5

Should Startups Bother with Corporate Governance?

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It is safe to say that corporate governance is rarely a priority for startup companies. A quick scan of startup boot camps in Singapore reveals that none include corporate governance on their agendas.

After all, the resources of these startups are already limited, and they are too busy trying to gain market traction. What is more, the line between ownership and management in these startups is often blurred. The founders invariably run the company and do not take into account the interests of other shareholders simply because they are usually the majority or sole shareholders.

The situation, however, becomes tricky when startups find themselves needing to raise funds from angel investors and venture capital firms. And since the investors will usually require a seat on the board, it is at this stage that the startups will experience their first real taste of corporate governance.

CHALLENGES AND OPPORTUNITIES

In my experience as legal adviser to several startups, many founders are wary of losing their managerial autonomy with the appointment of new board members. They worry that the decision-making process will either be compromised or become cumbersome, or both.

This concern stems from an unfamiliarity with the nature and benefits of corporate governance, in particular about the role of boards and how to get the most out of them.

The truth is, most startups are founded by people who are most likely young and who lack practical experience in the management of a company. This is fine so long as they are aware of their own limitations, and they seize the opportunity to create a board comprising individuals who can provide mentorship, strategic solutions, access to their contacts, and insights into corporate management.

An experienced board also adds value to a company by reining in the founder's unbridled impulses, if any. Some founders have strong opinions and develop the habit of making all decisions big and small. Their companies typically exhibit strong initial growth that plateaus as their ability to cope with making all the decisions becomes stretched. Founders who are unable to delegate may struggle to attract funding, or may ultimately be replaced by frustrated external investors or shareholders.

Before any of this happens, it is important to find (and welcome) a board member who is willing to step up and provide strategic leadership and oversight to the company, including overseeing the development of a succession plan.

In other words, the creation of a board helmed by professionals and invested with real powers of oversight and proper procedures can be a boon. Founders can reap benefits by understanding that the board can bring value, rather than simply being a check on them. Corporate governance should be regarded as a strategic tool, and not a burden. All a startup needs to do is to allow the board and the attendant corporate governance practices to grow in tandem with the company.

THE BIG PICTURE

Founders should remember that investors are more attracted to startups that implement processes that promote transparency, checks and balances and effective decision making. In fact, a well-run company will attract better valuations and a larger pool of interested investors. This gives the company the luxury of selecting the investor whose resources and connections it finds most desirable.

And if the opportunity of a buy-in or a public listing presents itself, the due diligence process on a properly governed company is much less likely to unearth problems that might otherwise undermine the proposed investment or listing.

As a company grows, effective corporate governance processes promote confidence in the company among investors, key partners and employees. A well-conceived and correctly implemented corporate governance structure also creates an efficient decision-making process. In this regard, founders should work with their boards to develop a manual or terms of reference where the roles of management and the board are clearly set out. This will enable the board and management to move swiftly to deal with any crisis that develops and seize any opportunity that presents itself.

Founders who are proactive in keeping their boards updated will also find that they become "top of mind" with their board members, some of whom may sit on multiple boards. Board members who are up to date on the company's projects or challenges are more likely to mention the company to their contacts, suggest possible partnerships, and make useful introductions.

Some founders who can see this big picture have reaped the benefits. One such person is Daniel Leong, co-founder of LawCanvas, a startup that provides legal document automation software.

He said: "By implementing transparent governance procedures and communicating openly with our stakeholders, we were able to build confidence amongst potential investors and customers, giving us the ability to raise funds from investors efficiently and to receive valuable feedback from customers."

Hopefully, more founders will join him in welcoming independent boards and improved corporate governance. ■