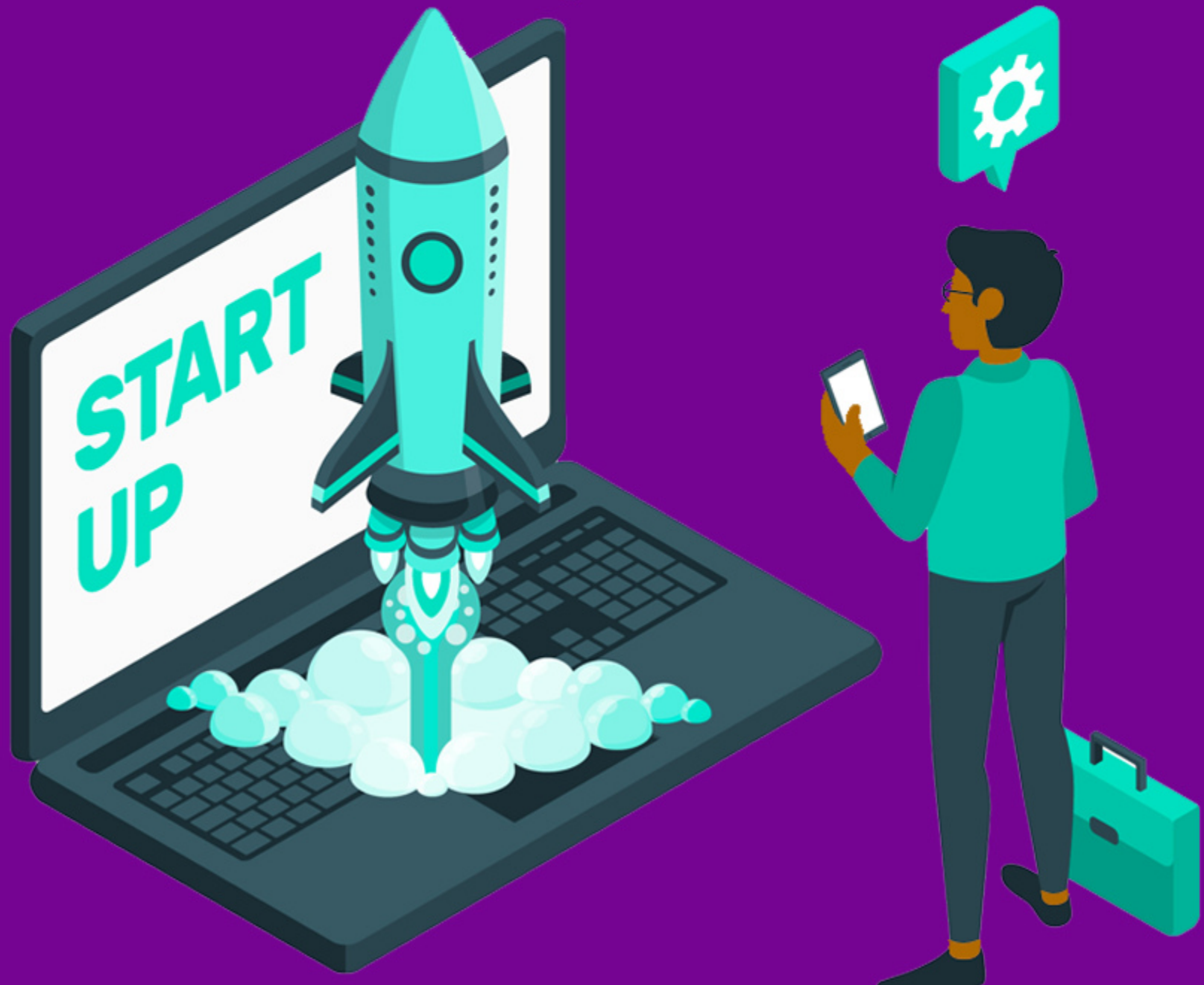




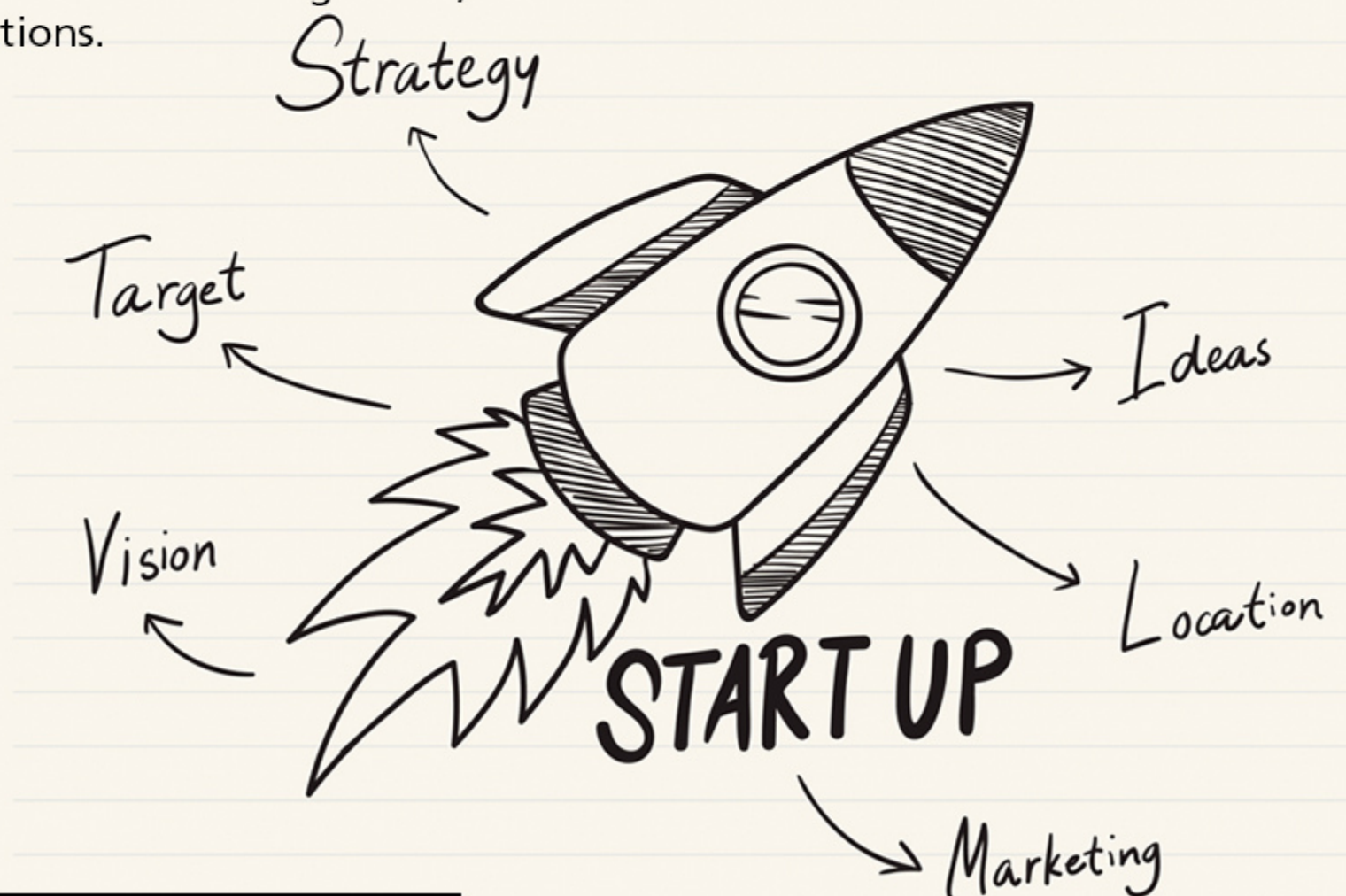
DUALE, OVIA &
ALEX-ADEDIPE

Adopting Good Corporate Governance to Prevent Startup Failure



Introduction

Recently, a Ghanaian Financial Technology (FinTech) company known as Dash shut down after raising a \$86.1 million venture capital fund.¹ The report shows that the CEO of Dash allegedly diverted over \$8 million and over \$25 million of the company's fund was unaccounted for while he was earning a monthly salary of \$50,000 and the company was not making any revenue. A careful analysis of this report shows that there was no proper corporate governance mechanism in place that ensures the activities of the management are regularly and properly checked and investors maintain confidence of investors in the company. In this edition of TMT Thursday, we have highlighted corporate governance compliance obligations that start-ups can put in place to maintain investor confidence, checkmate the activities of the management, and create an environment for sustainable business operations.



¹Faith Omoniyi, Ghanaian fintech Dash shuts down after raising \$86.1 million in five years; available at <https://techcabal.com/2023/10/06/ghanaian-fintech-dash-shuts-down-after-raising-86-1-million/>

Corporate Governance

Corporate governance refers to the system by which companies are directed and controlled. Corporate governance is a critical factor in ensuring the success and sustainability of any business, particularly startups. As startups play a vital role in fostering economic growth and innovation, it is essential to implement good corporate governance practices. The core principles of corporate governance include accountability, transparency, risk management and effective decision-making.

Transparency and Accountability

One of the fundamental aspects of good corporate governance is transparency, which refers to the openness and clarity of a company's operations, decisions, and financial reporting. In the Nigerian startup landscape, transparency is crucial for building trust among investors, stakeholders, and customers. By maintaining transparent practices, startups can attract more investment, as investors are more likely to support ventures where their funds are utilized efficiently and ethically. Additionally, transparent financial reporting enables startups to identify potential issues early, allowing for timely corrective measures and preventing financial crises that often lead to startup failures.



Accountability, another pillar of good corporate governance, ensures that startups are responsible for their actions and decisions. When startup founders are held accountable, they are motivated to make ethical choices and prioritize the long-term interests of the company and its stakeholders over short-term gains. Accountability can prevent startups from engaging in risky behaviors or fraudulent activities, which are common causes of business failure.

Consequently, the Companies and Allied Matters Act No.3 2020 (CAMA) requires companies to maintain up-to-date financial records containing entries from day to day of all sums of money received and expended by the company, and the matters in respect of which the receipt and expenditure took place; and a record of the assets and liabilities of the company.²



²Section 374 CAMA

Risk Management and Decision-Making

Good corporate governance practices emphasize adequate risk management strategies, which are essential for startups operating in a very competitive environment. By implementing effective risk management frameworks, startups can identify, assess, and mitigate potential risks, allowing them to make informed decisions that protect investors' funds and the company's interest.

Additionally, good corporate governance encourages startups to make decisions based on comprehensive data analysis and strategic planning. Informed decision-making, supported by accurate information and diverse perspectives, reduces the likelihood of impulsive or ill-informed choices that can lead to startup failure. Paragraph 1.9 of the Nigerian Code of Corporate Governance 2018 (NCCG) recommended that the Board of Directors (the "Board") should establish the company's risk management framework and monitor its effectiveness. By promoting a culture of prudent decision-making, corporate governance contributes significantly to the success of startups in Nigeria.



Stakeholder Engagement

A key objective of good corporate governance is the creation of long-term sustainable value for stakeholders. Startups that prioritize the interests of all stakeholders, including employees, customers, suppliers, and the broader community, are more likely to build strong, enduring relationships. Engaging with stakeholders in a meaningful way fosters a positive reputation, enhances brand loyalty, and can lead to increased market share. In the Nigerian startup ecosystem, where social and community connections are vital, startups that embrace good corporate governance principles can establish themselves as responsible and trustworthy entities, thereby reducing the risk of failure due to lack of public support or negative publicity. As a result, CAMA states the shareholders of a company must meet at least once a year for an annual general meeting³ while NCCG recommends that the Board should meet at least once in a quarter. At the annual general meeting or Board meeting the shareholders or Board members can evaluate the financial position of the company, get business updates of the company, and proffer advice and solutions to the problems of the company. +



³Section 237 CAMA

Disclosure and Reporting

At the heart of a good code of corporate governance is disclosure. CAMA requires every company to file annual returns and accompany its annual returns with a written copy of every balance sheet of the Company, the profit and loss account laid before the company in a general meeting held in the year to which the return relates (including every document required by law to be annexed to the balance sheet); and a copy, certified of the report of the auditors on, and of the report of the directors accompanying, each the balance sheet. Similarly, the Companies Income Tax Act requires all companies to file returns with the Federal Inland Revenue Services for tax assessment.⁴

Conclusion

Good corporate governance is indispensable for preventing startup failure in Nigeria. By emphasizing transparency, accountability, effective risk management, informed decision-making, long-term value creation, and disclosure startups can build resilient and sustainable businesses. As the Nigerian entrepreneurial landscape continues to evolve, startups that prioritize and implement sound corporate governance practices are better equipped to navigate challenges, attract investment, and contribute significantly to the country's economic growth. Through a collective commitment to good corporate governance, Nigeria can foster a thriving startup ecosystem that drives innovation, creates jobs, and establishes the nation as a global leader in entrepreneurship.

⁴Section 52 Companies Income Tax Act Cap C21 Laws of the Federation 2004