Digital Collective Africa

Governance Toolkit

Table Of Contents

Preamble / Background

The Governance toolkit is a collectively created document. Initiated as an outcome of action points from the AfricArena Dakar VC Unconference in April of 2022, and solidified during AfricArena Tunis Unconference in October of 2023, this toolkit aims to provide innovative early-stage African startups with a resource to refer to as they grow and begin to think about governance considerations.

As a direct result of observing numerous instances of governance violations among African startups across 2022 - 2023, which resulted in the closure of several businesses, over 12 organizations have stepped up to contribute to the creation of this guidebook, bringing together direct research on existing best practices, practical expertise, new and existing resources, and applicable templates to provide a high-level succinct guide to early-stage startup governance.

Target Audience

This document is aimed at establishing best practices for venture-backed companies and is useful for:

- Startup Founders building scalable and valuable businesses and seeking best practices to implement and adopt.
- Investors seeking to understand, adopt and implement best practices for their portfolio companies and in their roles as Directors for venture-backed startups
- Other Stakeholders seeking to understand, adopt and implement best practices for the governance of venture-backed startups

Acknowledgment

We are extremely grateful to these individuals for their contributions and candid feedback on this resource.

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DCA

Gathering the African tech community to support early-stage startups across Africa

We are a collective of African investors, incubators, accelerators, and founders who aim to support early-stage startups.

We work together on projects to limit friction and offer more transparency within the ecosystems.

We believe in the power of the collective to amplify individuals' talents.

Introduction

What is Governance

Governance is a foundational element that underpins the success of venture-backed startups. Founders should care about governance because it shapes investor relationships, guides strategic decisions, manages risks, ensures accountability, facilitates compliance, attracts talent, and sets the stage for long-term success and exit strategies. It's a fundamental aspect that contributes to the overall health and sustainability of the startup ecosystem.

Specifically, strong governance for early-stage companies entails creating a board of directors that includes representation of founders, investors and independent members. This provides founders with guidance from experienced advisors and a sounding board for making significant strategic decisions and provides a balanced perspective across the board. Key strategic decisions should be made by the Board, and this actually protects the founders from bearing the sole responsibility for governance.

Why should I care about Governance anyway?

Governance is a foundational element that underpins the success of venture-backed startups. Founders should care about governance because it shapes investor relationships, guides strategic decisions, manages risks, ensures accountability, facilitates compliance, attracts talent, and sets the stage for long-term success and exit strategies. It's a fundamental aspect that contributes to the overall health and sustainability of the startup ecosystem.

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Another critical element of governance is financial reporting and controls. Putting in place processes for budgeting, audits and transparency over finances reduces risks of mismanagement. Hiring specialized finance helps build rigour early, while information access granted to investors facilitates good oversight and guidance.
Governance further includes formalizing HR policies - like IP protection contracts, share vesting schedules and employee incentives.

The focus is boosting staff retention and ensuring everyone works towards growing a scalable company. One key role, for example, of a Board of Directors, is to review a CEO's performance and to make decisions about his/her/their compensation and whether or not to replace him/her/them.

Overall, implementing structure through governance helps startups progress from an informal founder-led setup to a mature organization built on systems. It lays the groundwork for managing growth efficiently as startups scale. The presence of governance also comforts later-stage investors considering investing millions in the business and great exit options for the founders. Thereby good governance promotes not just company sustainability but also fundraising ability over multiple rounds.

Why should founders, specifically, care about Governance anyway?

For early-stage founders: In the search for product-market fit and a scalable business model, experimentation and agility is the path to success. Prioritising governance may seem overly "corporate" and paradoxical to being lean and agile. But the question remains: "of the hundreds of things I could be doing, what are the few things I should be doing?" Good governance ensures that as a founder, one maintains focus and discipline in the pursuit of their goals. Implementing simple governance practices helps founders then focus on reaching product-market fit as soon as possible.

For growth-stage founders: As a business continues to grow and mature, it needs to evolve from being a "startup" to being a sustainable business. This requires a transition from building the plane while you're flying it to having a business that can consistently create value and grow reliably. Good governance is at the core of being a good business. Gradually learning about and implementing good governance practices will help you turn your innovative product/service into a respectable and sustainable organization that you can feel proud of.

Navigating Boards

What is a Board and do I really need one?

A board of directors is a group of individuals elected to represent the shareholders and provide strategic oversight and guidance to a company. The board's primary responsibility is to make decisions on major company issues, set overall strategy, and ensure that the company is being run in the best interests of its shareholders.

Types of Boards

There are several types of boards, each with its own structure, functions, and purposes. The composition and responsibilities of a board can vary based on the type of organization, its size, industry, and legal structure. In the context of venture capital, the two general types are the Corporate board of directors and the Advisory board.

Board of Directors

- **Public Company Board:** Oversees publicly traded companies and is accountable to shareholders. Directors are elected by shareholders. These directors owe a fiduciary duty to the company and all its shareholders to act in their best interest. The Board plays a crucial role in strategic decision-making, corporate oversight, and executive compensation.
- **Private Company Board:** Provides governance and strategic guidance for privately held companies. Directors are typically chosen by the founders, investors, or shareholders. Similar to public company boards, these directors owe a fiduciary duty to the company to act in the best interest of the company and its shareholders.

Advisory Board

They provide strategic advice and industry expertise to the leadership team without having formal decision-making authority and are particularly valuable for startups and small businesses seeking guidance without the legal and fiduciary responsibilities of a formal board of directors. An advisory board may be comprised of external experts, industry veterans, investors and other individuals selected by the management team and investors.

Advisory Board

To begin with, it is important to emphasize that the advisory board is not mandatory and depends on the will of the entrepreneurs. However, most successful startups have achieved their success with the help of advisors who assisted them in gaining clarity in their decisions. The selection of advisors is done intuitively; it is typically the first person you call when you need a clearer perspective. You reach out to them because you know they understand you and are familiar with the lens through which you see things.

Advisory Boards and Boards of Directors serve distinct roles within a business framework. Directors bear a fiduciary duty for the prosperity and effective governance of the enterprise, compelled by legal obligations to make decisions aligned with the company's best interests, even if these decisions occasionally diverge from the entrepreneur's priorities. Both boards play pivotal roles in effective leadership, with advisors assisting in formulating proposals to present to the Board. Notably, advisors may transition into suitable candidates for the Board of Directors.
In essence, a robust and prosperous Advisory Board has the transformative power to elevate the entrepreneur's aspirations, capabilities, and overall performance. As the renowned quote asserts, it merely takes "a small group of thoughtful and committed citizens" to catalyze change in the world.

For this toolkit, we will categorize advisors into three categories: The Expert, the Human, and the Strategist.

1) The founding team needs, in its advisory board, an individual who is an expert in their industry, someone who has either spent years in a leading large corporation or has established their own startup in the same industry and achieved a successful exit.

2) The second category, the Human, is crucial for your balance. This is the person who understands you, in front of whom you are not afraid to show your weaknesses and those of your startup. It is the one who helps you confront your own reality and never tells you only what you want to hear. This person is the guiding light when you feel stuck in your business and in your relationship with your teams.

3) Finally, the last category, the Strategist, is someone who can bridge connections between industries, organizations, and key individuals crucial to your success. They guide you in making important decisions in your company, such as recruitment, international expansions, or changes in business models.

There are seven important considerations to keep in mind when establishing your Advisory Board:

1. **Focused Objective:** Ensure a clear and focused purpose for convening the Advisory Board. Identify whether you seek personal leadership support, advice for navigating challenges, or insights for achieving specific goals. By concentrating on one precise objective, you can effectively manage your advisers and assess their success.
2. **Supportive People:** Select individuals and form a group wisely. Look for relevant expertise, a willingness to play the role of a skeptic, compatibility with you and your colleagues, and diversity in age, gender, and cultural background.
3. **Intimate Size:** While most Advisory Boards meet infrequently as a group, their impact is maximized when they gather. Keep the size between three to five people to avoid cumbersome planning for meetings.
4. **Clear Terms:** Establish concise and documented terms of reference to effectively manage and lead the Advisory Board. Define the Board’s purpose, membership terms, establishment duration, meeting logistics, and information handling protocols.
5. **Fair Compensation:** Address remuneration openly. Cover reasonable expenses and, if necessary, provide a stipend for meetings. In some cases, a small equity share (e.g., 0.1 percent per year of service) may be appropriate. The compensation approach depends on your specific situation and the level of maturity of your startup. An example equity compensation format is available in the additional resources section of this guidebook.
6. **Assured Value:** Advisers provide the most value when they have full insight into your business. Foster open communication between meetings to cultivate group culture and strengthen individual relationships.
7. **Simple Gratitude:** Express gratitude openly and frequently. Make your advisers feel like contributing partners in your company, emphasizing their valuable role. Acknowledging their contribution fosters a sense of being part of something extraordinary.

Having a well-functioning board of directors in a startup is extremely critical for the growth trajectory of a startup or even larger companies. The board of directors provide guidance and valuable insights to the founders and the management team that help them make informed business decisions and assist them in navigating the journey of building and growing a company. These individuals play a key role in guiding the management team, overseeing the executive management team, and providing the much-needed support that the company needs to grow.

Although the specific responsibilities of a board of directors may differ for each startup depending on the stage of the startup, and the legal rights that were granted to the board of directors in the funding agreements. **However, a few key areas that the board of directors would typically be responsible for are listed below:**

- **Strategic direction:** The board of directors work with the management team to set the strategic direction of the company. This includes setting the company's mission, vision, and values and developing the long-term strategic direction of the company. The benefit of having a board of directors assist the management in setting the strategy of the business is that it helps ensure that the company is headed in the right direction and is taking advantage of the opportunities set out in front of them. The board can provide a different perspective on critical decisions and initiatives. Once the strategic direction of the company has been set, the board of directors is also responsible for providing support to the management as and when necessary. The support could be in the form of introductions to potential funders, organizations, providing mentorship, and additional funding requests, business support and resources, etc.

- **Overseeing management and keeping them accountable:** The board of directors is responsible for overseeing the actions and decisions of the management team. They are also responsible in keeping the management team accountable. The board needs to ensure that the management team is always acting in the best interests of the company and its stakeholders, and that the company is operating efficiently, effectively, and ethically. The board monitors the performance of the management to ensure the company is meeting its goals and objectives.

Decision-making: The board of directors need to apply their minds and decide on critical decisions that have the potential to impact the growth of the company. These decisions are around raising further equity funding, debt financing decisions (if any), hiring of additional members of the management, firing any members of the management team, compensation of the executive team, budget, partnerships and acquisitions of other companies or investments for further growth. The vast skill set and experience of the board can help improve the quality of the decisions made within the company.

Safeguarding stakeholders: The board needs to ensure that the rights of all the stakeholders are respected, so investors often will take seats on the board or have significant influence in board decisions. This representation allows the board to protect the interests of all stakeholders, contribute to strategic discussions, and stay informed about the company's progress.

Risk Management: The board is responsible for overseeing risk management strategies. This involves identifying potential risks, evaluating their potential impact on the company, and ensuring that appropriate measures are in place to mitigate these risks.

When Do I need a board?

It’s often said that startups should think about setting up a Formal Board only once they’ve raised their first round of funding. However, the benefits of forming a Board earlier in the lifecycle of a startup, irrespective of raising funds, are undeniable.

> ***“The startup journey can be a lonely one for the CEO. It’s filled with ups and downs, unexpected stresses, and an endless number of decisions. Surrounding yourself with the best minds both on your team and on your board is an important part of this journey.”***
> ***— Brad Feld, serial entrepreneur, author and venture capitalist.***

During the very early stages i.e. before raising a seed round or at a seed round, informal mentorship or an advisory forum made up of a handful of individuals who can add value, may be more suitable to lessen the administrative burden of a formal board, as this allows founders to focus on finding product-market fit - a more efficient use of time.

As soon as a startup takes on an investor's capital, regardless of stage, it should operate with a stricter regime of governance. For startups that have received early-stage funding but may not require a large formal board, CEOs should still consider conducting the business as if a formal board existed. This includes preparing monthly accounts, meeting with advisors every month, and preparing future plans and budgets for alignment with the advisors. Operating the business in this way will ultimately smooth the transition to a formal board later on in the company's development. Although investors using SAFE or Convertible Notes typically do not automatically earn a board seat, it can still be advantageous for the Founders to invite a representative of the investors to join an Advisory Board or the Board of Directors.

The most standard time to form a board is after the Series A funding round, but some startups choose to form boards after the seed round. Typically, the board expands as the company expands and goes from two to three directors (including the CEO) around Series A, to five to seven directors when the company is in the Series C/D stage to seven to nine directors as it is preparing to go public.
Most professional investors require that a formal board be installed at the time they make their investment, and that a representative tasked with protecting their financial interests must be a member of the board.

In most cases, once a startup has a formal board operating, there is usually no longer a need for an advisory board, unless the business is in a very specialized area where expert advisors can add real value. A formal board with the requisite capabilities, experience and skill set is generally all that is needed, and, when necessary, specific committees (sub-divisions of the board) can be set-up to look into or manage set questions, such as that of remuneration within the business.

How do I compensate Board Members

Compensating startup board members requires a thoughtful approach that aligns their interests with the company's success. Founders often opt for a combination of equity, meeting fees, and milestone-based bonuses. Equity grants, such as stock options, ensure that board members share in the long-term success of the company, aligning their interests with those of shareholders. Meeting fees provide immediate compensation for their time and expertise, acknowledging their commitment. Performance bonuses tied to achieving key milestones offer an additional layer of recognition for impactful contributions.

Fundamentally, equity grants align the interests of board members with the long-term success of the company, fostering a sense of ownership. Meeting fees acknowledge the time and expertise board members contribute. Performance bonuses serve as an additional incentive, tying compensation to the achievement of critical milestones.

Variables that may positively/negative affect board compensation include (see table)

Positive (increase) effect on necessary board compensation	Negative (decrease) effect on necessary board compensation
Exceptional contribution to company operations	*Financial constraints on liquid cash*
Substantial industry experience and networks	*Existing concerns around governance in-company*
Higher (than industry standard) time expectations for this role	*Board members with active or perceived personal strategic alignment**
Special committee engagements (or any other additional responsibilities beyond core board role)	

* Board members who are aligned with the company's mission and values may accept lower compensation based on their commitment to the organization's goals.

Example Compensation Guidelines:

Preamble: Most startups begin with unpaid board advisors, and, it is only after the startup has made some progress with paid customers, that **they may choose to provide shares or stock options** to hands-on advisors or board members. Only after this, if the company keeps growing, founders may start to compensate board members for general expenses and provide equity. Cash-focused compensation tends to only appear at later stages, at Series A+, because earlier, startups will prioritize minimizing unnecessary expenses. **For startups that do rely on external advisors, and choose to compensate them, find guidelines below (see table)**

Format	Example Structure	Market Norms
Equity Grants	*Granting stock options equivalent to 0.5% of the company's fully diluted equity, vesting over four years with a one-year cliff.*	*0.1% to 5.0% - depending on the board member's contribution, and the stage of the company. Pre-Seed, Seed, Pre-A: 1% - 3%Series A, Series B: 0.125% - 1.5%Series C+: Unlikely to get equity grants*
*Meeting Fees**	*Offering a fixed fee of $1,000 per board meeting attended, with an additional $500 for participation in subcommittee meetings.*	*$1,000+ per meeting*
*Retainer Fees**	*Establishing an annual retainer fee of $5,000, paid quarterly, to cover ongoing advisory responsibilities.*	*$5,000 - $20,000+ per year*
Equity Refresh Grants	*Issuing additional stock options equivalent to 0.2% of the company's fully diluted equity every two years to retain experienced board members.*	*Issuance is rare, at a pre-seed stage. More common at pre-series A onwards, and can be used to retain and motivate board members, by partially offsetting dilution*
*Expense Reimbursement**	*Reimbursing actual travel and accommodation expenses incurred by board members for attending board meetings, up to a maximum of something like $2,000 per meeting.*	*$1500 - $3000 per meeting (not applicable for attendance via video)*

* Only tends to apply for companies at the Seed stage and beyond. Even at the Seed stage, not every company will choose to apply this form of remuneration

Getting Started With Boards - A Step By Step Guide (With Variations)

How To Set Up A Board Of Directors

> *"Building, shaping, and leading a world-class board is one of the single most important things startup CEOs can do to help their businesses thrive and become industry leaders." - Matt Blumberg, CEO and Co-founder, Bolster*

Setting up a board for a startup requires a strategic approach, focusing on assembling a group of advisors and decision-makers who can guide the company's growth while aligning with its vision and objective. The following is a list of steps to follow to establish a governance structure that supports the company's growth and success:

1 Define the Board's Objectives and Needs

Determine the specific goals and needs the board should address. Identify what expertise, skills, and connections would benefit the startup's growth trajectory.

Boards evolve and change over time, as do their functions, requirements, and roles. Building an effective board is best approached as one would in building an effective management team.

Skills and characteristics that board members should possess:

The types of board members best suited to a startup, along with the skills and expertise they bring, are constantly evolving and will vary with the growth trajectory of a startup. Usually, the evolution of a startup board trends from focusing on product development and financing to sales and growth.

The following table, a variation of one initially compiled by Scott Weiss, General Partner at Andreessen Horowitz, sets out essential skills and characteristics which board members should possess regardless of a startup's growth stage.

Skill/Characteristic	Explanation
Experience / Domain Expertise	*Look for someone who has been there and done that, who will not only help you navigate the rough startup terrain, but also bring strong network connections in the market you wish to capture. VC board members are helpful, however, you don't want to rely on them as your only source of operational experience. Rather, aim to seek out board members with true operational experience in your market.*
Sharp Opinion	*Consistent and constructive discussions are at the heart of an effective board. Having a board member who is quiet and fears speaking their mind is of little use.*
Responsive	*Startups move at a rapid rate and you need responsive board members who are committed to returning your calls, text and emails in a short timeframe. The best board members help you put out any fires, help you understand where you went wrong, and assist you with planning your next steps.*
Adds Real Value	*Board members are not just there to attend meetings. Effective board members add real tangible value to startups in the form of introductions to potential customers and partners, interviewing key candidates, coaching senior management, speaking at sales events, assisting with securing financing and everything else in between.*
Diverse and inclusive	*The diversity of your board is also extremely important. Groups from different backgrounds, genders, races and perspectives make better decisions and improve business outcomes. An important nuance to remain cognisant of, is that diversity of thought and perspective is what drives a board's (and ultimately a company's) success, rather than individual measures of diversity like gender, race or age.*

Skill/Characteristic	Explanation
Functional Skills	*Make sure that the required functional skill sets are available on your board, including:A marketing Guru - It is critical to have a member who understands your company's target market and how to reach out to that audience.A Financial Professional - For an early startup, having someone who understands finance can help you connect with funding sources and provide oversight for the company's financial plan An Advisor - A board member with advisory skills can help guide decisions and assist in negotiations that the company may face during its startup phase.An Exits Expert - A startup plan almost always includes an exit strategy. Having an expert who can prepare the company for what's ahead is critical, whether the exit is an IPO or a merger and acquisition.An expert for each major department - Members with experience in the other major departments that your company will have, such as product development and sales will be ideal for the final positions.Note: a typical startup board will evolve several times over a startup's life. Board composition change is normal, as different skill sets and networks may be required for different times for a growing business. For instance, an R&D professional may not be necessary for ideation stage businesses, even as an exit expert may not be valuable prior to even Series A stage.*

2 Determine the Board Composition and Size

For a startup, you should aim for a board with three to five directors. This should include one or more in each of the following categories: management, an investor in the company and a fellow CEO (peer) who has built or is in the throes of building a successful company of scale who is an independent director. One of these individuals should be appointed as the chairman of the board whose role it will be to moderate board meetings to ensure that board members engage in productive, balanced and fair discussions about issues critical to the startup. Often it's the founder-CEO that acts as Chairman, however, some VCs require these roles to be distinctly separate.

When it comes to board composition, the trick is to keep the right balance of the three director types.

See Meeting Investment Governance Standards by Stage section.

Evolution of the Startup Board

As a startup raises each round of funding, the Board begins to go through an evolution, particularly in the context of the number of members and the transfer of decision-making power.

Stage of Funding	Number of Directors
Seed Stage	*(3 person Board) – comprising of 1 Seed investor (maybe an angel or micro-venture capital investor), 1 co-founders, 1 independent.*
Series A	*(5 person Board) – comprising of 1 Seed investor, 1 Series A VC investor, 1 co-founders, and 2 independent directors.*
Series B	*(5 person Board) – comprising of 1 Series A VC investor, 1 Series B VC investor, 1 co-founders, and 2 independent directors.*
Series C	*(5 to 7 person Board) – comprising of 1 Series A VC investor, 1 Series B VC investor, 1 Series C VC investor, 1 co-founder, 1 to 2 independent directors.*
Series D	*(7 person Board) – comprising of 2-3 VC investors, 1 co-founder, 2-4 independent directors.*

Board Composition After VC Funding

From inception, startups necessitate the attraction of outside resources to achieve high growth rates, which establishes the need for external funding through VC investment. VC investors build their voting power and gain additional board seats with each round of investment. The majority control of a startup board exists on a continuum between 'founder-controlled' and 'investor-controlled' with 'shared control' living somewhere in the middle. As a startup moves upwards in its growth trajectory, majority control moves from 'founder-controlled' to 'shared-control' to 'investor-controlled'.

There is, therefore, a trade-off between raising more funds for growth and giving up more decision-making control.

3 Decide on the Extent of Founder Representation

Ideally, boards should include only one member of the management team or co-founders, the CEO, who may or may not be the founder-CEO. Boards give outside perspectives and strategic advice to the company's leadership and have a limited number of board seats to fill. The CEO already has the benefit of the perspective and strategic advice of the rest of the management team and/or co-founders on a daily basis. Adding a second member of the management team to the board takes away the opportunity to add outside, diverse talent and brainpower to the inner circle. The power of the board is diluted significantly if you add even one person from management beyond the CEO. In addition, the board is essentially the CEO's boss and the management team, who work for the CEO, can't also be the CEO's boss.

4 Recruit Independent Directors

It's important to have one or more independent directors — an individual who is neither an employee nor an investor in the company — on the board early. Ideally, this individual should be another founder, peer, colleague or acquaintance who has been in your seat before and can bring a clear, objective perspective to board discussions. A trusted independent director can let you know if you're missing an opportunity or taking a step in the wrong direction. Plus, most importantly, help navigate the challenges that arise when the investor board directors may have a different perspective from or disagree with the operating board directors.

5 Determine the Structure of the Board

The structure, responsibilities, and powers granted to a board of directors are determined by a company's or organization's bylaws. The bylaws generally govern how many board members are appointed, how members are elected, and how frequently the board meets. Create foundational governance documents, such as bylaws, charters, or agreements that will serve as a playbook that clearly defines roles, responsibilities, decision-making processes and terms of service.

Consider imposing four-year term limits on board members, in addition to other restrictions. Plan how individuals will be able to join the board. Will management cast a vote? Will the members choose their successors? Will investors be up for renewal at subsequent rounds, based on % contribution of the funding provided?

6 Develop a Nominations and Selection Process

Develop a transparent process for nominating and selecting board members that ensures fairness, accountability and alignment with the startup's objectives, cultivating a board that brings diverse expertise and perspectives to guide the company's growth. Consider using recommendations from investors, professional networks, or industry associations

7 Establish the Cadence of Board Meetings and Communication

Establish a meeting schedule and communication channels for board members. Typically, the board should be required to meet at least four times per year in the presence of a quorum or if there are any pressing issues to be addressed. However, the frequency with which the board meets may vary based on a startup’s needs, stage of development and complexity of decisions to be made.

A general guideline for the cadence of meetings for start-up boards will vary based on stage (see table)

Stage	Frequency
Early Stage (Pre-seed/Seed)	*Monthly or bi-monthly meetings could be beneficial during the early stages when the startup is rapidly evolving, facing critical decisions, or seeking strategic direction. Frequent meetings, whether formal or even informal, can aid in keeping the board updated on progress and challenges.*
Growth Stage (Series A/B)	*As the startup matures and stabilizes, meetings might occur quarterly or every 2-3 months. This frequency allows for comprehensive discussions on key strategies, financial performance, market expansion, and major decisions.*
Late Stage (Post-Series B/C)	*Once the startup achieves a more established position, the frequency might decrease further to bi-annual meetings or as needed. At this stage, the board focuses on high-level strategic guidance and oversight rather than day-to-day operations*

Regardless of the frequency, the key is to ensure that board meetings are productive, focused, and provide ample time for in-depth discussions on critical matters relevant to the startup's growth and success. Regular communication between board members outside formal meetings can also help in staying updated and addressing urgent issues when necessary.

8 Establish an Orientation and Onboarding Process

Conduct orientation sessions to familiarize new board members with the startup's mission, operations, goals, culture, governance practices and expectations.

9 Establish an Orientation and Onboarding Process

Implement periodic assessments to evaluate board performance, effectiveness, and alignment with the startup's objectives. Use feedback for continuous improvement.

10 Legal and Compliance Considerations

Ensure compliance with legal and regulatory requirements related to board composition, meetings, reporting, and disclosure obligations.

11 Flexibility and Adaptability

Remain open to adjustments as the startup evolves. The board structure may need to evolve with the company's growth, changes in strategic direction, or the addition of new investors.

Best Practices for Assembling an Effective Board

Resist the temptation to stack your early board with individuals you can control

While having individuals under your control on the board might seem advantageous in terms of influence, it's essential to balance the board with independent members to ensure effective governance, diverse perspectives, accountability and long-term success. This approach strengthens the company's credibility, decision-making capabilities and resilience in the face of challenges.

At all times, solve for balance (not control) and leverage independents

As was best said by Scott Weiss of Andreessen Horowitz “neither founders nor VCs should control any given board; always seek balance and give your company its best chance at survival.” With every VC, financial investor, or any other individual with a vested interest, add one independent director who will maintain perspective even as founders and VCs pursue their agendas.

Be wary of granting board observer seats as concessions for not granting full board seats

Though they may seem harmless, board observers regularly contribute to and influence board discussions. In time, they actually often turn into full board members, so although they have fewer legal rights than full board members, there is often very little functional difference between the two, especially where smaller boards are concerned.

Some of the risks to be aware of are the following:

- Board observers do not have the same fiduciary duties as board members, but can actively contribute to discussions and shape decision-making, without bearing any responsibility.
- Even though on paper the distinction between BOD members and board observers should be clear, sometimes this can blur.
- As board observers become involved and seek increased influence, this can lead to conflicts within the board.
- Finally, granting a board seat could be seen as a concession, which may further affect the founder’s control of the startup

Be careful with big names and pay attention to subconscious power alignments.

While it can be beneficial to appoint high-profile individuals to your board, exercise caution in doing so. Often, the lesser known or younger board personalities may inadvertently defer to more influential counterparts, partly due to admiration but also to further their own agendas.

Take the time to pick a strong chairperson

A board’s chair is its leader and tends to be one of the more important leverage points for founders/early CEOs. Usually, it is recommendable to have an external board chair, outside of the founders. This increases the independence of the board (which is crucial for effective oversight and governance) and decreases potential conflicts, arising from a founder's emotional connection to the startup. The chairperson provides leadership to the company’s board members, acts as the liaison between the board and the executive team, orchestrates meetings, coaches the CEO, teases out insights from the other directors and encourages a variety of opinions while avoiding conflict.

Avoid even-numbered boards

Deadlocks are undesirable as they hinder decision making and avoid giving veto power as much as possible as this can lead to prolonged negotiations, conflicts, and impede the timely execution of plans or initiatives.

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While it can be beneficial to appoint high-profile individuals to your board, exercise caution in doing so. Often, the lesser known or younger board personalities may inadvertently defer to more influential counterparts, partly due to admiration but also to further their own agendas.

Take the time to pick a strong chairperson

A board's chair is its leader and tends to be one of the more important leverage points for founders/early CEOs. Usually, it is recommendable to have an external board chair, outside of the founders. This increases the independence of the board (which is crucial for effective oversight and governance) and decreases potential conflicts, arising from a founder's emotional connection to the startup. The chairperson provides leadership to the company's board members, acts as the liaison between the board and the executive team, orchestrates meetings, coaches the CEO, teases out insights from the other directors and encourages a variety of opinions while avoiding conflict.

Avoid even-numbered boards

Deadlocks are undesirable as they hinder decision making and avoid giving veto power as much as possible as this can lead to prolonged negotiations, conflicts, and impede the timely execution of plans or initiatives.

Do your homework.
Diligence each prospect methodologically. Just as you would scrutinize, diligence, and reference check every important management hire and teammate, extend the same discipline to your board selection process. This discipline becomes especially important for high profile personalities (resist the halo effect).

How To Set Up Advisory Board

Advisory Boards are groups of subject matter experts whose role is to provide a company's leadership team with guidance on company vision, innovation, risk management, and profitability. Though they provide management with advice, they do not possess the authority to vote on corporate matters. Without the burden of legal liability, high-profile individuals are typically more willing to accept the role of an advisory board member over a directorship.

An advisory board can serve as the main governance structure in a company, typically in much earlier stage businesses who have just raised seed funding or in cases where investors have little or no domain knowledge about certain aspects of the business, an advisory board can be a huge asset. Advisory boards can also exist alongside a formal board in instances where the business operates in a very specialized area where expert advisors can add real value.

When Would You Need An Advisory Board?

The timing around assembling an advisory board is dependent on the company's needs and capacity. The following include situations where a company might benefit from an advisory board:

- There's a specific objective and internal resources are not equipped to execute it;
- The company would benefit from a positive association with a particular individual with a great track record;
- The leadership team has skill gaps;
- The company has plateaued or is in a rut.
- The company has a highly technical product and experts in the field could drive the direction of the solution, business development, partnerships, regulatory approvals, etc.

An effective Advisory Board can provide valuable insights, guidance, and support, but its success depends on how well it aligns with your organization's goals and how effectively you manage and leverage its expertise.

Considerations When Setting Up An Advisory Board

Because of their informal nature, there is typically no set way to establish an advisory board, no set role and no set time or stage in the development of the organization, when an advisory board should be established.

Although less formal than a board of directors, there should still be some structure to the creation and management of an advisory board. Below are a set of steps to consider as you set up your advisory board:

Step 1: Define Objectives and Needs

The first step is to identify and document what the company needs to achieve with an advisory board such as its purpose, its size, when it will meet, who will be on it and how the board will be compensated i.e. a documented framework of a less formal set of bylaws. The more specific, the better—a measurable strategic outcome is ideal when you're setting up an advisory board. Figure out how these goals are tied to your mission, vision, strategy, and milestones.

Most advisory boards have three to five members who all have equal rank and voice. Unlike a board of directors, there are no chairs, presidents, vice chairs or vice presidents. Three to five is usually the most effective size because if there are too few members, you do not get a broad range of advice. However, if you have too many members, this can make the board unwieldy and expensive.

Be prepared to pay for an individual's time somehow valuing their expertise and dedication, perhaps through remuneration or other mutually agreed-upon means.

Step 2: Profile Ideal Candidates

Next, the company needs to draft written profiles of ideal candidates by identifying the skills needed to be successful as a business. Then list the skills of your founders and board members (if you have an existing board) and use this information to determine where you have gaps and add advisory board members who will fill those gaps.

In his book, The Four Steps to Epiphany, Steve Blank suggests that a startup should recruit five different kinds of advisory board members at various stages of a company's evolution:

- Technical – offers product development advice
- Business – offers business strategy guidance
- Customer – offers direction on product features/value proposition
- Industry – brings domain expertise
- Sales – counsels on sales tactics and demand creation

Strategically determine the composition of your Advisory Board, ensuring that each of the profiles are unique and have specific roles e.g. one financial advisor, one industry advisor, one seasoned CEO to act as a mentor or coach and one technical adviser. Outline potential candidates for each role, ensuring a diverse spectrum of knowledge and experience.
A highly functioning advisory board will have a diverse set of views where the advisors can learn from one another.

Step 3: Source and Recruit

Once the profiles are drafted, they can be used for recruiting and informing candidates on roles and expectations. This step is important since it lays the groundwork for finding who is needed versus already knowing a qualified candidate and reverse-engineering a profile to fit their background. The most important considerations when selecting Advisory Board members are knowledge, experience and diversification. Ideally, prospective board members should not have a pre-existing relationship with the company or its management team as these people are essentially already informal advisors.

Avoid recruiting board members who all look and think like the business leaders. Diversification should include considerations such as age, gender, race and national origin but also consider creating a board that is diversified by experience as well.

While some attributes may overlap with those of an effective board member, an Advisory Board is fundamentally different from a Board of Directors. The board of directors work for all the shareholders while the advisory board typically works only for the CEO.

You are building the advisory board to provide your business with advice and insight based on knowledge and experience. Look for expertise in business ownership and business coaching. Following are some of the characteristics of an effective advisory board member:

Stage	Frequency
Ability to complement the formal board	*It's important that an advisory board member understand that they are playing a different role to a board member*
Long-term commitment	*Creating a successful company takes a long time. While advisory board members can have short-term impact, they are much more effective if they have a long-term view to the development of the company*
Creative thinking	*The CEO and the leadership team need as many creative inputs as they can get. While some of this can come from the board of directors, it's often limited by the dynamics between the board and a CEO. An advisory board member can be an important source of out-of-the-box thinking.*
Responsiveness	*Rapid response is critical. CEOs will be looking for specific help from advisory board members and responses beyond a few days will be useless. Emotionally stable and positive attitude. The CEO already has enough pressure from all areas of the business. The advisory board can be a safe, comfortable place for the CEO to explore specific issues and get direct advice and feedback*

Only after engaging with multiple candidates should a decision be made. For one, it allows the company to absorb some knowledge during the recruitment process. Second, it ensures the right fit personality-wise. Make sure to thank the other candidates who were not selected and let them know that you would like to stay in touch. These budding relationships may prove valuable someday.

Step 4: Conclude a Contractual Agreement

When candidates agree to join as advisors, it is important to have them sign a memorandum of understanding or Terms of Reference. While advisory boards can be informal, it is important to utilize formal documents to set the tone and demonstrate the seriousness of the board. The agreement can be a simple one-page document outlining compensation and a set of expectations around time commitment and participation. It is crucial to have the advisory board members sign this document prior to the first meeting. It is best practice to document the relationship with all startup advisors. Templates such as FAST can help to set a baseline for those conversations.

Step 5: Set Key Performance Indicators

Finally, it is critical to set objectives and key performance indicators (KPIs). It is important to work towards milestones, measure outcomes against KPIs, and swap out members when they are no longer a fit. The primary purpose of an advisory board should be to drive outcomes. Finalize your KPIs and communicate them clearly.

Step 6: Conducting Board Business

Initially, you want to bring the new board up to speed. Hold a full-day meeting where all the time is spent on history and strategy. Be ready to answer a lot of questions.

Typically an advisory board normally meets every quarter, soon after your company has its quarterly planning session. If you only meet biannually or annually, then the board meeting should be soon after those planning sessions. Prior to any advisory board meeting, you want to send out read-ahead material so that your board members are prepared appropriately for the upcoming meeting. Include specific decisions that you are seeking to make with the advice of the board so that the outcomes of the meeting are clear.

The annual meeting of the advisory board is normally a half- or full-day event. It starts with the past performance of the last year (maybe up to the past three years), changes to the company's strategic direction and the annual plans for the following year. The second half of the annual meeting is to dissect issues, challenges and risks that the board members see with any strategy changes and the annual plan.

Quarterly (or biannual) meetings are normally shorter. Progress for the year to date is reviewed, and the next quarter's plan is discussed. Discussions are more specific on tactics for the next quarter.

Senior business leaders may also consider having monthly meetings with each board member individually in an informal setting such as over coffee, lunch or dinner.

It is also advisable to have at least an annual social event with your advisory board to develop a stronger bond with your advisory board members.

Considerations When Setting Up An Advisory Board

While an advisory board can be helpful, it can also have dynamics that are dysfunctional, either at the specific adviser level or at the overall advisory board level. For starters, advisers might be excellent contributors as individuals, but not as a fully integrated functioning group.

Advisory board members will have different levels of individual engagement. As founders, you have to define your expectations and make sure the advisory board member shares this. Many advisers sign up with immense enthusiasm only to vanish after the stock option agreements have been signed. Be clear on expectations, time commitments, and how you measure the advisory board members' contribution.

Make sure you understand any conflicts in advance. Great advisers will often be engaged with multiple startups. This can generate conflicts with regard to time, attention, or confidentiality. Advisers who function with high integrity will maintain confidentiality and respect your ideas, while others will be less careful. It's your duty to understand these conflicts before you sign them up, and to prepare adequately, through the use of a well structured contract, with the advisor, featuring vesting and non-competes.

As a founder or CEO, you have many competing priorities. While having an advisory board may be useful, make sure you are committed to spending the time to cultivate and maintain the relationships. In the absence of your attention, the advisory board can turn into simply a list of names on your web site.

If you don't manage your advisory board well, you'll get no value from it. But when it goes well, it can be immensely helpful. Broadly, it is much easier to have an informal relationship with an advisory board member since you're not constrained by governance, by-laws, and other policies and procedures, which, if leveraged appropriately, can help a founder get faster and more frequent feedback and support.

How To Set Up All Other Structures Including Updates and Policies

Setting up various structures, updates, and policies in a startup involves establishing foundational elements to ensure smooth operations, compliance, and adaptability to evolving needs. Implementing routine checks is crucial for assessing the effectiveness of these structures and policies.

Here is a step-by-step guide:

1. Foundational Structures:

- **Legal Structure:** Determine the legal structure of the startup (e.g., C Corporation or Limited by Liability Company) and ensure compliance with applicable laws. Seek legal advice to ensure all structures and policies comply with applicable laws.
- **Organizational Structure:** Define the organizational hierarchy, roles, and reporting relationships.
- **Ethical Guidelines:** Establish ethical guidelines that align with the company's values, objectives and culture

2. Policies and Procedures:

- **Employee Handbook:** Develop a comprehensive employee handbook that outlines company policies, code of conduct, and expectations.
- **HR Policies:** Establish human resources policies covering hiring, onboarding, company culture, performance management, anonymous reporting, sexual harassment, and termination processes.
- **Feedback Surveys:** Conduct regular employee feedback surveys to gauge satisfaction and identify areas for improvement.
- **Recognition Programs:** Implement employee recognition programs to boost morale and engagement.

3. Financial Structures:

- **Accounting System:** Set up an accounting system to track financial transactions, expenses, and revenue.
- **Budgeting:** Develop a budget that aligns with the company's goals and regularly review and update it.

- **Finance Approval policies:** Set up policies or rules that guide employees and teams on approvals required for withdrawing funds from company accounts, persons who have access to these accounts and company virtual or physical cards, paying vendor bills, frequency of such payments, ensuring proper separation of personal, customers and business funds to avoid commingling of funds.
- **Audited Financial Statements:** Audited financial statements provide an independent and comprehensive examination of a company's financial records, transactions, and reporting. The need for audited financials contributes to the credibility, transparency, and reliability of the financial information of the company. Setting up a process that ensures companies that are at least two years old get audited at the end of each year show credibility and transparency.

4. IT Infrastructure:

- **IT Policies:** Implement IT policies covering data security, acceptable use of technology, and software licensing.
- **Network Security:** Establish robust network security measures to protect sensitive information.

5. Communication Structures:

- **Internal Communication Channels:** Implement communication tools and channels for effective internal communication.
- **Meeting Schedule:** Establish a routine meeting schedule for team and departmental meetings.
- **Proper Documentation:** Maintain detailed documentation of all structures, policies, and updates.
- **Accessible Resources:** Ensure that all employees have access to the relevant documentation and that they are properly trained, re-trained, and educated on the relevant documentation.

6. Compliance and Routine Checks:

- **Regulatory Compliance Checklist:** Develop a checklist to ensure ongoing compliance with relevant laws and regulations and then build processes to conduct routine compliance audits to identify and address any areas of non-compliance with internal and external policies and rules.

7. Quality Control:

- **Quality Standards:** Define quality standards for products or services and establish processes to monitor and maintain them.
- **Customer Feedback:** Implement a system for collecting and analyzing customer feedback for continuous improvement.

8. Performance Metrics and KPIs:

- **Key Performance Indicators (KPIs):** Identify and regularly review KPIs relevant to the startup's objectives.
- **Performance Reviews:** Implement regular performance reviews for employees and teams.
- Implementing Key Performance Indicators (KPIs) and regular performance reviews for employees are essential components of a performance management system. These tools help startups measure progress, align activities with strategic goals, and provide a basis for continuous improvement.

9. Training and Development:

- **Training Programs:** Develop training programs for employees to enhance skills and knowledge.
- **Professional Development:** Encourage ongoing professional development and provide resources for learning.

10. Health and Safety Policies:

- **Safety Protocols:** Establish health and safety protocols in the workplace to protect the safety of your employees.
- **Emergency Response Plans:** Develop plans for handling emergencies and ensure all employees are familiar with them.

11. Environmental Sustainability:

- **Sustainability Policies:** Implement policies and practices that align with environmental sustainability goals and other social and governance policies. More details on this are stated below..
- **Energy Efficiency:** Assess and enhance energy efficiency in operations.

12. Adaptability and Iteration:

- **Continuous Improvement:** Foster a culture of continuous improvement and iterate on structures and policies based on feedback and changing circumstances.

Startup Reporting

Why Are Updates Important

Raising capital from venture capital investors is a very difficult task. According to a study conducted by Crunchbase, only 0.05% of startups that apply for venture capital funding receive it. For startups, the fundraising is a time-consuming process, and it is a great relief when the money clears in their company bank accounts. The challenge of landing the capital from venture capital can be exhilarating.

However, with great reward comes great responsibility. Once you raise funding from venture capital investors, the level of reporting requirements will increase drastically and this change in the level of reporting is mostly felt by earlier-stage startups that are migrating to later-stage. Preparing these reports may seem like a daunting task as it requires a lot of effort from the management team. But startups can derive great value from regular reporting.

For startups, reporting on the financial performance of the company over a period helps startups understand the financial health of the business. The reporting forces an entrepreneur to be aware of the progress and keep track trends of the business. Having this information will enable you to make informed decisions which are based on accurate and factual data.

Because of various legal requirements, startups need to report the financial performance of the business to various stakeholders. In addition to investors and the board of directors, these other stakeholders also include tax authorities. Ensuring that the reporting is kept up to date will ensure that the startup is staying legally compliant with various regulatory requirements. Regular reporting also ensures that startups remain compliant with the requirements that were agreed to in the funding agreements that were signed with the venture capital investors. It is safer to remain compliant with legal and regulatory requirements to avoid future headaches.

Providing investors with accurate financial reporting that is in line with their expectations shows that the entrepreneurs are committed to the business and operate in accordance to the standard business practices. Investors appreciate startups that are transparent with the financial health of the business.

Building trust with investors enables entrepreneurs to leverage the investors' deep expertise and knowledge. Investors have a wealth of knowledge and want to add value to their portfolio companies (over and above just providing capital). When an investor trusts the entrepreneur, they will feel more comfortable sharing their networks and making introductions to potential investors and clients that could help your business grow.

Regular reporting ensures your investors are informed about the progress of the company and any challenges the company is facing. Investors can help you overcome any challenges your business is facing. Investors will only be able to provide guidance when they have sufficient and accurate information about the financial health of the business.

As companies graduate from earlier-stage to later-stage companies, investors will require a certain level of reporting. It is better to start a cadence going of the regular reporting required so that you are prepared when the time comes for you to raise capital from later-stage venture capital investors.

Types of Updates

Startups face a lot of risk and uncertainty as market changes, customer demand, regulations or broader macroeconomic factors could affect the business and its operating environment. Startups can plan to protect and plan for various scenarios through preparing a budget for the next 12 months. A budget assists founders set goals, focus on strategic planning, monitor runway and expenses, and track performance against the targets. The risks of operating without a budget include lack of oversight, poor decision making, underutilization of resources, missing out on opportunities and negative impact on relationships with the investors.

In addition to revenue targets, the budget that is prepared should include how much the company plans to spend on operational expenses such as payroll, rent, marketing etc. The budget should also include any planned capital expenditures that are required for the company to compete in the industry. Furthermore, the budget will also enable the startup to have a view on the cash flow for the next 12 months. Understanding the cash flow requirements is critical to understand how much runway the company has before it runs out of cash.

Once the founder has prepared the budget, the budget should be sent to the investors and board of directors for input and approval. The investors will be able to provide you with insights and guidance on making the most of the resources available. It is advised that the budgeting process should begin well in advance of the next financial year so there is enough time to prepare the budget and obtain feedback from the investors before the next year begins.

Once the budget has been approved, founders should report on how the company is actually performing against the budget on a regular basis (which could be monthly, or quarterly). This monitoring of the performance to the budget is a critical piece of the reporting updates as it will help founders identify issues before they become significant problems. Investors want to see the difference between the actual performance to the budget and understand the drivers. Include the reasons for any underperformance or even outperformance in the monthly and/or quarterly reports.

In addition to monitoring the performance against the budget, monthly reporting also involves reporting on the performance of the business compared to the previous month and the same month of the previous year. This enables investors to see the growth trends of the company.

With this information, the investors will be able to provide any guidance or advice on how to improve the financial performance and assist in assessing whether there are any risks to be aware of and how to mitigate them. Usually want to receive the monthly reports within 20-30 days at the end of each month.

As companies graduate to later-stage venture funded companies, investors will request for annual financial statements that are audited by a reputable accounting firm. The annual financial statements include a historical yearly balance sheet, income statements, cash flow statement, statement of changes in equity and detailed notes.

A comparison of the startup’s previous financial year and the most recent year is also included in the annual financial statements. Usually, investors will want to receive the annual financial statements within 90-120 business days after the end of each financial year. These financials help startup founders and investors to monitor performance, assess cash flow, and measure value of the business.

How frequently should I be reporting?

Effective communication between founders and investor stakeholders (existing and prospective) is crucial for success in the constantly evolving African tech ecosystem.

At the Pre-seed stage and given the rapidly-changing nature of businesses at this stage, consistent and clear communication is crucial to establish mutual trust and understanding between entrepreneurs and investors. Founders should aim to generate monthly reports that summarize key milestones and achievements, obstacles faced, and business model revisions. This allows them to showcase integrity and forward movement, while keeping stakeholders informed of business and market developments.

As startups progress through the seed stage, there is a greater need for comprehensive quantitative and qualitative reporting. Monthly updates still hold strong importance as they provide a snapshot of product development, customer acquisition, and financial metrics among others. Furthermore, founders should also consider including quarterly deep dives to enable a more in-depth review of market positioning and strategy. The higher frequency of reporting is indicative of the rising complexity of operations and the growing significance of strategic decision-making, thus allowing to keep investors informed but also benefit from their guidance.

Achieving the Series A financing milestone is pivotal for a fast-growing startup, especially in the African context with lower graduation rates. At this point, founders depending on the maturity of the business and their investor base, must keep to a monthly, or adopt a bi-monthly reporting schedule to keep pace with this accelerated growth. This offers greater insight into key performance indicators, team growth, and revenue generation. Quarterly reports are also to be maintained, to offer insights into strategic initiatives, market expansion plans, and potential upcoming challenges, among others. This provides investors with regular updates and encourages collaborative discussions, ensuring both founders and investors' knowledge are being leveraged to optimize the company's development.

Meanwhile, at Series B financing and beyond, the reporting dynamic shifts towards a balance between transparency and efficiency. At least bi-monthly updates remain crucial, highlighting financial health, client retention and strategic relations. However, as the business grows and matures, adopting a quarterly reporting cycle accompanied by a comprehensive annual review is the market standard.

Lifecycle Stage	Activity Metrics	Impact Metrics	Outcomes
Angel	*Number of assumptions identified* *Number of hypotheses developed* *Number of customer conversations* *Number of customer interviews* *Number of customer observations*	*Learning velocity (e.g. number of conversations, interviews, observations and hypotheses developed per week/month)* *Validation velocity (e.g. number of hypotheses tested, experiments run, learnings gained and decisions made per week/month)* *Number of learnings gained (e.g. customer pain points)* *Decisions made (e.g. pivot or persevere)* *Experiment results* *Time cost per learning*	*Have we identified our risky assumptions and made clear plans to test them?* *Have we validated customer needs and identified the jobs to be done?*
Pre-Seed to Seed	*Number of prototypes/MVPs built (including versions)* *Number of design sprints* *Number of revenue and pricing models developed* *Number of revenue and pricing models tested with customers*	*Validation velocity (e.g. validations gained and decisions made per week/month)Customer test resultsNumber of validations gained (e.g. validation of customer value)Decisions made (e.g. pivot or persevere)Time cost per validationCost per validation*	*Have we tested our solution with customers, found that the solution meets their needs and they are willing to pay for it?*

Lifecycle Stage	Activity Metrics	Impact Metrics	Outcomes
Seed to Series A	*Number of channels tested* *Number of leads qualified* *Number of new customers acquired* *Number of active users/customers* *Number of engaged users/customers*	*Number of channels chosen* *Time per qualified lead* *Cost per qualified lead* *Customer acquisition cost* *Customer acquisition time cost* *Customer growth rate* *User/customer retention rate* *User/customer engagement rate (e.g. average time spent per day/week/month)*	*Have we found a sustainable way to create our product, the right channel to deliver it to customers and the right price point for profitability?*
Series A to Series B	*Number of growth tactics tested* *Number of qualified leads* *Number of new customers acquired* *Number of active users/customers* *Number of engaged users/customers* *Number of referrals generated* *Number of optimizable processes identified*	*Number of growth tactics validated and chosen* *Time per qualified lead* *Cost per qualified lead* *Customer acquisition cost* *Customer acquisition time cost* *Customer growth rate* *User/customer retention rate* *User/customer engagement rate (e.g. average time spent on platform per day/week)* *Referral growth rate* *Number of processes optimized/automated* *Revenue and revenue growth* *Profit and profit growth* *Return on Investment (ARR, IRR, NPV)*	*Have we identified and optimized our engine to grow customer numbers, revenues and profits and is the growth rate improving?*

Lifecycle Stage	Activity Metrics	Impact Metrics	Outcomes
Series B and Beyond	*Number of new customer/market segments/offerings tested Number of qualified leads Number of qualified leads per channel Number of qualified leads per segment/offering Number of new customers acquired Number of new customers acquired per channel Number of new customers acquired per segment/offering Number of active users/customers Number of active users/customers per segment Number of engaged users/customers Number of engaged users/customers per segment*	*Number of new customer/market segments/offerings validated Time per qualified lead Time per qualified lead per channel Time per qualified lead per segment/offering Cost per qualified lead Cost per qualified lead per channel Cost per qualified lead per segment/offering Customer acquisition cost Customer acquisition cost per channel Customer acquisition cost per segment/offering Customer acquisition time cost Customer acquisition time cost per channel*	*How fast are we growing customer numbers, revenues and profits and is the growth rate improving?*

**Adapted from: Innovation Accounting: A Practical Guide For Measuring Your Innovation Ecosystem's Performance - Dan Toma & Esther Gons*

How can I make reporting an efficient and valuable activity in the business?

Step 1 - Select 5-15 metrics that are relevant to your priorities for the next quarter

You need the data to be able to measure all the metrics mentioned above, but that doesn't mean that you need to be actively tracking all of them. For example, if you've just found evidence for product-market fit (i.e. reliable customer growth with stable user retention rates and user engagement rates), then you would still have information on your profitability, but it wouldn't make as much sense to track profit growth as it would to track revenue growth.

At your next quarterly board meeting, identify the key metrics that you need to focus on right now that will lead to meaningful improvements and insights into the business's performance. Once you have your metrics, get a baseline measure (i.e. what is the metric right now?) and establish meaningful (but realistic) targets with your board for the quarter. Once you have your metrics, your baselines and your targets, you're ready to start tracking.

Step 2 - Put these metrics into a weekly scorecard

Now that you know what your priorities are, you need to make sure that these metrics are tracked on a weekly basis so you can start picking up trends, patterns and insights. It's often too much work for one or two people to be tracking all the metrics (especially if you're in a growth phase), so assign responsibilities to people in your team to monitor these metrics. Once you have assigned responsibilities, make sure everyone takes accountability to update their metrics on the scorecard each week. The best time to do this is before a regular weekly meeting.

When assigning responsibilities, make sure that the metrics are as relevant to the person's role and strengths as possible. By doing this, you'll be able to validly monitor their performance and you'll have a greater chance of success in achieving your targets. As a rule of thumb, you don't want one person tracking more than 4-5 metrics.

Here's an example table that you can use for your weekly scorecard:

Metric	Responsible Person	Baseline (p/w)	Target (p/w)	1-7 Jan	8-14 Jan	...	Average (p/w)
Number of qualified leads	*Cameron*	*4*	*10*	*2*	*8*	...	*7*

Step 3 - Use the scorecard in weekly, monthly and quarterly meetings

Now that you have the right people closely tracking your prioritized metrics and updating the scorecard, you'll now have the information you need to have impactful conversations about your progress and priorities right now. Use the following questions to guide the conversation with your team:

- How have we performed compared to our target and why is the score what it is?
- Where are our biggest wins/successes and why are we succeeding?
- How can we repeat, reinforce or replicate these successes?
- Where are the biggest problems and why are they happening?
- How can we address these problem areas?
- Who is going to do what and by when? (This is the most important question because nothing meaningful will happen without it)

It's important to review your scorecard and ask these questions on a weekly, monthly and quarterly basis because how far you zoom in/out will provide you with different insights. On a weekly basis, you'll know what tasks you need to do this week to move the metrics closer to the targets. On a monthly basis, you'll see what projects are working (and which ones aren't) so you can adjust and adapt as you learn. On a quarterly basis, you can see where you succeeded and where you failed, which will inform your priorities and decisions for the next quarter and your next scorecard.

Step 4 - Capture the minutes of your meetings

The regularly updated scorecard provides the key quantitative metrics for your reporting, whilst the regular meetings are where the key qualitative information is gathered. Make sure that someone is taking minutes during each of the meetings when you are reviewing your scorecard so that the insights and decisions you make can be captured. The simplest way to do this is to capture the answers to all the questions in step 3.

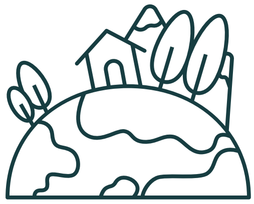
Step 5 - Create pre-read documents for monthly, quarterly and annual meetings

Now that you have a rhythm of regular tracking and reporting on your key quantitative and qualitative information, you will want to receive this information in a consolidated view when reviewing how your company is performing. It's straightforward to review the scorecard over a week but it can be tedious to review it over a quarter.

The valuable exercise for longer time frames is to analyze the patterns, trends and changes that have occured over the period of time you're reporting (e.g. month/quarter/year). This can provide a succinct view into what has changed in the business and can help you, your board and your investors maintain a bird's eye view of the company whilst allowing for a deeper dive into the details if required.

A framework for this is to have the weekly scorecard and meeting minutes as an appendix for a monthly meeting, whilst the monthly scorecard and monthly meeting minutes will be the appendix for the quarterly meeting and so on for the annual meeting. As a minimum, funders should consider the following sections for such a report: executive summary, high performance areas, low performance areas, insights gained, problems identified, solutions implemented and decisions made.

ESG Considerations



Does ESG matter at an early stage?

In an environment facing numerous global challenges, investors, regulators, as well as consumers and employees are now increasingly demanding that companies should not only be good stewards of capital but also of social capital with the necessary governance framework in place to support it.

The ESG principles were first launched in 2005 when the United Nations and the Swiss government published the "Who Cares Wins" report with the aim of ESG to capture all the non-financial risks and opportunities inherent to a company's day to day activities.

Environmental

- Energy usage & Efficiency
- Climate change strategy
- Waste reduction
- Biodiversity Loss
- Monitoring and minimizing greenhouse gas emissions
- Carbon footprint reduction
- Responsible supply chain
- Sustainable use of natural resources
- Compliance with with applicable environmental regulations

Social

- Fair pay and balanced wages
- Equal employment opportunity
- Employee benefits
- Workplace health and safety
- Community engagement
- Responsible supply chain
- Labor law enforcement
- Consumer safety (especially with respect to making safe/reliable products and data privacy)

Governance

- Corporate governance
- Risk management
- Compliance
- Ethical business practices
- Avoiding conflict of interest
- Information disclosure, accounting integrity and transparency
- Board diversity & compensation.

In general, incorporating ESG policies at the early stage, despite the common sense of “doing good”, makes good business sense for several reasons. Doing so builds trust and enhances the company’s reputation and brand value, it allows the company to effectively manage its risks, it can make the business more sustainable, and grow the opportunity to acquire new customers who value sustainability, diversity, fair labor practices, and to attract and retain talent. McKinsey, for instance, reported that ESG strategies can positively affect operating profits by as much as 60%.

Additionally, incorporating ESG at an early stage could present a significant added value during fundraising. Numerous VC funds have been financed by Development Finance Institutions (“DFIs”) or are aiming to be financed by them. DFIs have been strong early supporters of ESG practices/reporting and SDGs tracking, they have therefore included ESG/SDG KPIs into consideration when evaluating investments (VC funds and direct equity). As ESG becomes a norm, the founders building viable businesses with ESG consideration can differentiate itself for client/employee retention, diversity and labor practices and investor alignment, and likely ESG will become a must-do for all companies, regardless of size or industry.

Later Stage ESG considerations

The latest scandals in the VC world both in the African region and internationally is leading investors to demand greater transparency, accountability and adoption of ESG principles from their portfolio companies.
While some early-stage companies may delay implementing certain ESG principles due to resource constraints or in order to focus on establishing their core business model, it is critical that later stage companies who are better resourced and have established product/market fit make it a priority to implement the proper ESG framework to guide their business.

Implementing a robust ESG framework can serve as a strategic compass that not only aligns with ethical principles but also enhances the resiliency and sustainability of the business. As the scale of a business increases, the impact of their actions becomes more substantial. Adhering to a comprehensive ESG framework helps mitigate risks associated with environmental liabilities, regulatory compliance, financial mismanagement, treatment of employees and stakeholders, and reputational damage.

It also positions the company to attract interest from a broader investor base as investors increasingly prioritize sustainable and responsible business practices. By fostering a culture of transparency, accountability, and social responsibility, later-stage companies can not only meet evolving stakeholder expectations but all contribute positively to the communities in which they operate.

To effectively implement an ESG framework, later-stage companies should begin by conducting a thorough assessment of their current practices and identifying areas for improvement. This includes evaluating environmental impact, labor practices, governance structures, regulatory compliance, community engagement, and other key areas relevant to their business. Establishing clear KPIs related to ESG goals allows companies to measure their progress and provide more clear evidence of their adherence to these principles and the impact that they are having. Engaging stakeholders, including employees, investors, customers, and suppliers, if applicable, in the development and communications of ESG initiatives fosters a sense of shared responsibility and ensures that diverse perspectives are considered.

Additionally, integrating ESG considerations into strategic decision-making processes and regularly reporting on KPIs enhances accountability and transparency. Collaborating with industry peers and leveraging best practices can further accelerate the adoption of effective ESG measures, promoting a positive impact on both the company’s bottom line and society at large.

Later stage companies that effectively implement an ESG framework could subsequently be valued at a premium. Larger startups are also under greater scrutiny from various stakeholders such as regulators, consumers and partners and applying strong ESG principles could mitigate the potential risks by promoting responsible and sustainable business practices that align with global standards, thereby enhancing their reputation and long-term viability in both local and international markets.

ESG vs CSR vs Impact Explanation

Corporate Social Responsibility (CSR) is a voluntary and self-regulated strategy employed by organizations to have a positive impact on society. It involves taking responsibility for the impact of a company's activities on various stakeholders, including employees, communities, and the environment. CSR initiatives often include philanthropy, community engagement, ethical business practices, and sustainability efforts. CSR is typically more focused on external actions and charitable activities, reflecting a company's commitment to being a responsible corporate citizen.

ESG, on the other hand, takes it one step further by measuring these efforts in a more precise, structured assessment and integrating sustainability and responsibility considerations into business operations and core business strategies and decision-making processes. It helps companies set measurable goals to show their process and progress on their sustainability journeys. In short ESG is the evolution of CSR by tracking, setting objectives and application of strong frameworks.

When looking at impact investing, impact investors are actively seeking to invest in businesses and funds that can demonstrate a tangible impact on social, environmental and/or governance issues all the while expecting a risk-adjusted financial return on its invested capital (expecting social, environmental and financial returns). While impact investing, CSR initiatives, and ESG principles all seek to have a positive impact on societal and environmental outcomes, impact investing attempts to align those outcomes with financial return.

Criteria	CSR	ESG	Impact/Sustainability
Scope	*External actions and initiatives*	*Comprehensive, internal and external focus*	*Holistic approach covering all aspects*
Focus Area	*Social and philanthropic efforts*	*Environmental, social and governance*	*Broader, including economic impact*
Actions to Implement	*Changes to corporate culture, values, and brand management*	*Implementation of measurable goals/KPIs and audits to confirm compliance*	*Implementation of measurable goals/KPIs and through a CSR and ESG initiatives*
Voluntary vs. Mandated	*Voluntary*	*Evolving towards a mix of voluntary and mandated compliance*	*Varied, can be voluntary or guided by specific standards*
Impact on Financial Performance and Valuation	*Not directly related to financial performance and minimal to no impact on business valuation*	*Directly related to financial performance and business valuation*	*Usually related to financial performance and business valuation*
Integration into Strategy	*May not be fully integrated into core business strategy*	*Integrated into core business strategies and decision-making*	*Integral part of business strategy and operations*

Criteria	CSR	ESG	Impact/Sustainability
Metrics and Reporting	*Less standardized, often narrative reporting*	*More standardized, involves specific metrics and reporting guidelines*	*Metrics and reporting may vary, often aligned with specific sustainability standards*
Stakeholder engagement	*Often involves external stakeholders, like communities*	*Engages in both internal and external stakeholders, considering a whole range of perspectives*	*Inclusive engagement, involving all relevant stakeholders*
Time horizon	*Varied, may focus on short-term initiatives*	*Long-term perspective, addressing sustainability over time*	*Long-term, emphasizing sustained positive impact*

Meeting Investment Governance Standards By Stage

Unpriced Rounds (Usually accompanying an investment through a SAFE, KISS, Convertible Note or similar instrument)

An unpriced investment round typically involves the sale of securities (such as convertible notes or SAFEs) without assigning a specific valuation to the company at the time of the investment. In such rounds, investors often provide funding in exchange for the promise of future equity when a priced round or other triggering event occurs. While unpriced rounds are often simpler than priced equity rounds, they still involve specific governance terms. The exact terms can vary, but here are some common elements:

- **Board Governance:**

Navigating the Corporate Ship - Within the intricate framework of the startup, a board of directors becomes the compass, offering invaluable guidance alongside the founders' expertise. Accountability is cultivated through periodic meetings, ensuring alignment of directorial incentives with the trajectory of company success.

- **Shareholder Protections:**

Safeguarding Interests in the Shareholders' Guild - Granting investors the power to veto major decisions transforms them from passive stakeholders to vocal guardians of their interests. This mechanism shields against unilateral founder actions that might dilute investor value, fostering a balanced power dynamic.

- **Information Rights:**

Illuminating the Corporate Landscape - Requiring meticulous financial reporting dismantles the veil of information asymmetry, offering investors a clear view.

- **Intellectual Property Rights:**

Safeguarding the Crown Jewels - The employment contracts, fortified with intellectual property protections, serve as a fortress against the loss of critical trade secrets. Non-compete clauses not only retain key talent but also shield the startup's innovations, maintaining a competitive edge in the turbulent market.

- **Share Vesting:**

Incentivizing Commitment and Growth - The intricate dance of share vesting over four years transforms founders into steadfast custodians of company success. Cliffs and accelerations paint a landscape where commitment bears fruit, offering founders growth incentives while penalizing detrimental acts through bad leaver clauses.

- **Compliance:**

The Pillar of Trust and Legality - Pledging allegiance to legal and ethical compliance erects a pillar of trust in the eyes of investors. It signals not just commitment but also shields the company from potential scandals or legal battles that could mar the fundraising journey and hinder overall growth.

In totality, these provisions form a mosaic of governance and financial discipline, tailored to the dynamic startup landscape. This delicate balance creates assurance for investors investing in unpriced rounds, which generally lack the typical standards that an equity round provides but still grant founders the latitude for operational excellence. The goal is to foster a symbiotic relationship that thrives on shared interests and mutual protection, acknowledging the inherent information gaps in the form of investment.

For more details about these clauses and how they could work, please see the Governance Standards in respect of Pre-seed/Seed/ Series A Financing SAFE Transaction.

Priced Rounds (Usually a direct equity investment)

The governance terms for an equity investment round are often outlined in the term sheet and subsequently in the investment agreement. They vary based on the specifics of the deal and the negotiating power of the investor and the startup. However, some standard governance terms that may be included in an equity investment round agreement include:

1. Board Composition:

- Board Seats: Specifies the number of board seats the investor is entitled to.
- Board Observer Rights: Even if the investor doesn't have a direct seat on the board, they may have the right to attend and observe board meetings.

2. Voting Rights:

- Majority/Minority Protection: Certain major corporate decisions may require the approval of a majority or supermajority of the shareholders.
- Protective Provisions: Investors may have the right to approve or veto certain actions, such as changes to the company's charter or bylaws, funds approval threshold, sale of a subsidiary or the parent company, sale of the intellectual property of the company etc.

3. Information Rights:

- Access to Information: Specifies the level of financial and operational information the investor is entitled to receive on a regular basis.

4. Founder Vesting:

- Vesting Schedules: Ensures that founders and key team members earn their equity over time to align interests with the company's long-term success. The typical vesting schedule for founders at the early stage of the company is over 4 years.

5. Post-Closing Covenants:

- Positive Covenants: Commitments by the company to take specific actions (e.g., maintaining insurance coverage, maintaining regulatory licenses and approvals).
- Negative Covenants: Restrictions on the company's actions (e.g., limiting debt issuance or additional debt without investor approval).

These terms can be adjusted based on the negotiation between the investors and the company, and they are crucial for defining the rights and responsibilities of each party in the investment relationship

Additional External Resources & Templates

NAVIGATING BOARDS

- Sample Board Meeting Dashboards for Early Stage Companies
- Sample Board Meeting Minutes for Early Stage Companies
- How To Evaluate Startup Board Directors
- How To Navigate Board Director Compensation
- Understanding Core Legal Duties Of Board Members
- Founder Advisor Standard Template

REPORTING

- Board Report Template (IA Ventures)
- Startup Investor Regular Reporting Template (Founder Institute)
- Startup Investor Regular Reporting Template (500Global)
- Startup Investor Regular Reporting Template (Antler)
- Startup Investor Regular Reporting Template (Y Combinator)
- Startup Investor Regular Reporting Template (Visible VC)
- Board And Investor Regular Reporting Template (Underscore VC)

Digital Collective Africa

Governance ToolKit