



# **BUILDING AN EFFECTIVE GOVERNANCE AND COMPLIANCE STRUCTURE FOR STARTUPS**

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Our experience and capability extend across Research and Policy Advisory, Privacy and Data Protection, Data Ethics, Cybersecurity, Start-Up Advisory, and Digital Health. We ensure our advice serves our clients well by having an excellent understanding not only of their business but of the markets in which they operate through accurate policy and legislative development tracking and intelligence.

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# INTRODUCTION

As the world becomes more reliant on technology and the internet, more and more startups are springing up daily. While this is good for an entrepreneur who has an idea to make a difference in their industry, it also presents a problem - how do you set up a structure and system that ensures compliance and longevity?

Building an effective Corporate Governance structure for a startup can be challenging. There's a lot to consider, from developing the policies and procedures to determining who is responsible for reviewing and implementing these policies and managing the day-to-day tasks required to keep your business in compliance.

This guide attempts to walk you through the process of setting up an effective governance framework for your startup. It also aims to help you understand how to address all the essential aspects of forming a cohesive, strong, and ethical Corporate Governance structure for your startup.



## WHAT IS CORPORATE GOVERNANCE ?

Corporate Governance ("CG") is the system of rules, practices, and processes by which a company is directed and controlled. Corporate Governance encompasses all of the mechanisms through which a company's affairs are governed, including its internal structure and processes and the relationships between the company, its shareholders, and other stakeholders.

There are many different approaches to Corporate Governance, but all systems share some common elements. These include accountability, transparency, fairness, and responsibility.

When it comes to startups, Corporate Governance is often an afterthought. This is understandable given the many other pressing issues that founders have to deal with in the early stages of a company's life. However, as startups grow and mature, Corporate Governance becomes increasingly essential.

So what does good Corporate Governance look like for a startup? How can a startup implement Corporate Governance requirements without stifling its growth? It is safe to say at this point that the inclusion of CG policies is highly dependent on the company's growth stage. Thus, as startups are early-stage companies, it is essential not to implement policies that will stifle or slow down their growth, as the core need of a startup is traction. Notwithstanding this, CG matters because it affects everything from the quality of decisions made by an organisation to whether or not employees are satisfied and remain employed.

## WHY IS CORPORATE GOVERNANCE IMPORTANT TO MY STARTUP ?

An earlier part of this guide expresses the increasing importance that CG currently enjoys. There are several reasons for this. First, as companies bootstrap or raise capital and grow their teams, they become more complex organisms with diverse stakeholders. Good CG practices help ensure that all stakeholders are aligned with the company's mission and goals.

Second, as startups scale, they often connect with larger and more established companies. Established companies are usually well-versed in Corporate Governance and expect startups they do business with to have similar practices. This, in turn, increases investors' confidence in such startups. Also, implementing good CG policies has the potential to raise performance standards and drive corporate growth reforms. Therefore, a startup implementing CG policies has the potential to be a successful business as such policies set the standards for how the startup operates.

Finally, good Corporate Governance can help protect startups from legal and regulatory scrutiny. As companies become more successful, they inevitably attract more attention from regulators. Strong CG practices can help insulate a company from regulatory penalties and interference.

## HOW DO I BUILD AN EFFECTIVE GOVERNANCE STRUCTURE?

Startups are often lauded for their creativity, innovation, and risk-taking. But when it comes to governance, startups are often at a disadvantage. They don't have the same established systems and processes as larger organisations. And they often don't have the same level of experience or expertise in governance. So how can startups build an effective governance structure?

There is no one-size-fits-all answer to this question, as the best governance structure for a startup will vary depending on the company's size, industry, and stage of development. However, there are some basic principles that all startups should keep in mind when designing their governance structure.

- 1. An advisory board or a board of directors should be created:** This board aims to map out strategies for implementing CG practices peculiar to the startup's business. The size of this board is mainly relative to the growth stage of the startup in question.
- 2. The board composition should be reviewed periodically:** This periodical evaluation should be carried out to ensure a balance of diverse composition, required skills, independence, and experience among all classes of board members.
- 3. A clear outline of all stakeholders' responsibilities:** It is also essential to ensure that the responsibilities of the directors are clearly outlined and separate from other stakeholders, who will, accordingly, keep those responsibilities in check. This might not be easy for early-stage startups as most shareholders/founders are encouraged to double as directors.
- 4. Implementation of suitable policies, systems and frameworks:** The board will be responsible for developing policies and procedures, including a code of conduct, compliance policy, Information Technology (IT) governance framework, and appropriate systems for risk assessment, risk management, and internal control in the governance structure. This involves setting up various policies like the Conflict of Interest Policy, Anti-Bribery Policy, and Code of Conduct Policy, amongst others.
- 5. Processes for communication, monitoring, and evaluation should be implemented:** All stakeholders (especially the board and the shareholders) are encouraged to be involved in constructive dialogues.



## HOW DO I SET UP ACCOUNTABILITY SYSTEMS EARLY ON IN THE BUSINESS?

As a startup, it's essential to have systems in place to ensure accountability and good governance from the outset. This will help instil confidence in investors and other stakeholders and set the tone for how the company is run. There are a few key things to consider when setting up accountability systems:

- 1. Define roles and responsibilities early on:** Everyone in the company should know their role and what is expected of them. This will help to avoid confusion and misunderstandings later on.
- 2. Put systems in place to track progress:** This could include project management tools or keeping regular check-ins with team members. Having visibility over what everyone is working on will help to hold everyone accountable.
- 3. Set up clear communication channels:** Whether it's weekly team meetings or an open Slack channel, everyone should be able to voice their opinion and be heard. This will help to identify issues early on and prevent them from becoming more significant problems down the line.
- 4. Encourage transparency:** From sharing financial information with the team to being open about decision-making, startups should aim to be as transparent as possible. This will help build trust between employees and management and create stakeholder trust.

## HOW DO I ENSURE MY STARTUP IMPLEMENTS THE BEST CORPORATE GOVERNANCE PRACTICES ACROSS THE BOARD?

As stated in an earlier section, the need for an advisory board or a board of directors cannot be overemphasised in the Corporate Governance road for startups. The board will oversee the suitable policies, framework and systems and promote CG in the startup. Apart from creating the board, other fundamental principles should be noted to advance the implementation of the best Corporate Governance practices across all aspects of the business. They are as follows:

- 1. Access to the documentation of policies:** There should be no difficulties accessing the documentation of policies and procedures relating to shareholder rights, executive compensation, board meeting operations, the election of new directors and more. This ensures transparency and consistency within the organisation.
- 2. Understand regulatory concerns as a startup:** Various regulations regulate startups. It is in the company's best interests to understand its regulatory requirements, laws and policies which may affect them. This can be accomplished using the company's available research capacity or outsourcing to a regulatory intelligence firm. Consequently, a grasp of regulations will help the startup set up internal policies to guide operations.
- 3. Implement a robust compliance management framework:** A compliance management framework can be defined as a set of procedures for organisations to follow to conduct their businesses within the laws, regulations, and specifications. It is important to note that the lack of compliance can affect a startup and lead to lawsuits and fines, which can be expensive for any startup.

- 4. Develop a corrective action policy:** There should be corrective actions to reduce the risks of continued errors. Identifying risks is essential, but taking a proactive approach to mitigate them before you face them is the goal. Rather than attempting to weather the storm, the organisation should avoid the storm altogether. A solid risk management process, an internal control framework and an up-to-date disaster recovery plan are all key to achieving this goal.
- 5. Implement training and awareness policies:** This is to update employees' skills and knowledge on critical changes in the industry. Training serves as an avenue to teach employees new ways of conducting their business.
- 6. Set up a Consumer Complaint Program:** It is essential to get feedback from consumers. It helps the organisation know the products that offer satisfaction and those that don't. With this, the company will focus more on satisfying the consumers. The organisation can also identify customer complaints towards the company and look for ways to improve in that area.

## CONCLUSION

The impact of Corporate Governance on the Nigerian startup ecosystem cannot be overemphasised, as its endless benefits have been well explained in this guide. It further shows that a startup's success and going concern depends on its ability to develop, implement and maintain a governance framework suitable to its business operations and growth stage. This framework, which the board should create, should encompass policies on risk management, internal control, Information Technology (IT), stakeholders' relationship, decision making, financial reporting, business code and ethics, which cut across the business of the startup.

This calls for startups to take a stand for effective Corporate Governance practices by implementing the suggested basic principles as organisational culture rather than as a compliance checklist to be ticked off.





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