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DEBIT CREDIT

By Filbert Tsai

CORPORATE GOVERNANCE FOR THE START UPS

Corporate governance concepts are crucial for the long-term success of a business. Listed companies are even required by most regulatory bodies throughout the world to adopt a code of governance that complies with the minimum requirements of the listing country. This just highlights how important corporate governance is.

While it sounds intimidating, governance per se simply means establishing and maintaining a set of systems or processes to direct and control the business.

The typical governance concepts heavily focus on the role of the board of directors. These people are typically referred to as those charged with governance in most professional texts.

The board of directors, in their capacity as those charged with governance, represents the interest of the shareholders of the company in the business. This mechanism provides a check-and-balance between the management (i.e. c-suite and below) and the shareholders (as represented by the board of directors).

Most start ups are initially structured with peers working together to develop a product and do not necessarily involve external parties. Although there are several companies that are externally funded (e.g. through venture capitals or angel investors), these only represent a small portion of the startup population.

Start ups that do not have a formal board structure and established practices in good governance are at risk of failing. Several start up postmortem reports show that around nine out of 10 start ups fail for various reasons.

Corporate governance global best practices follow general the following principles:

- Accountability
- Transparency
- Probity
- Focus on sustainable success

Accountability refers to the board's overall responsibility on the nature and extent of risks taken by the company to achieve its strategic objectives.

Transparency refers to the full disclosure of potential conflicts of interest between the board and the company. It also applies to the decision-making process of the board.

Setting the tone at the top should not be just on the management level; probity and ethics should be the driving force that the board of directors should represent.

And lastly, sustainable success provides the big picture of corporate governance. Governance at its best is not about taking excessive risks (even to the extent of fraud) but making sure that the business can continue long-term.

The lack of a formal board structure presents a unique challenge for start ups.

Governance mechanisms for start ups begin with establishing a system to ensure trust and confidence that the founders do their fair share of work. This is the foundation for the owner-founder structure; a breach of trust can mean the collapse of the business itself.

The process of establishing governance mechanisms is usually waived due to strong relationships among the founders. But failing to draw a clear line between work and personal relationships can cause future misunderstandings within the founding group.

Implementing internal governance involves at least a clear delineation of the following:

- Individual roles and responsibilities of founders
- Scope of work
- Payment schemes for founders and employees
- Agreement on crucial business processes (e.g. recruitment, procurement, and business development)

Establishing a clear governance policy upfront might sound a bit uptight. But making sure that business relationships are well–managed provides a solid ground a sustainable business.

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