review company's succession plan annually	Board to engage in dialogue about possible CEO and other senior management positions. Full board to review company's succession plan annually and review the effectiveness of the process
Ethical climate of the company	Board of directors sets the "tone at the top" for ethical conduct to demonstrate the company's commitment to integrity	Board of directors sets the "tone at the top" for ethical conduct to demonstrate the company's commitment to integrity and legal compliance	Board of directors sets the "tone at the top" for ethical conduct to demonstrate the company's commitment to integrity and legal compliance	Board of directors sets the "tone at the top" for ethical conduct to demonstrate the company's commitment to integrity and legal compliance	Presence of CSR, ESG practices in the firm, Ethical frameworks (i.e., PwC's Radar)

	and legal compliance				

Source: Velocity Ventures, Business Roundtable, Corporate Finance Institute, Corporate Governance Institute, Deloitte & Touché LLP, IBGC, PwC

Conclusion

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. The recommendations provided are also tailored to the startup's growth stage. This ensures that founders are not bogged down by business processes that will impede the firm's growth trajectory, but instead build a strong governance framework for the startup's future success.

In conclusion, 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.

For our Corporate Governance Playbook (Infographic), please visit https://bit.ly/VVCGplaybook

33 Maude Rd #02-01 YTC Building Singapore 208344
Tel: +65 6297 5361 | www.velocityventures.vc
(UEN:201921105W)

APPENDIX

1a. Definition of Principles

ACCOUNTABILITY

The board must explain the purpose of a company's activities and the results of its conduct. It and company leadership are accountable for the assessment of a company's capacity, potential, and performance. It must communicate issues of importance to shareholders.

Verticals:

Audits

- The frequency of internal and external audits and how issues have been handled

Employee Agreement

- Agreement that clearly defines the roles and responsibilities of employee

Active Stakeholder engagement

- Regular communications between the C-Suite, Board of Directors and other stakeholders to ensure alignment of company's vision and goals

Performance measurement

- Proper metrics in place to measure the company's attainment of its short term/long-term goals, for example KPI (Key performance indicators), operational and financial results

TRANSPARENCY

The board should provide timely, accurate, and clear information about such things as financial performance, conflicts of interest, and risks to shareholders and other stakeholders.

Verticals:

Financial Reporting

- Up to date, accurate financial statements and other metrics that show the financial health of the company
- Includes proper recording of operational activities (i.e., Revenues, Expenses)

Board Meetings

- Good Board meeting practices, take good minutes, encourage participation

33 Maude Rd #02-01 YTC Building Singapore 208344
Tel: +65 6297 5361 | www.velocityventures.vc
(UEN:201921105W)

Disclosure Practices

The Board shall promote timely and balanced disclosure of all material matters, which can be done through structures designed to ensure compliance with the relevant legislation and to ensure accountability at a senior management level for that compliance, such that:

- All investors have equal and timely access to material information concerning the company – including its financial situation, performance, ownership, and governance
- Announcements are factual and presented in a clear and balanced way. ‘Balance’ requires disclosure of both positive and negative information

Audit Committee

The audit committee of the board retains and manages the relationship with the outside auditor, oversees the company’s annual financial statement audit and internal controls over financial reporting, and oversees the company’s risk management and compliance programs.

IMPARTIALITY

The board of directors must treat shareholders, employees, vendors, and communities fairly and with equal consideration.

Verticals:

Shareholder rights

The Board respects the rights of shareholders and facilitates the effective exercise of those rights. To this end, the Board has a responsibility, for ensuring that a satisfactory dialogue with shareholders takes place. In furtherance of this responsibility the Board empowers the shareholders by:

- Communicating effectively with them
- Giving them ready access to balanced and understandable information about the company
- Making it easy for them to participate in general meetings

Remuneration of CEO/Senior Management

The compensation committee of the board develops an executive compensation philosophy, adopts and oversees the implementation of compensation policies that fit within its philosophy, designs compensation packages for the CEO and senior management to incentivize the creation of long-term value, and develops meaningful goals for performance-based compensation that support the company’s long-term value creation strategy.

33 Maude Rd #02-01 YTC Building Singapore 208344
Tel: +65 6297 5361 | www.velocityventures.vc
(UEN:201921105W)

AWARENESS

The board and management must determine risks of all kinds and how best to control them. They must act on those recommendations to manage them. They must inform all relevant parties about the existence and status of risks.

Verticals:

Risk Management

- The Board has a responsibility to review the adequacy and effectiveness of the company's risk management strategies and review and approve the risk management framework.
- Examples of Risk Management: Risk Appetite, Risk Assessment, Risk monitoring and reporting, Risk management function

Talent Management

This requires that leaders understand how to attract, retain, and improve human resources within the organization. This area is often referred to as Human Capital Management (or HCM).

Strategic Planning

Use of strategic planning and structured decision-making process, new process of formal process for review and approval of medium- and long-term strategy. This is all about identifying and capturing opportunities today in order to position for (and to create) enduring competitive advantages and future value.

RESPONSIBILITY

The board is responsible for the oversight of corporate matters and management activities. It must be aware of and support the successful, ongoing performance of the company. Part of its responsibility is to recruit and hire a CEO. It must act in the best interests of a company and its investors.

Verticals:

Board and Management Team engagement with long-term shareholders affecting company long-term

- The board and management should engage with long-term shareholders on issues and concerns that are of widespread interest to them and that affect the company's long-term value creation.

Appointment and assessment of Board of Directors

- Appointment: Engaged and diverse board in line with company's needs and strategy)
- Assessment: The members of the board of the directors (their stake in profits or conflicting interests)

Succession Planning

Talent management but with the intention of "future-proofing," particularly at the leadership levels. This helps to ensure that a strong leadership "pipeline" exists within the organization.

The "ethical tone" of the company, and how the company conducts itself

The board sets the ethical tenor for the company, and actively participates in programs designed to promote legal and regulatory compliance and appropriate standards of honesty, integrity, and ethics throughout the organization.

Eg. Whistle-blowing policy

Environment which encourages employees/any member of the company to speak up should they see that something is not right.

REFERENCES

Brazilian Institute of Corporate Governance (IBGC). (n.d.). *Corporate Governance for Startups & Scale-Ups*. IDB Invest. https://idbinvest.org/sites/default/files/2021-04/IBGC%20Segmentos%20-%20Corporate%20Governance%20for%20Startups%20%26%20Scale-Ups.pdf

Bryne, D. (2022, September 20). *What are the five principles of corporate governance?* The Corporate Governance Institute. https://www.thecorporategovernanceinstitute.com/insights/lexicon/what-are-the-five-principles-of-corporate-governance/

Business Roundtable. (2016, September 8). *Principles of corporate governance*. The Harvard Law School Forum on Corporate Governance. https://corpgov.law.harvard.edu/2016/09/08/principles-of-corporate-governance/

Chen, J. (2022, August 18). *What corporate governance means for the bottom line*. Investopedia. https://www.investopedia.com/terms/c/corporategovernance.asp

Chor, K. Y. (2022, December 26). *FTX, Enron, Theranos: How proper corporate governance could avert such business failures*. The Straits Times. https://www.straitstimes.com/business/ftx-enron-theranos-how-proper-corporate-governance-could-avert-such-business-failures

Corporate Finance Institute. (2022, October 27). *Corporate governance*. https://corporatefinanceinstitute.com/resources/esg/corporate-governance/

Deloitte. (2022, February 4). *Framing the future of corporate governance | Deloitte US*. Deloitte United States. https://www2.deloitte.com/us/en/pages/risk/articles/framing-the-future-of-corporate-governance-deloitte-governance-framework.html

Dilitrust. (2022, November 16). *Startup governance: An essential building block for sustainable success*. https://www.dilitrust.com/startup-corporate-governance/

Iskander, M. R., & Chamlou, M. (2000, May). *Corporate Governance: A Framework for Implementation*. https://documents1.worldbank.org/curated/pt/831651468781818619/pdf/30446.pdf

Mcmenemy, L. (2019, September 4). *What is a governance framework | Diligent insights*. Diligent Corporation | A Modern Governance Company. https://www.diligent.com/en-au/insights/entity-governance/what-is-governancbanke-framework/

Singapore Institute of Directors. (n.d.). *Board performance*. Home. https://www.eguide.sid.org.sg/index.php/singapore-code-of-corporate-governance/practice-guidance/board-performance