



## CORPORATE GOVERNANCE IN NEW-AGE HIGH-GROWTH COMPANIES: A FRESH PERSPECTIVE

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### ABSTRACT

*The business environment today is undergoing significant changes. Technology is rapidly evolving, disrupting industries and creating boundaryless opportunities. The set of stakeholders has expanded to include communities, the environment, and employees. These changes necessitate a fresh approach to corporate governance. Start-ups, especially those that are technology-driven and growing quickly, require a different type of governance compared to stable, slowly growing behemoths. These companies often pivot their business models multiple times a year. There is significant employee turnover, and sometimes even the founders themselves. Investors tend to be aggressive and ambitious, often unwilling to take a back seat in matters of corporate governance. A new approach is essential to examine corporate governance in high-growth organizations, particularly technology-driven companies, which require agile decision-making and have demanding investors on their boards. Pure financial metrics management is yielding to broader governance demands that incorporate environmental and social considerations. There is a clear need to re-examine corporate governance to effectively manage these new entities as they grow and perform in a rapidly evolving business landscape.*

The most valuable companies in the world today were barely in existence four decades ago. Many of these new-age companies display unique characteristics. First-generation entrepreneurs founded them without any prior business background. They tend to be intelligent, often technologically savvy, highly educated, and enthusiastic about taking risks and scaling businesses. They are flexible in their business models and are experts in digital methods for acquiring new customers. They are often venture-backed, with investors as aggressive and innovative as the founders. Success for these ventures is not guaranteed, as failure rates are typically high, despite the founders giving their best effort. Decision-making, therefore, tends to be agile rather than data-driven. Thus, the concept of corporate governance, which ensures that these companies operate sustainably rather than risking it all based on the emotional decisions of the founders, needs examination. Do these companies need boards at all? Should governance structures evolve as these companies grow to



encompass a broader range of oversight? As good practices go, there may be reason to believe that corporate governance is suitable for all shapes and sizes of companies, but it must be matched appropriately to their evolution, and robust board practices must remain.

The innovative companies in question are those that typically disrupt the market by offering products or services that are equal in features and benefits but lower in cost. These innovations also add value by significantly enhancing customer convenience, ease of access, and helping customers become more compliant, as well as assisting them in their aspirations to be more creative or productive. Companies have been innovative for over a century. However, the speed at which these new-age companies scale up in terms of customer base and expand into new markets has changed exponentially. Their ability to grow stems from access to abundant venture capital or private equity, which offers a different risk-reward ratio. The argument, therefore, is that corporate governance is more necessary in this case for new-age companies, such as rocket ships, compared to mature companies in traditional ground transportation, given that the velocity of the business and the concomitant risks are entirely different, operating at high altitudes rather than on the ground.

### **Does Governance Matter for High-Growth, Innovative Companies?**

Here are a few reasons why it is never too late to apply sound corporate governance principles, regardless of a company's stage or size.

- 1 Since growth in these companies occurs exponentially, it may be beneficial to implement guardrails and controls before it spirals out of control.
- 2 These businesses are eager for capital. Capital raises occur in stages based on amounts, such as pre-seed funding, seed funding, Series A, Series B, and so on. As more capital is raised, growth often requires additional financing.
- 3 At each stage, investors may change. New investors may seek additional assurance through robust governance protocols.
- 4 Expectedly, as these new-age companies evolve and mature, new investors may wish to exercise different controls.
- 5 The challenge for these companies is that they operate in highly competitive markets. This necessitates frequent pivots in their business models. Therefore, the alignment between investors and the founders/operators of the company must be strong to avoid debates and gridlocks in decision-making.
- 6 It is good practice to outline the stages of board evolution at the beginning. If there are many board members and committees in the early stages of the company, there will be excessive oversight of the company's operations.
- 7 Founders are maverick, strong, often individualistic, and opinionated in their thinking. Establishing a board early on will help smooth some of the rough edges.
- 8 The experience and diverse perspectives that a board contributes amplify the knowledge founders possess, particularly regarding long-range planning and anticipating future risks.
- 9 In summary, building a Board early on should pay dividends. The size and the evolution of the Board can match the size and evolution of the business.

### **3 Matching Board Size to Maturity**

So how should a company approach this?



Typically, these companies experience various growth stages based on investment levels and thus need to expand their boards accordingly.

#### **Seed Stage: Pre-series A**

This funding stage helps finance a company between its seed funding and the first major institutional round (Series A). At this stage, the startup gains more traction in the market. The startup can use this funding to achieve key milestones sooner. It can further develop its product or service, demonstrate a stronger product-market fit, validate its business model, make several key hires, and prepare for the next round of financing, which may include a larger Series A investment. The types of investors at this stage are angel investors, early-stage venture capital firms, and strategic investors.

This stage typically involves establishing a relationship between the first few board members and the founders or management. It usually requires mutual understanding, including how to engage, recognize the value the board brings, and identify and hire initial board members who have a more advisory role. Additionally, it involves setting the cadence of reporting, which includes the frequency of meetings, noting strategies and actions, assigning responsibilities, and tracking actions to closure. Founders may view board engagements as distractions. However, the value of such engagements typically becomes apparent from the outset.

#### **After Series A**

At this stage, the business focuses on growth, expanding its market presence and share, and strengthening the brand. The "alphabet soup" of funding comes into play as companies raise a series of rounds, including Series B and Series C. This capital is used to enhance product or service features or even innovate newer variants. Investments are made in marketing and building partnerships. Some companies may prepare their exit strategy by being acquired or going public. The types of investors at this stage include traditional venture capital firms, private equity firms that invest in growth companies, and strategic investors who may acquire such companies to complement their portfolios.

At this stage, the board needs expansion. Typically, the board consists of 5-6 members, with the first independent director complementing the founding members and investors. Here, the synergies among board members become essential. It may be beneficial to bring in an independent director who can fill a significant gap, such as perspectives on customers or markets, regulatory affairs, or technical aspects of the business.

#### **After Series B**

At this stage of the company's evolution, the cash burn rate becomes an essential determinant of the period before the next round of financing or the cash runway. If the wait is too long, the company may become cash-strapped. Conversely, if the wait is too short, there is little time for the company to demonstrate growth before pricing the next round. Therefore, at this stage, the board typically becomes quite involved. Strategy gains importance, and talent retention becomes crucial, making compensation and remuneration vital. There is a need to expand the board with new members who possess specialized skills, such as knowledge of local industry regulations.

Therefore, at every stage of the company's evolution, the board must grow in both the number of members and their areas of expertise.



#### **4 Governance structures in early-stage companies**

A key challenge for governance in new-age companies is that investors' perspectives vary significantly. Some investors overemphasize the importance of governance, while others are less concerned, placing lower importance on the structure of the board as well as governance principles and practices.

Similarly, companies significantly vary in how they leverage their boards. Those that demonstrate high growth and enjoy customer loyalty may adopt a lax approach from a governance perspective, often operating without formal processes and structures until late in their evolution. Others recognize the importance of having boards as their counsel but may prefer informal engagements.

Another variation in governance structures arises from the differing perspectives of entrepreneurs and investors. They can be opposite, much like the two sides of a coin, joined at the hip but oriented differently. Entrepreneurs are typically focused on their business. They agree on salient Key Performance Indicators (KPIs) to track performance and are happy to report to their boards on these metrics. Investors approach the same situation from a different perspective. They want to know as much as possible about the daily activities within the company. They expect the CEO and top management to be open and transparent, staying attuned to any good or bad news. Therefore, the perspectives between entrepreneurs and their investors vary: the former engage less, while the latter involve themselves more.

#### **How should New-age companies create and manage Boards?**

There are some sound principles for creating and managing impactful, efficient, and engaged boards.

##### **1 Hiring Board members who are committed and engaged**

In the early days of a company, much ground is covered daily. Both the board members and directors may struggle to find common times for formal meetings, as often action precedes thought. It would be beneficial to set aside time on the calendar for a smaller, yet more frequent number of meetings to review progress and realign priorities.

##### **2 A prepared Board is always more productive.**

This can be achieved only if the agenda, which contains key items and decisions to be made at the meeting, is circulated in advance. Putting together a board package that consists of the agenda, financial statements, and updated strategic plans is very useful for setting the stage for a successful Board meeting.

While these preparatory aspects of conducting a meeting are time-consuming, they are well worth the effort. Committed board members typically invest a significant amount of time preparing for a meeting, often spending twice as much time in preparation for each hour that the board meets.

The early days are crucial, as boards and founders engage in a rhythmic cycle of Plan-Do-Check-Act (PDCA). These discussions help founders verify their key assumptions about the market or technology and concentrate on the straight and narrow of performance, e.g., KPIs. This is vital because entrepreneurs tend to be quite passionate about their business model or beliefs regarding their products and markets, which can lead to blind spots. Their passion and over-optimism can drive companies off the cliff unless moderated in time. This is the role of an engaged board—to ask the right questions and challenge key assumptions. However, this



cannot be achieved if board members do not attend meetings regularly and are distracted by their phones during meetings.

### **3. The boards of early-stage companies should differ from those of mature companies.**

In the early stages of a company's life, entrepreneurs are relentlessly focused on their business. They are immersed in matters concerning products and markets. Consequently, dealing with corporate governance and prioritizing Board discussions often becomes more of a chore than a value-adding activity.

Therefore, it is essential to create a board structure that meets the company's needs. As the company evolves in size and complexity, so does the board.

In mature companies, businesses have established a solid foundation. Boards focus more on aligning the company's operations with its strategy. Discussions concentrate more on enhancing financial performance and strengthening internal controls to manage risks effectively. Fast-growing younger companies require agility in decision-making and constant pivots in their strategy.

Younger company boards often begin with Advisory Board members who act as mentors, always ready to lend a helping hand on issues related to strategy or key hires. These advisory boards allow companies to continuously innovate and grow rapidly. However, it is crucial to remember that advisory boards must eventually transition into regular boards.

Given this understanding, it is beneficial for younger companies to adopt sound governance standards, such as creating comprehensive board packages and maintaining regular engagement with their boards for effective financial oversight.

### **4. Setting expectations is important**

Like any good, sustainable relationship, this aspect is essential. Both sides must understand what to engage in, how often, and through what mode. Does the Board prefer a daily view of the business? Does it prefer tactical updates or only strategic moves? Is it acceptable to hear both good and bad news? Are they comfortable with informal phone consultations, or would they rather exchange information via email?

Beyond the modes and styles of acceptable communication, confusion often arises from a lack of clarity regarding roles and responsibilities. Specific, proven, and tested processes, such as Robert's Rules of Order, are essential to adopt from the outset.

### **4 Managing by Committees**

The use of Board Committees as part of the Corporate Governance process ensures a deep focus on specific and vital aspects of the business. Committees are typically tasked with understanding and reviewing the remuneration policy and incentive structures for the CEO, the management team, and the employees of the company under the Compensation Committee. Similarly, there is an Audit Committee that ensures the company's books of accounts and financials have received adequate diligence from both internal and external auditors; if any issues arise, they could tarnish the company's reputation.

What committees achieve is relieving the larger board of numerous company matters, enabling them to perform more effectively. Companies in regulated industries often have more committees on their boards compared to other companies, typically for compliance reasons.



Younger companies do not need governance oversight by committees; however, they could plan for them in advance. It is often beneficial for a company's management to proactively recommend the use of committees on their boards. A typical threshold for considering committees is when boards exceed 5 to 6 members.

#### **5 Board composition and diversity are vital.**

Essentially, the combined efforts of both Board members and entrepreneurs must lead to high growth accompanied by good profits. Therefore, the complementarity of skills between the Board and the Founders is key. Entrepreneurs are typically imaginative and brilliant, with a strong understanding of product-market fit. However, that alone may not suffice to grow a company and scale it rapidly, as it also requires relationship networks with channel or technology partners and calls for business development and selling skills to achieve a sustainable business. This is where Boards matter. They help bring connections for future capital raises, introduce the companies to useful partners, and assist the Founders by providing rich perspectives from people in their network.

Board members add value in unique ways. Some use their connections to help find new investors as a company navigates through rounds of financing. These board members are generalists but are deeply connected and are referred to as scalers. Other board members may be specialists with extensive experience in products and markets, proficient in operations or skilled at managing macroeconomic and regulatory risks.

#### **6 Board members should have a passion for impact and be aligned with the company's values.**

It is essential to find board members who share the same passion for the company's products and services as the founders. Their combined energies resonate to sustain and profitably grow the company.

There may be instances of specific boards that focus more on short-term rather than long-term impact. Their attitude is to check the boxes without performing thorough due diligence. Good governance requires the board to align with the business's mission and vision, make an effort to ensure that the mission is embodied in everyday operations as a way of life, and maintain a focus on the core mission and strategy to achieve growth rather than merely results.

#### **7 Boards are not echo chambers**

The ability of boards to ask the right questions to ensure long-term sustainability is their most critical value. Entrepreneurs and founders can be excessively passionate, potentially endangering the companies they have founded due to hubris. These founders may adopt dominant thinking that skews the narrative. It is essential for the board to push back and question these founders without intending to create unnecessary roadblocks or become a barrier to growth. Many innovative companies are led by one or two very strong founders with a clear vision.

It is important for the Board to create a safe space where they and the founders can share openly and transparently. Criticism, if any, should be viewed as constructive and should never demean the contributions or efforts of the founders, who believe they are giving it their all—blood, sweat, toil, and tears. Such questioning and pushback are vital to the company's health, even if the founders imagined and created it.



### **8. Plan the Corporate Governance structure ahead of time**

It is logical to expect governance structures to evolve in tandem with the growth and development of companies. Based on the size, complexity, and ownership structure, corporate governance structures must be designed so. There is no one-size-fits-all approach.

The significant shift is the evolving nature of governance work alongside a company's maturity. The tasks that were previously done informally are now planned for formal execution. These work packages may involve formalizing the annual appraisal of a CEO's performance, creating committees with specific responsibilities, or even designing a manual for the Board's conduct. Essentially, the fit-for-purpose principle must apply as corporate governance structures develop alongside a company's progression. Exhibit 1 offers a concise view of the evolution of the board according to the company's maturity.

### **9: Independent Directors are critical**

The role of the independent director on a board is critical. Unlike executive or operating directors, independent directors are not involved in the day-to-day operations of a company. They are, therefore, best placed to take a distant, objective view of the company's performance and help benchmark against competitors in the same industry. The independent director's ability to listen, observe, comment, critique, and act independently makes them a valuable asset to a company's board, helping to professionalize its practices. The independent director typically joins the board with a strength of five members, which usually includes two founders, two investors, and one additional member.

### **Conclusion**

The importance of introducing corporate governance practices in early-stage, high-growth companies cannot be overstated. While these companies and their founders are significantly busy building the business, they must begin to conceive and invest in corporate governance oversight from the very inception of the company. These guardrails will ensure long-term sustainable and profitable growth for these companies and their founders.

Innovative early-stage companies should recognize the importance of governance and establish boards for oversight from the beginning. Therefore, it is not only mature companies that need to consider the importance of corporate governance. Early-stage companies would benefit from the diversity of thought among their board members. The more diverse their perspectives, the richer the dialogue in the boardroom and the playbook of the company. There needs to be acknowledgment of an arms-length relationship between the board and the company founders. Founders must be allowed to enjoy the autonomy of their work. Boards need to engage sufficiently to ensure creative tension in the boardroom through their probing questions and feedback. Sizing a board according to the company's evolutionary stage is crucial. Both too much oversight early on and too little governance too late can be harmful.

Companies must invest in corporate governance from their inception, rather than waiting until they mature. They should spend time and effort to understand the role of boards, identify their first few advisory board members, and establish a regular cadence of reporting on agreed-upon performance indicators. This will help founders develop the discipline of corporate governance oversight and utilize the Board to refine their thinking.

Corporate governance plays a crucial role in establishing a positive and healthy culture of oversight and balance in early-stage companies. Often, startups believe that governance

results in higher operating costs, requires significant time and effort, and is therefore unnecessary. However, governance creates substantial value in companies, as boards balance risk and optimism to help build sustainable businesses.

**Exhibit 1: Governance Maturity Matrix**

<b>GOVERNANCE MATURITY MATRIX</b>		<b>Best Practices</b> <ul style="list-style-type: none"> <li>• Monthly calls, quarterly meetings, annual retreat</li> <li>• Should have Director &amp; Officer insurance even at seed stage</li> </ul>		
		Seed	Early	Growth
Company Profile	Revenues	Early Revenue	Modest but growing	Break-even
	# of Employees			
	Funding	Seed - A - B	Seed - Series A - B	Seed - A - Series B
	Year(s) established	0 - 3	3 - 8	8+
Governance Characteristics	Size of board	3 - 5	3 - 5	5 - 7
	Composition	Founder(s) and investor(s)	Founder, investors, promoters	Add independent, usually founders get diluted between A and B
	Member profile	Understands agile and lean design and development, sector expertise	Subject matter experts with expertise in AI, machine learning, underwriting, digital marketing, payments, etc.	More traditional investors with expertise in governance, sustainable growth, and risk management
	Committees	Audit	Audit	Nominating, audit and compensation

*Danielle Piskadlo, Deborah Drake, Ezra Mannix, Jasper Veel (2019).  
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