



IBGC
Segmentos

CORPORATE
GOVERNANCE FOR
STARTUPS & SCALE-UPS



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Corporate Governance for Startups & Scale-Ups

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Introduction – Governance practices for startups & scale-ups

Startup is a scalable organization, with high economic potential and innovative (not necessarily related to technology). Based on this definition, it would be natural to expect all startups to achieve success. Potential innovation and prospects of profitability are already half-way to satisfactory performance. But it doesn't always work this way.

The path to growth is long, intense, sometimes accelerated and subject to a number of obstacles until a more advanced stage of development is reached, in which the company has the capacity to scale, grow and generate more jobs. Startups capable of overcoming these first obstacles, with a scalable, innovative and fast-growing business model, become scale-ups. It is important to mention that the size of a startup is not related to its development stage. Although some organizations are already created with a certain size, they must undergo the same business consolidation process of small companies, starting from the validation of the model and reaching scaling and diversification.

In practice, however, this transition is not so straightforward. Many startups and scale-ups fail to reach their full potential due to marketing, corporate, product, management or regulatory reasons. These businesses have the potential to bring innovation to the market, but face growth difficulties because partners are not aligned on strategic issues. In this time, corporate governance becomes the biggest challenge faced by entrepreneurs.

We can say that corporate governance contributes to leveraging value for the company, helping it to go further, faster and with less risk. Governance also helps pave the way for startups and scale-ups to fundraise, which often influences the speed and consistency of their growth.

Before moving forward, it is important to review IBGC's definition of corporate governance: "Corporate governance is the system by which companies and other organizations are managed, monitored and encouraged. It involves the relationships between shareholders, the board of directors, the executive management, supervisory and control bodies and other stakeholders."

Although this definition could suggest that only large companies should be concerned with governance, because it mentions the relationship between supervisory and control bodies and the interactions of the board of directors, which are usually present only in already well-established companies, this impression is, however, unfounded. The relationship between the partners has existed since the creation of the startup, in the ideation stage, when it was still on paper only.

Corporate governance is based on four basic principles: transparency, fairness, accountability, and corporate responsibility. These principles must be observed from the creation of the startup, accompanying the development of the company's governance, even when it occurs gradually. The mortality rate of startups is high, but it is possible to reduce the risk of failure by adopting good governance practices.

New business founders must resolve many pressing and significant issues; after all, they are building a company from scratch. It would be inappropriate for the most advanced governance recommendations to become a priority in the beginning, when the company is still being structured, testing the market and the business model, etc. Therefore, it is more natural to start thinking about governance during a fundraising, or after an investment round when the new partners ask for a more organized company.

There are relevant and appropriate practices for each of the startup's de-

velopment stages, however. Governance implementation can take place gradually and become more sophisticated throughout the process. Each stage of the growth process represents a favorable moment for adoption or improvement of certain practices.

In the beginning, the business is little more than just an idea and, in some cases, it does not even exist formally. It then becomes operational, testing the market and the business model. Afterwards its structure improves and it starts to win more customers. At a certain point in time it becomes well established, a scale-up, and its challenge is to grow quickly – scaling up its activities without the costs growing at the same pace. For each of these stages, this document suggests the startup's expected practices and steps concerning governance, with a view to guiding the activities of entrepreneurs. Recommendations may vary according to the specific development of each startup, as the order of the situations listed is not always the same.

The purpose of this edition of IBGC Segmentos is to address the specific characteristics of governance in the four stages of business growth: ideation, validation (Minimum Viable Product – MVP), traction (Product Market Fit – PMF) and scaling – the latter two of which are considered the transition stages from a startup to a scale-up, if it presents a scalable, innovative business model with high growth potential.

The document is structured according to the stages of the company and respective definitions. A four-pillar model was built based on how the content of each stage will be developed. After the Conclusion, a glossary containing the most frequently used terms in the startups and scale-ups ecosystem is presented. In addition, the bibliographic references mention additional reading material on the matter and the subsidies used in the preparation of this work. The design of the model, stages, pillars and

practices proposed herein resulted from discussions with experts, qualitative research, and bibliographic consultation.

Although this content is mainly aimed for entrepreneurs (founders), it is also intended for other agents of the high-impact

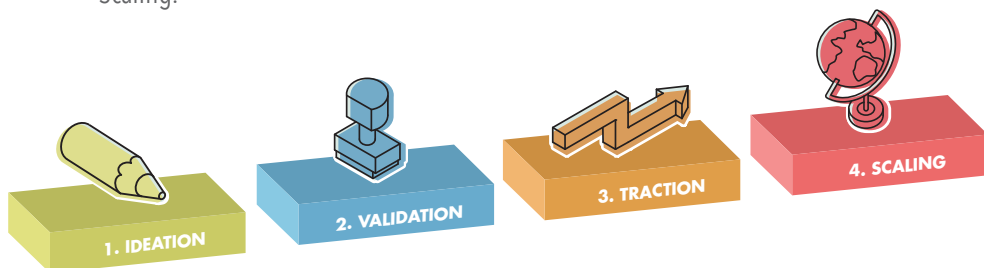
innovative entrepreneurial ecosystem. We will now share reflections, guidance and explanations about startups and corporate governance, hoping to contribute to the success of promising new businesses, conducted in an ethical and transparent manner.

1

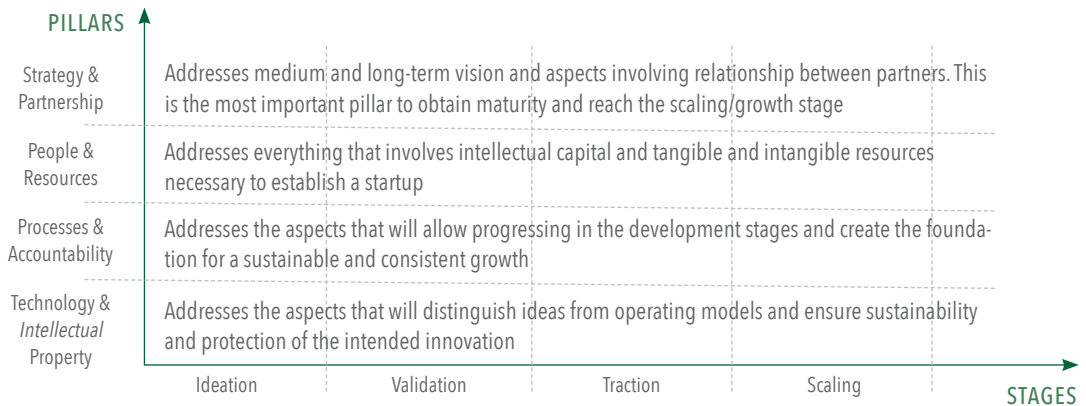
Stages and Pillars

Successful companies that reach maturity tend to successfully undergo four stages in their evolution:

- Ideation;
- Validation (Minimum Viable Product – MVP);
- Traction (Product Market Fit – PMF);
- Scaling.



Each stage has specific characteristics, priorities and assumptions. The governance required varies according to the company's timing and development stage. In each of these stages, governance is expected to advance, taking into account four pillars: strategy & partnership, people & resources, technology & intellectual property, and processes & accountability. Below is the definition of each of these pillars:

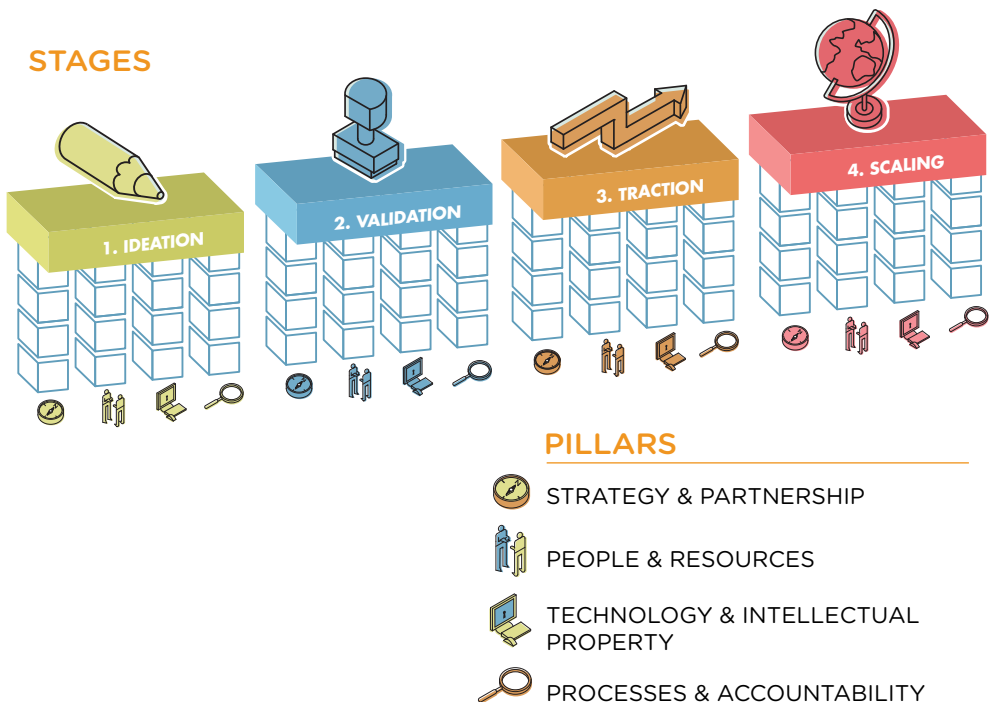


For this guide, the Corporate Governance Study Group about Startups at IBGC conceived a model based on research, interviews and knowledge of the members, didactically explaining the elements of attention of startups and scale-ups from the perspective of corporate governance. For a better understanding of this model, we present the graph below:

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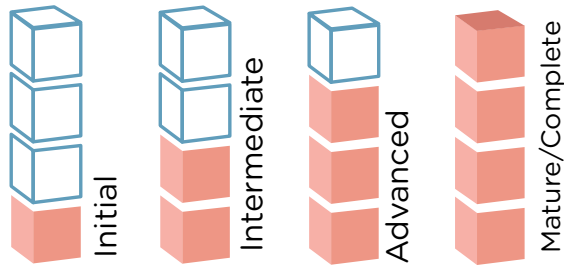


Governance Pillars and Stages



The graph shows the four pillars, which are completed stage by stage. Each of the business development stages requires a certain amount of attention and action in re-

gard to governance. The degree of maturity/intensity that the startup and scale-up must achieve in the respective pillars will be illustrated according to this key:



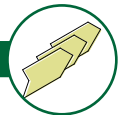
Throughout this document, the company will be analyzed in different levels, until it reaches the "mature/complete" state - when governance will be implemented in each of the respective pillar.

The four stages are described below, starting with the definition and focus of governance for each of them, exploring in each chapter the proposed practices and highlights to be applied by the entrepreneurs.

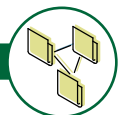
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Ideation

Definition of the stage: in the ideation phase (also known as the hypothesis), the startup is between developing the idea and understanding the problem it proposes to solve or the market gap it proposes to fill in. It is the stage of conception and union between people who connect around a defined purpose and begin to develop what could become a company in the future. The business does not necessarily have an operational activity or a formalized existence from a legal point of view yet, but the partnership between the parties already exists and can be leveraged with management methods.



Governance focus: structure the roles and responsibilities of the partners, specify the forms of contribution and the intensity of dedication, compensation and future equity interests, as well as options for withdrawal and discontinuity. Ensure ownership of the company's intellectual property and alignment between the partners, the decision-making process and consensus building.



In the ideation phase, although the business is still in an embryonic stage, the definition of aspects related to corporate governance is already necessary and may avoid problems and expand future opportunities. The

definitions and decisions made at this stage (or the lack thereof) will have future consequences for the company. Certain governance practices can help start off on the right foot by laying the foundations on stable ground.



Tips and highlights: In the ideation stage, it is important that the founders begin to understand the basic concepts of developing a startup. One of the best ways to acquire this knowledge is to talk to mentors and founders of a startup that is already at a later stage.

Follow the suggested governance steps during the ideation stage in the four pillars presented: strategy & partnership, people &

resources, technology & intellectual property, and processes & accountability.



2.1. Strategy & Partnership

2.1.1. Define means of contribution, financial capacity and expectations of each partner

Even when designing the business, the founders of a startup can contribute in different ways: while some contribute with capital, others dedicate their time or knowledge to the development of the future company.

At this stage, it is normal that only some of the partners fully dedicate to the structuring of the business, since it is still being conceived and there is no guarantee that the project will be commercially viable. While one or more founders dedicate themselves exclusively to the project, others carry

out professional activities in parallel, with partial dedication to the development of the idea. After the company's operational activities begin, all the founders are encouraged to provide full time and exclusive dedication to the business.

The time and capital invested by each partner in the startup should be compatible with this first stage and with the demands of their personal lives. It is recommended that each partner establish his/her form of collaboration to the company: with financial or intellectual capital, specifying financial contributions and the amount of time available.

Tips and highlights: Ideas have no financial or economic value. They may be the basis of an innovative and high-potential business, but they only acquire value when effectively implemented. The ability to execute through management and leadership is what transforms the idea into an operational activity with economic value. Therefore having an idea does not necessarily mean having a greater equity stake in the company. The definition of the equity interests to be held by each partner will certainly consider this aspect, but it must always be defined by consensus among the partners.



The founders should also consider another aspect at this stage: the resources necessary for their living expenses until the company is able to sustain itself. While the

company does not record revenues and is not able to pay salaries or management fees, the partners rely on their own resources for their personal living expenses.

Tips and highlights: It is very important to establish one's own personal and individual financial capacity for the pre-operating period and even for when the company operates in the red, as this information will define the financial leeway of the business. The ideal would be to calculate how long these resources will last and discuss this matter with the other founders. Why should one partner be concerned about the financial capacity of the other? Because it affects the future of the venture. When one of the partners faces financial difficulties, decisions made tend to be contrary to the interests of the business in the medium and long terms.



It is also important to know each partner's expectations in relation to the startup regarding purpose, size, reach, management style. This could have an impact on the strategic direction of the business, and unaligned expectations could lead to future disagreements.

Possible objectives for the different profiles of entrepreneurs include future sale of the business to a strategic investor or even divesting by means of an initial public offering (IPO). These individual interests are often conflicting and could lead to future disagreements, if the expectations are not clear.

Lastly, we should remember that there are repercussions and legal impacts

for partnerships, even if the companies are not legally formalized. Working with other people towards a common business objective brings a series of responsibilities to the parties involved, especially in relation to the discontinuity of activities. Everyone can be held responsible for obligations or debts assumed at this stage, even if they decide to withdraw from the project unilaterally. The partnership informality of this pre-operational period should last as little as possible and is only justified while it does not affect the lives of people other than the founders themselves.

2.1.2. Define future equity interests

It is common that, with time and the progress of the business, some partners believe that they have contributed more than others and are tempted to claim greater equity interests in the venture. The dispute over a cake that hasn't even risen usually "withers the dough".

A good governance practice in start-ups is to establish in advance the conditions for each founder to receive his/her equity interests. The partners should define, as early as possible, the form of equity distribution that best interests the future company. This distribution does not need to

be equal and is usually established proportionally to each partner's involvement, considering the time dedicated to the venture and the effective contribution to achieve the objectives set out.

It is acceptable to measure the contribution by calculating the opportunity cost: what would that founder's compensation be if they were working at another company? This value parameter can be considered when measuring the future equity interests of each partner in a more pragmatic and objective way, but this type of information is not always easily accessible.



Tips and highlights: The equity interest rules should be clear. They can and should be revisited as the project develops, considering the balance of involvement of the partners. In the initial alignment of the partners, the roles and responsibilities may still be undefined, and are adjusted as the needs arise. For example, if one of the partners initially proposed to work for a certain period and, for personal reasons, was unable to fulfill the agreement, the equity interests can be adjusted.

Another situation that should be discussed in advance concerns the minimum time dedicated to structure the new company. It is recommended that the partners undertake to remain in the venture for the time required for its development.

Given the interest in retaining talents and promoting balance among the partners, it would be ideal to establish a minimum time of dedication to the business so that each partner may have access to the full equity interests initially idealized. This condition is also known as *revesting*. The objective is to avoid attributing specific equity interests to those who have dedicated little time and have failed to fulfill their

commitment to collaborate for a minimum acceptable period.

The lack of a minimum period of dedication ends up adversely affecting those who collaborated more for the project. As the perception of business value matures, that is, as the company grows and increases its value, it is usual to notice that the equity interests received by some founders were not proportional to the time dedicated to the company in this initial phase. With this agreement over the minimum period of activity, the founders are entitled to certain equity interest only when the company reaches the goals previously set by the partners.

2.1.3. Define options to withdraw and/or join

Nobody gets married already thinking about divorce, but a previous reflection about the conditions of the end of a relationship can save a lot of trouble – and this is also true for a corporate relationship. In a startup, the founders should define the rules for withdrawal and/or joining of new partners to avoid problems in the future.

The ideation stage is the best moment to agree on this issue. When establishing simple rules for joining and withdrawal of partners, it is almost natural to attract only people aligned with the collective objectives. For new members, the same suggestions for definition of equity interests addressed above apply.

There are no ready-made formulas for withdrawal of partners. A common and predictable situation is when a partner should remain as such if he/she ceases to work in the business. A recommendation is to define in advance whether this partner will be entitled to maintain his equity interest in the company or if it should be assigned to the partners who continue in the operation, so as not to compromise the company's development. In the need of equity interest's assignment to remaining partners, the manner by which the price of the equity interests of the withdrawing partner will be calculated should also be deter-

mined, in addition to the form of payment of such amount. This issue should be very well reflected on, as payment of corporate receivables to a withdrawing partner in an early-stage company could drain its capital and impair its operation.

2.1.4. Founders' agreement

In the ideation phase, a few pages should be sufficient to formalize the main issues agreed by the founders of the startup in a document. A founders' agreement formalizes the topics previously discussed in this chapter about each partner's contributions, their roles and responsibilities, definition of equity interests, and the joining and withdrawal conditions of partners. The agreement may also address other topics, such as the exclusivity of partners' collaboration in the future company and confidentiality and non-competition clauses.

This agreement is a written informal document (do not requires the register in the Board of Trade) with clear language, signed and kept by all partners. In addition to having a specific legal function, the objective of the founders' agreement is to discuss and resolve on matters of interest to the future company and its partners. It is the basis for corporate documents related to the effective establishment of the company and helps to consolidate a culture of long-term corporate alignment.



2.2. People & Resources

2.2.1. Individual or collective initiative

During the ideation phase, in most cases the talents and resources of the future company are concentrated on the founders, which is why the People & Resources pillar has less

priority in the corporate governance field. But there are businesses that arise by initiative of a single founder who invests his own capital in the skills and resources needed for the business. An evaluation of the convenience of undertaking individually, as a

single partner, is encouraged. Should this path be followed, the risk of continuity of a single-person project can, for example,

make it difficult for investors to access financial resources.



2.3. Technology & Intellectual Property

2.3.1. Intellectual property ownership

Intellectual property issues should already be addressed in the ideation phase. The definition that all intellectual property produced by the partners in the context of the project will be the domain of the future company helps to strengthen the assets and avoid the loss of exploitation rights by the company after a possible corporate amendment due to the withdrawal or exclusion of a founder. The protection of intellectual property can be addressed within the aforementioned founders' agreement or in a private agreement between the founders.

It is important to emphasize that all intellectual property arises from and is de-

veloped based on a creative initiative by individuals. Based on this assumption, the intellectual property registration and control authorities usually establish the way in which it is assigned to companies. For each protection element (domain, brand and software), there is a specific and previously defined way to formalize this assignment of rights to the legal entity.

It is also worth noting that it is healthy to establish the duty of confidentiality during the participation of those involved in the project, in order to avoid problems of unfair competition arising from the misuse of business secrets. In many cases, this duty remains in effect for an additional period after the possible withdrawal from the project.



2.4. Processes & Accountability

2.4.1. Alignment of uses and resources

In the ideation stage, the Processes & Accountability pillar still receives less attention from governance, given the formal absence of a company and the incipience of the structures subject to control. Internal processes and accountability can be carried out in a

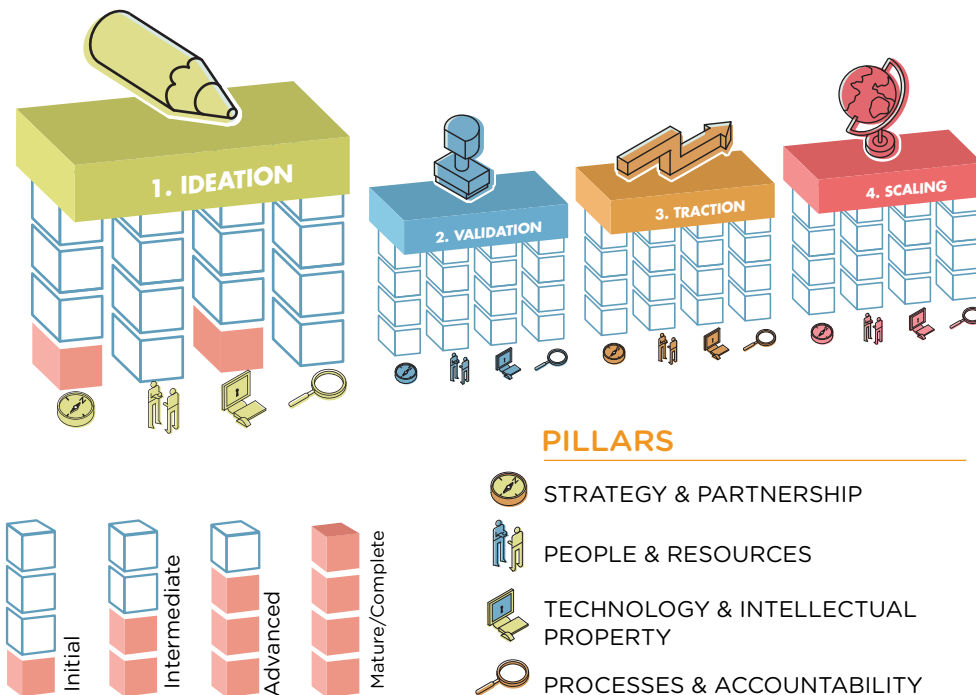
simplified manner, restricted to the partners themselves, and aim to inform them routinely about the proper use of resources contributed to the business. From a strictly financial point of view, cash control with a record of inflows and outflows is recommended, periodically reviewed and designed for short periods of time.

2.5. Checklist

- ✓ Align the founders' expectations in relation to the startup.
- ✓ Hold discussions about the financial capacity and loss to be borne by the founders.
- ✓ Establish how each partner will contribute to the company.
- ✓ Measure the collaboration of each partner.
- ✓ Determine conditions for receipt of equity interests (revesting).
- ✓ Establish conditions for withdrawal and joining of partners.
- ✓ Protect the intellectual property generated and the business secrets.
- ✓ Draft, sign and keep hard copies of the founders' agreement.

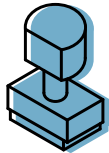
In the ideation stage, the startup is expected to have taken its first steps toward

the Strategy & Partnership and Technology & Intellectual Property pillars.

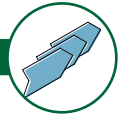


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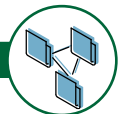
Validation



Definition of the stage: in the validation stage (also known as Minimum Viable Product – MVP), the startup's product, market and business model are undergoing experimentation, seeking to respond to the uncertainties that were mapped in the ideation phase. Propositions and assumptions raised during the first stage will be effectively tested. The company is formalized, has operational activity and can receive the first investment round. It can also count on the collaboration of mentors and advisors on a more frequent basis.



Governance focus: set up the company and organize rules regarding the rights and duties of the partners, including the first considerations about the purpose of the organization. Organize practices regarding potential key employees and the relationship with customers and strategic partners. It also becomes important to maintain adequate minimum internal controls and indicators to determine results and possible accountability to third parties.



In addition to advancing to the intermediate level in the Strategy & Partnership and Technology & Intellectual Property pillars, in

the validation stage the startup will take the initial steps in the People & Human Resources and Processes & Accountability pillars.



3.1. Strategy & Partnership

3.1.1. Organization of the partnership and type of company

At this stage, the company is already formalized, that is, it exists from a legal standpoint. The founders' agreement signed in the ideation stage, which established the foundations of the company, can be revised and broken down into two new documents: the articles of incorporation or articles of organization and the partners' agreement. We will now look into each one of them.

The articles of incorporation or articles of organization are mandatory for establishment of a company and it's necessary to make the legal registration with the Board of Trade. They establish mandatory aspects

for operation of the company, specifying its name (corporate name), capital, business purpose, location, corporate structure, representatives, among other items.

Brazilian legislation provides for the existence of different corporate structures and requires the organization to adopt one of these defined corporate forms, such as limited liability companies and privately held corporations.

The limited liability format is generally chosen in a first stage, given the lesser amount of regulatory requirements. In more advanced stages, it is customary to establish a privately-held corporation (S.A.), which offers more flexibility for new partners, but also brings additional requirements.



Tips and highlights: It is important that the founders understand the responsibilities and potential of each type of company provided for in legislation. As such, the company should seek legal advisory services.

3.1.2. Partnership Agreement

The only mandatory document to open a company in Brazil is the articles of incorporation/organization. In the case of a limited liability company, these are the articles of organization, while in a privately-held company, they are the articles of incorporation. These articles of organization/incorporation can include all matters of interest to the partners, but a second document is also usually formalized: the partnership agree-

ment, which is normally structured simultaneously with the articles of organization/incorporation.

Although the adoption of a partnership agreement is not mandatory by law (unlike the articles of organization/incorporation), it is highly recommended, as it provides more detailed rules on significant aspects of the company. This agreement helps to establish additional rules related to the business, capable of mitigating and, as

far as possible, avoiding conflicts that arise from the different individual expectations from partners.

The partnership agreement is a private document, filed at the company's headquarters – it does not require registration in the Board of Trade – which clarifies the operation of private matters among partners that do not need to be made public. Its primary function is to define the exercise of voting rights and the power of control by the partners. However, it allows freedom of topics and can complement the articles of organization/incorporation with various mechanisms, such as defining the way to resolve conflicts of interest, rules on topics such as the purchase and sale of equity interests, the right of first refusal, the rules for withdrawal from and dissolution of the company, and even intellectual property issues.

In this last aspect, if the founding partners are also software developers or creators of the company's brand, the agreement may contain a commitment to transfer intellectual property to the startup, in order to safeguard its assets and protect it from future litigation.

The partners' agreement may determine that everything produced in terms of intellectual property (software, brands, etc.) is the property of the company and not of the individual who developed it. In the event a partner withdraws from the company, this contractual rule can be useful to avoid the discussion on who is the owner of this type of asset.

Based on the information already stated in the founders' agreement, the information to be included in the articles of organization/incorporation is the public and mandatory information necessary for the company to obtain its registration and maintain adequate relationships with third parties. The information included in the partners' agreement, on the other hand, is usually of a private nature, involving the relationship between the partners and the dynamics of the business operation. Although both these documents may be based on the founders' agreement, they should not be restricted to the topics initially discussed and may include new matters of interest for the company that were perceived during the ideation phase.

Summary of concepts

As the company evolves, the matters of the founders' agreement are, in general, formalized in other documents:

- Mandatory information about the company (public nature) → articles of organization or incorporation
- Optional information about partner relationships (private nature) → partners' agreement

The matters may end up overlapping in documents, with the exception of those expressly provided for by law.

In summary, this agreement establishes the set of additional rights and duties of each partner, and governs their conduct

while holding equity interests in the company – and thereafter.



Summary of concepts

The partners' agreement substantially addresses two matters: (i) equity rights (which impacts the value of the partners' equity interests) and (ii) political rights (which impacts the management and control of the business).

The key matters include:

- Exercise of the power of control;
- Quorums for decision-making and exercising the right to vote;
- Authority levels of legal administrators;
- Preferential rights, tag along, drag along;
- Rules on corporate changes and transactions involving equity interests;
- Winding-up, total dissolution or partial dissolution events;
- Duties and responsibilities during the existence of the company and after termination;
- Risk events, such as insolvency, civil incapacity, divorce or death of partners, etc.;
- Means for conflict resolution.



Tips and highlights: Given the complexity of corporate issues, before signing the partners' agreement, entrepreneurs are encouraged to seek to understand their rights, duties and the clauses possibly presented in these documents. The support of specialized professionals can be useful for drafting the agreement and understanding its implications.

3.1.3. Rules for interaction and termination of the company

Especially from this stage onwards, it is important to understand the difference between personal assets and company's assets. It is essential to know how to segregate the individual accounts and, for example, avoid financial transactions of the company through partners' personal bank accounts. It is also necessary to understand the roles of investors, partners and executives, each subject to specific interests. Even though the founders play the roles of partner and executive simultaneously, it is very important to know when to act as one or the other. Some topics are only applica-

ble in corporate discussions, while others, such as operational issues, relate more to the company's day-to-day activities and to the executive function.

Likewise, it is interesting to establish the rules for withdrawal, as well as the conditions for that to happen. The partners' agreement may specify the method to determine the value of the units of interest (or shares), the form of payment of the respective corporate receivables, or rules for the purchase and sale of equity interests of the partner withdrawing from the business. It is also possible to establish the situations in which the partner should withdraw from the company, as well as the initiative for this

measure. There are cases in which the partner decides to withdraw simply for lack of interest in continuing in the business, and

others in which the partner is excluded by decision of the others (usually for having committed a serious contractual violation).

Tips and highlights: Sometimes the startup has barely begun operating and may already have to indemnify a partner who pleaded in court for unexpected equity interests or financial compensation, draining resources that otherwise should go to company's expansion, sucking the energy from other founders (who would need to be focused on business, and not in quarrels), and driving potential investors away.



The non-compete and confidentiality terms in the event of withdrawal of partners should be considered. Non-compete clauses must be objective and clear as to the term of duration and the segment in which the former partner may not work. Usually, the longer the non-compete period, that is, the longer he/she must remain out of the market, the greater the financial compensation

upon withdrawal from the company (either in the form of receipt of funds or in the form of exemption from liability over debts). The non-compete term usually varies between one and four years after leaving the company. It is common and recommended that these clauses also establish fines or penalties in case of non-compliance.

Tips and highlights: One of the topics that can be discussed by the founders is the equity interest of the partners who hold an executive position, but who stop working in the business due to personal reasons or impediments. In this case, it is important to define how the issue will be dealt: can the professional leave the company's daily routine and continue just as a partner?

It is also worth reflecting on cases of death or divorce of the partners: how will the equity interest and/or involvement of the heirs or former spouse in the decision-making process of the startup be handled?



3.1.4. Conflict resolution tools

We will now address the conflict resolution clauses. It is necessary to establish how the company will resolve corporate conflicts: through mediation, arbitration or in court. If the partners elect to resolve the issues through mediation and/or arbitration, this must be expressly provided for in the ar-

ticles of organization/incorporation and in the partners' agreement. If the articles of organization/incorporation and the partners' agreement omit this topic, the courts (of the state where the company's headquarters are located) are automatically established as the place for the resolution of conflicts.

Each option has its advantages and disadvantages, therefore the partners should find out more about them. Mediation can be used as a first attempt to resolve the issue, but when unsuccessful, it is necessary to resort to arbitration or the courts.

Arbitration is faster, has secrecy and offers the possibility of having experts decide on the matter, with the disadvantage of being more expensive (costs, fees, etc.). It is also necessary to consider that arbitration is strongly based on the articles of organization/incorporation to decide on disputes – therefore, the weight given to these documents is considerable, and could become an issue if they have been poorly structured.

Courts have lower expenses (costs, fees, etc.), but the deadline for the final decision is longer, as it is subject to various levels and to appeals. It is also important to consider that the judge responsible for the case is not necessarily an expert on the topic discussed which might sometimes be extremely technical and specific.

It is worth mentioning that the partners' agreement, as well as the other corporate documents that organize the relationship with partners or investors, need to be revisited and rethought frequently throughout the company's development. This ensures that the documents always remain consistent, avoiding contradictions between them.



Tips and highlights: The choice of more specific rules regarding the rights and duties of the partners, whether in the articles of organization/incorporation or partners' agreement, must be analyzed and discussed on a case-by-case basis. There is no most adequate corporate governance structure for any case.

3.1.5. Joining of new partners and/or investors

In the validation stage, it is usual for the startup to start fundraising from investors (for example, through acceleration programs or angel investors). These funds are usually raised in exchange for an investment in the company through acquisition of equity interests or for a loan to the company convertible into units of interest or shares (also known as a convertible note). There are many ways to raise funds, each of which is subject to a number of different contractual terms and conditions. In any case, the compatibility of the

vision of the new investor or partner with the business and its founders must be analyzed, in order to avoid disparity in expectations.

It is essential to understand that, in the search for fundraising, the company will have new partners and there will be a dilution of the founders' equity interests. This reduction – the fact that the partner now holds a smaller share of the capital – does not mean shrinking of the equity value of his interests. He/she will hold a smaller percentage of the company, but his/her interests may have a greater value as a result of an investment operation.

Tips and highlights: It is very important to find out about the effects of a down round on fundraising through convertible notes. The down round occurs when there are successive funding transactions, but the subsequent transaction is carried out based on a lower valuation than the valuation of the previous funding round. In such cases, there may be a decrease in equity interests (%) and, at the same time, a loss in equity value.



Although the dilution of the stake (%) in the capital is a natural phenomenon when new partners or investors join, it should not occur in vain: the partners must assess whether the contributions raised are consistent with the equity interests assigned/acquired. It is also necessary to consider whether the acquisition of a given equity interest percentage by a partner will restrict the possibilities of new partners or investors joining in the future.

The assignment of a significant stake in exchange for minor capital contributions may jeopardize future investment cycles, since the founders will have their equity interests reduced and, therefore, less space to assign new portions of the company in exchange for new resources.

Founders of startups are often unaware of market practices and are left without parameters to assess whether the equity inter-

ests they are giving up are in line with the value of the resources injected into the company. They are unaware of the assignment ranges and the contributions to which each percentage of capital entitles (how much of the stake in the company's capital they will have to assign in exchange for the financial contribution). To provide a reference for these decisions, the table below shows an indication of the ranges of capital assignment by the partners in exchange for contributions to the company, according to the business development stage. The purpose of this table is merely to inform and serve as example, and each entrepreneur should study the appropriate contribution amounts and dilution percentages, which vary according to the conditions of the company, the investor appetite and the economy in the different sectors.

Table with references of the stage, types of investors and assignment range (stake acquired by the investor *)



STAGE	STARTUP FUNDING STAGES	FASSIGNMENT RANGE
Validation/MVP	Acceleration	5% to 15%
	Angel	10% to 20%
Traction/PMF	Seed/crowdfunding	10% to 20%
Scaling	Series A	20% to 30%
	Series B	15% to 20%
	Series C	-
	Series D	-

*Illustrative example of market conditions – reference in 2018.

When investing in the company, the new investor usually demands certain rights. The negotiation should be conducted carefully: the founders need to take into account that this situation will repeat itself in each round of investment. If, for every fundraising, founders extend new rights to investors in the current round and those from previous rounds, they will end up giving up some of their own rights or equity interests on a continuous and cumulative basis.

When the startup receives new investors, it is also common for each of them to want to work with their own investment contract model. In this sense, it is very important that the organization seek a certain harmonization between the contracts signed with different investors, in order to avoid that the contracts provide for clauses

that cannot be complied with because they are in conflict with each other.

Seeking such harmony, it is common to review clauses of previous contracts as new investors become part of the business. Ideally, it is suggested that, at each investment round, a single investment contract be drawn up with the rights and duties of each party (entrepreneurs and each of the investors, including those from the previous investment rounds). This new contract can completely replace the previous contracts and, thus, establish different rights and duties for each type of investor, reflecting the different negotiations made with each of them. The idea is that, by centralizing all these rules and information in a single document, the situation of having several contracts with clauses and rights that conflict with each other is avoided.



3.2. People & Resources

3.2.1. Relationship with mentors, advisors, consultants and board members

In the validation stage, not just new investors become part of the startup. As such, it becomes necessary to align expectations and counterparts in relationships established with mentors, advisors, advisory board members and, in

the future, members of the board of directors who will begin to perform tasks and activities for the company. These contributions can be compensated or uncompensated, recurring or one-off, with or without assuming responsibilities with the startup. As a general (but not mandatory) rule, these activities can be classified according to the table below.

Summary of concepts

AGENT	FORMALITY	COMPENSATION
Mentor	Informal	No compensation
Advisor	Formal	Frequent compensation
Consultant	Formal	Compensation by scope
Advisory Board Member	Formal	Compensation
Board of Directors Member	Formal	Compensation

While some of these agents provide pro bono services, others receive compensation. As a guidance, these relationships should be organized and transparent, aiming at the best interest of the business and minimizing any conflicts. Ideally, they should be formalized a document that details the level of dedication, the counterparts, the compensation, the secrecy, non-compete and confidentiality clauses, and the levels of responsibility of these agents.

3.2.2. Relationships with key employees

To attract and retain talent in the business, it is common to start evaluating the possibility of setting up option pools and stock options. The stock option pool is the portion of the company's capital allocated to employees through options to purchase units of interest or shares, in most cases for a symbolic price.

Considering the development stage of startups, it is common to invite key people to the business so it is stimulated by and negotiated with this type of counterpart. The typical compensation package of large companies, are replaced by work proposals that include an assumption of financial returns through a future equity sale. As this is an important talent attraction tool, many investors demand for the creation of a stock option pool as a condition for the investment.

For its proper operation, it is necessary to carry out the detailing on two fronts.

The first step is to establish the equity stake and the general rules for its use, including, for example, pricing of equity interests, key positions to be considered, how to approve its use in individual contracts, on a case-by-case basis, and the rules for maintenance, buyback or return of equity interests in cases of termination of the employment relationship. The second step is to approve the negotiation conditions at the individual level for each key person covered by the program, defining the specific conditions to receive the promised equity interests and the internal decision-making levels of authority to offer such stakes to the person. Both situations are generally previously resolved and approved at partner and/or investor meetings.

For employees to be entitled to this equity stake, they must usually meet certain conditions, the most common of which is a minimum length of service with the company. The equity interests are usually acquired progressively over time. These rules that establish the terms for obtaining equity interests are known as vesting clauses. The vesting clause determines the total period of time that the professional should work in the company to reach the maximum percentage of equity interests. During the vesting period, cliffs are established. Cliffs are specific dates or milestones reached by the professional and, once reached, ensure access to the share of the total agreed equity interests.



Tips and highlights: Example of vesting practice: a specific professional is entitled to 1% equity stake. To achieve such stake, he/she should work at the company for three years. He/She will start receiving his/her share when he completes the first full year of work. When reaching this cliff (one year of work), he/she will receive 0.2% of the amount agreed between the parties. This operation will be repeated sequentially every six months during the remaining two years of the contract, that is, every six months, he will receive an additional 0.2%. By the end of three years, the entire equity interest that was allocated to him/her will have been received in five tranches of 0.2% each.



3.3. Technology & Intellectual Property

3.3.1. Intellectual property protection

The relationships with partners, employees and service providers should also be organized, always observing issues involving confidentiality and assignment of intellectual property rights, when applicable. Ownership of intellectual property assets, such as brands, domains, software and patents should be ensured to preserve the company's value.

3.3.2. Registration of intellectual property

This stage concerns advancing practices in the protection of intellectual property. In the

ideation stage, the company did not even formally exist, but the founders' agreement ensured that software (and other assets) developed for the project would be owned by the startup. Now attention must be focused on the proper registration of intellectual property in the name of the organization, as it was duly organized as a company and now has its own formal life. If the company has plans to internationalize its business, it may also be necessary to register intellectual property in several jurisdictions, as the protection provided by the registration is often limited to the territory of each country where such registration is done.



3.4. Processes & Accountability

3.4.1. Internal controls, determination of results and relationship with third parties

In the validation stage, the startup has initial operational activities and, consequently, possible revenues and expenses. At this point, it is necessary to ensure the

existence of organized internal controls for calculation of results and that may allow accountability to possible investors. If it's intended to promote alignment between partners on the use of company resources, it now becomes mandatory and indispensable.

In view of the creation of internal controls, it is important for partners to understand the concept and significance of the financial statements and cash management. They should also be aware of the accounting routines, as the adequate and periodic flow of information submitted to the accountant is essential for updated bookkeeping.

From a tax point of view, this is moment to seek support to understand the tax regimes applicable to the startup. There are different ways to calculate and pay taxes, and the choice of the appropriate tax regime will determine the expense to make these payments, that is, a higher or lower tax burden. It is important to bear in mind that the inadequate tax treatment and payment is considered a crime under Brazilian legislation.

The contribution of funds from partners and/or investors through capital increase or convertible notes (and similar operations) should be formalized in written contracts, in

accordance with the legal and accounting standards in place at the time.

3.4.2. Contracts with customers and terms of use

At this stage of the startup, it is also time to evaluate the formalization of contracts with customers and the development of terms of use of software. Contracts with end customers help preserve the company's value, ensuring that the service provided and/or product sold is ruled by correct market practices. The startup should seek the contract that best suits its business model, since there is no single, standardized format. For such, partners should always be informed of the regulatory requirements of the sector of activity, especially considering the privacy of the use of data obtained and guaranteeing their users' and customers' information's security. In some cases, it may be interesting to provide for and guarantee business confidentiality in contracts with the intention of preserving the startup.

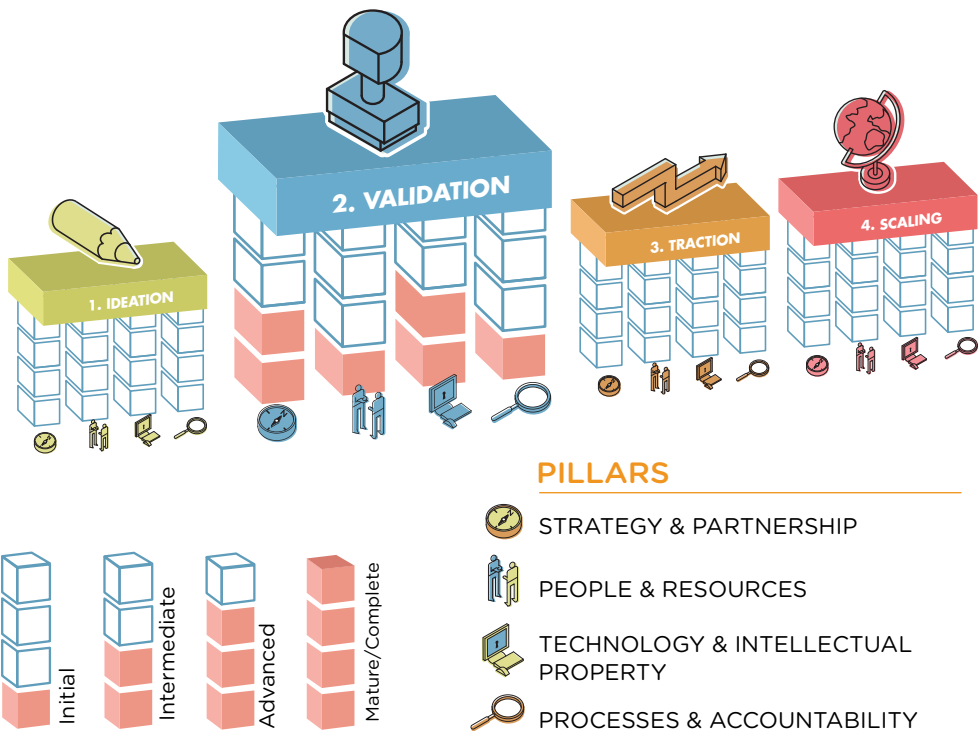
3.5. Checklist

- ✓ Establish the articles of organization/incorporation.
- ✓ Formalize the partners' agreement.
- ✓ Reflect on the entry of new partners and seek information about market conditions regarding the equity sale.
- ✓ Harmonize investment contracts with different investors.
- ✓ Formalize the relationship with mentors, advisors and advisory board members.
- ✓ Separate partners' personal assets from the company assets, and specify rules for partners acting as executives.
- ✓ Formalize contracts with customers.
- ✓ Organize relationships with service providers and employees.
- ✓ Register trademarks and ensure intellectual property.
- ✓ Establish adequate internal controls for accountability to investors.



As already described at the beginning of this chapter, the startup is expected to already have advanced to the intermediate level in the Strategy & Partnership and Technology & Intellectual Property pillars. It has already established the partners' agreement and conditions for the entry of new investors, and protected the company's assets with respect to intellectual property.

In the People & Resources and Processes & Accountability pillars, new steps have been taken, relationships with various types of employees and customers have been formalized, and adequate internal controls for accountability to investors have been established. The image below shows the company's progress in each of the pillars:



4

Traction

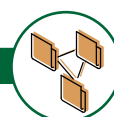
Definition of the stage: in this stage, also known as Product Market Fit (PMF), the service/product offered by the startup is already validated, and the key challenges are to win customers and to increase revenue while observing the organization's principles and values.

After going through the period known as the "Death Valley" of startups, right after the ideation and validation of the business model, entrepreneurs reach an important turning point: they enter the traction and scaling stages, which characterize the scale-ups. In the former stages, the priority of the business was to build a solid base that would lead it to **scale up at high speed** . Now the startup is already a scale-up.



 *Endeavor, Empresas de Alto crescimento e o Desafio de Scale-up: Onde Estamos e para Onde Podemos Ir, 2017.*

Governance focus: strengthen the understanding of the difference between the position of partner and executive, define hierarchical levels for decision-making, structure the board (advisory board or board of directors), and evolve in business planning and control practices.





4.1. Strategy & Partnership

4.1.1. Difference between partner and executive positions – hierarchical decision levels

The time has come for the founders to understand the differences and to respect the limits between personal asset and the company's assets. Partners should never use company resources for personal purposes, motivated by private interests. All resources must be used in the company's best interest.

For better alignment and harmony in the company's operation, a decision-making process should also be structured so

that the powers of the partners, executives and investors are clear. In this regard, an organization chart with established roles and responsibilities (positions, functions, compensation and rules of conduct) is recommended. The clear attribution of competencies is intended to avoid overlapping issues. The definition of financial levels for the attribution of competencies for decision-making (executives and/or partners) is a recurring practice, but it should take into account the specific characteristics of each scale-up, especially its size.



4.2. People & Resources

4.2.1 Board structure (advisory board or board of directors)

In the traction stage, the scale-up shows the first signs of solidity: it has formed a consumer market and created a validated business model. The establishment of a board (advisory board or board of directors) is increasingly

necessary to provide strategic support to the partners in the organization's growth process. Therefore, it is necessary to analyze the implementation of this board, which, at the beginning, may be a consultation and guidance body (advisory board).



Tips and highlights: The structure and responsibilities of the board should be adjusted to the stage of development of the scale-up and its strategic objective.

The advisory board plays an important role in supporting strategic planning and may be the begin for improvement of accountability and transparency principles. As it does not have a deliberative nature, the company's partners and/legal administrators always have the final decision on the topics addressed.

In the beginning, advisory board meetings tend to be less formal. Later though, the board will be fully organized and have an established agenda. Even as an advisory body, this board should have well defined operating rules that provides definitions as to the number of members, frequency of meetings, records in minutes,

and topics that will be discussed. The idea is that the advisory board can be replaced by a board of directors with the growth of the company.

The board of directors is defined by IBGC as “the collective body in charge of the decision-making process of an organization with regards to its strategic direction. It serves as the guardian of the principles, values, purpose and system of governance of the organization, being its main component” . The board has the power to make decisions and its members, as administrators, have a fiduciary duty

 IBGC, *Code of Best Practices of Corporate Governance*, 2015, p. 39.

and are accountable to the partners at the company's meetings. Directors have **the diligence, loyalty and reporting duties** .

A calendar of meetings should be previously established, providing the content in advance. It is **mandatory to register the decisions taken for subsequent follow-up**  and some resolutions require registration in the Board of Trade and published through public notices.

 Duties of administrators of corporations (Board of Directors and Executive Board), pursuant to Law No. 6404/76 (Corporation Law).

 Refer to IBGC, *Boas Práticas para Reuniões do Conselho de Administração*, 2010.

Summary of concepts

ADVISORY BOARD	BOARD OF DIRECTORS
Advisory nature	Deliberative nature
Members with no fiduciary duty	Members with fiduciary duty
Provides support in strategic direction	Provides strategic direction, decision making and supervision/monitoring



4.3. Technology & Intellectual Property

4.3.1 Ongoing care

In the previous stages, the founders were concerned with issues related to technology & intellectual property and guaranteed ownership of the innovations produced. The recommendation in the ideation stage was to ensure by written document (or in the founders' agreement itself) that any intellectual property developed during

the project would be an asset of the future company. The validation stage was the moment to effectively register this intellectual property, taking into account territorial protection aspects related to the possibility of internationalization. If these steps have not been followed, the technology & intellectual property pillar needs to be properly matured in the traction stage. Innovation is constant,

and the protection of intellectual property is cyclical and should be constantly monitored, organized and improved, according

to evolution of the products, services and the business model of the scale-up.



4.4. Processes & Accountability

4.4.1 Evolution of business planning and control practices

In this stage, it is a good practice to formalize and to disseminate the organization's culture and strategic direction. The recommendation is to have a formal business plan that includes resources, goals and indicators that allow for structured performance management and accountability to internal and external audiences.

It is important that the financial statements (balance sheets, profit & loss, cash flow and budget) are kept up to date. This is also a recommendation of good practice that can assist in raising new funds, not only because it is a legal requirement, but also because of the demands of the market and investors,

who are able to better assess investment risks by analyzing this information.

It is worth remembering that as the company is headquartered in Brazil, it is subject to good Brazilian governance practices, even if foreign partners or investment vehicles provide new resources. The entrepreneur should have a good understanding of the investor relations according to the rules of the country in which the funds were raised, which are not necessarily the same as the local market rules. Thus, new foreign partners can bring benefits, but can also add more complexity, new risks and the need for knowledge of different laws. Entrepreneurs need to be aware of these factors, as they can influence business continuity.

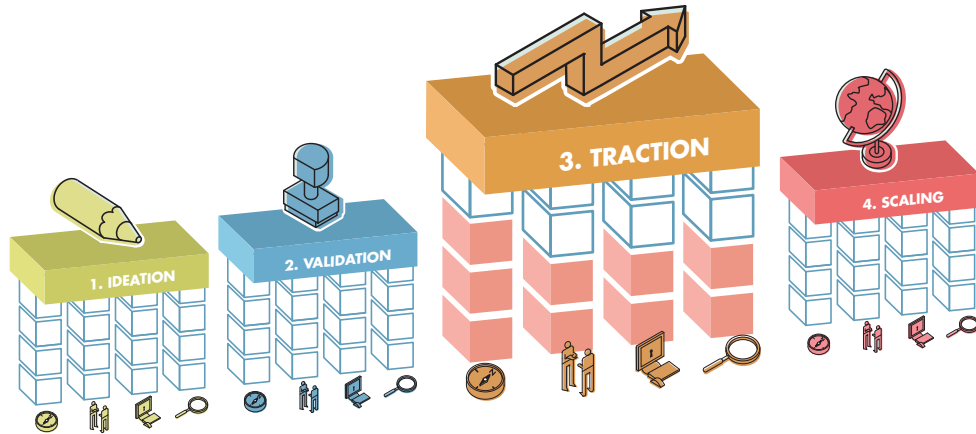


4.5. Checklist

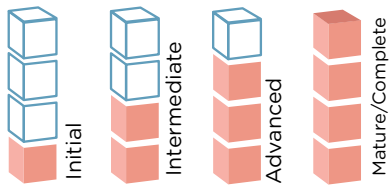
- ✓ Structure the decision-making process and levels of responsibility.
- ✓ Implement the strategic planning process.
- ✓ Maintain financial statements updated.
- ✓ Structure an advisory board or a board of directors.
- ✓ Structure a budget planning and management model.

In the traction stage, the scale-up is expected to already be in an intermediate level of the people & resources, technology & intellectual property and processes & accountability pillars. At this point, its financial statements are in order and updated. Concerning the People & Resources

pillar, an advisory board or board of directors has been implemented. In the strategic aspect, the responsibilities and the roles of partners, investors and executives have already been well defined, and planning practices implemented – so it is at an advanced level in this pillar.



PILLARS



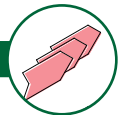
-  STRATEGY & PARTNERSHIP
-  PEOPLE & RESOURCES
-  TECHNOLOGY & INTELLECTUAL PROPERTY
-  PROCESSES & ACCOUNTABILITY

5

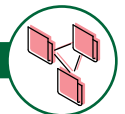
Scaling



Definition of the stage: in the scaling (growth) stage, the company is already established. Its challenge is to grow at a fast pace, taking advantage of opportunities and expanding the business in terms of geography, market or products, following the organization's strategy. If the business model allows for high replicability, considered innovative and with a high potential for impact, the company begins to experience the challenges of a scale-up.



Governance focus: consolidate governance practices that can help the business to succeed and achieve the desired continuity.





5.1. Strategy & Partnership

5.1.1. Understanding and use of a strategic planning

The agenda should always include deepening and improving governance, and this could not be different in this stage. The organization becomes more complex as it grows and develops.

It is vital that the entrepreneur understand that he/she is now in a new stage, in which business planning and measurement of the impacts of decisions is more important. The entrepreneur is expected to develop his/her ability to anticipate and program.

One of the most visible aspects of this increased complexity is the change in the decision-making process. The founders no longer have the freedom to make all choices and take all initiatives. The most significant decisions are likely to be submitted to other levels, as the company has grown and more stakeholders are involved. The scale-up already has an advisory board or a board of directors, which collaborate for the organization's strategic direction.

The founders begin to act more as executives rather than partners. Therefore, it is necessary that they have a more mature vision of the company and business in an executive function, dedicating themselves to disseminating the culture, defining the lines of action, creating conditions to attract talents, and structuring a qualified team to lead the enterprise in the long term.

The formal board of directors, with consistent operation, becomes increasingly significant. The possibility of including external and independent board members should be considered. Internal members are those who work as executives or employees of the organization. The external members, on the other hand, do not have

a commercial, employment or management relationship with the organization, but **are not considered independent** . The independent members have no relationship of any kind with the partners, directors or any other group that may influence or compromise their actions. The participation of independent members is important because they add value to the company and assist in decision-making, as they have no ties and do not advocate for parties or groups, seeking the best decision for the company.

 Refer to IBGC, Code of Best Practices of Corporate Governance, 2015, p. 45.

The systematization of a formal process for review and approval of the medium and long-term strategy as well as the organization of a structured risk management process are essential in the scaling stage. Risk management should be considered for decision-making and for the company's strategic planning.

5.1.2. Ethics and code of conduct

In this stage, the company's size, the expansion of its relationships and the need to consolidate good governance practices raise the need to promote ethics and adopt a code of conduct.

Ethical decisions are those in which the decision made involves, at all stages, not only the identity of the organization, but also analysis of the impacts of each decision on all stakeholders, **society in general, and the environment** . The organization's identity, in turn, is the set of its purpose, mission, vision, principles and values. The issue refers to the integrity of the organiza-

 *Ibidem*, p. 17.

tion, which is **acting in a manner consistent with its discourse and identity** .

The code of conduct expresses ethical principles and values, provides guidelines and guides the work of all those involved with the business, **especially in relation to critical processes** . It represents the formalization of expectations regarding the behavior and conduct of partners, ad-

 *Idem, Compliance à Luz da Governança Corporativa, 2017, pp. 17-18.*

 *Idem, Código das Melhores Práticas de Governança Corporativa, 2015, p. 93.*

ministrators, employees, suppliers and other stakeholders.

In addition to the code of conduct, policies that regulate transactions with related parties, practices of donations, communication, prevention and detection of acts of illegal nature should also be implemented.

For ethics-based decisions, the organization can rely on four aspects: its identity, the code of conduct, the various policies that regulate critical and compliance aspects and, lastly, the company's strategy and its corporate risk management system.

Summary of concepts

Ethical decisions are based on the following:

- Identity of the company;
- Code of conduct;
- Organization policies;
- Strategies and management of corporate risks.



5.2. People & Resources

In the scaling stage, the concern with the company's longevity and the development of its human resources becomes constant.

A succession plan that includes the training and qualification of people to assume the key positions should be devised and implemented. In addition, stock option pool programs become a widely used tool

to attract qualified professionals to the business. New professionals should be approved at the appropriate levels (ideally already conceived and formalized in the previous stage), so that the program is respected and the stakes of capital intended to attract talent are not extrapolated.



5.3. Technology & Intellectual Property

5.3.1 Control and defense of interests

The companies that have reached the scaling stage have certainly taken every precaution to protect intellectual property (remembering that this is one of the topics of constant improvement, with specific recommended practices for each stage covered so far – ideation, validation and traction). Still, a progressive increase in this protection is recommended, with special attention

to issues such as confidentiality, non-competition, protection of business secrets, and systematic review of the intellectual property portfolio's investments. As defense mechanisms for its interests, the company should be attentive to the activities of former partners, board members or executives who are subject to confidentiality or non-compete obligations and duties, seeking to prevent and monitor acts of unfair competition that may jeopardize the business.



5.4. Processes & Accountability

5.4.1. Inspection and control bodies

The company's CEO should analyze the processes and internal controls adopted. It is important that he/she works to identify gaps in the organization, both in controllership and in back office activities, and solves them in order to prevent them from impairing the company's expansion.

To address the growing complexity and seeking a more robust and mature governance structure, complementary inspection and control bodies can be implemented in this stage. In addition to the audit committee, which advises the board of directors, this includes the fiscal council, independent and internal audits, and the corporate risk management and compliance function.

As an advisory body to the board, the audit committee also becomes an important ally to supervise the financial statements preparation process, supervise internal controls and risk management, support decisions regarding the independent auditor,

monitor the conduct of the internal audit work, monitor the company's compliance to and observance of the code of conduct, and monitor its reporting channel. The increase in the number of investors and financial institutions with which the company interacts requires some additional steps. As required by investors or based on the initiative of the board of directors, it is common to engage an independent audit to analyze the financial statements prepared by management, assessing whether they adequately represent the organization's financial position. Likewise, the implementation of the internal audit function (an area within the company or even an outsourced activity) can be an important ally for the improvement of internal controls, compliance and risk management. A robust risk management system allows the organization to identify, assess and monitor risks, preserving its value over time.

The implementation of the fiscal council (either permanently or temporarily) is

carried out at a general shareholders' meeting and can also contribute to the inspection of the acts of the administrators. In the end, all inspection and control bodies and activities assist in seeking the preservation of

the company's value in the long term. The formation of these bodies and functions can take place gradually, with the development of the company.

Summary of concepts

Inspection and control bodies and activities:

- Fiscal council;
- Audit committee;
- Independent audit;
- Internal audit;
- Risk management, internal controls and compliance.



5.4.2. Investor relations

With the development of the company comes the requirement to improve the formal relationship with investors. It is necessary to provide this audience with the adequate periodic disclosure of results through reports that show observance of the basic corporate governance principles (transparency, equity, accountability and corporate responsibility).

It is important for the company to standardize the disclosure of information among its partners and investors, in order to optimize

the relationship efforts with them. Companies with multiple investors may have entered into individual contracts that establish a form of accountability and reporting with different frequencies. It should ideally find a single way to maintain everyone adequately informed, through reports and meetings that meet all interests simultaneously. Otherwise, a more complex structure will have to be implemented to generate data and provide customized information, in which case not everyone will receive the same information (in terms of volume or quality).

5.5. Checklist

- ✓ Formally establish an active board of directors, considering the inclusion of independent members.
- ✓ Analyze the engagement of independent audit.
- ✓ Improve the investor relation function.
- ✓ Promote an ethical behavior throughout the organization.
- ✓ Create a code of conduct and policies for transactions with related parties, contributions and donations, communication, prevention and detection of acts of an illegal nature.



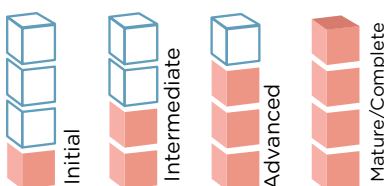
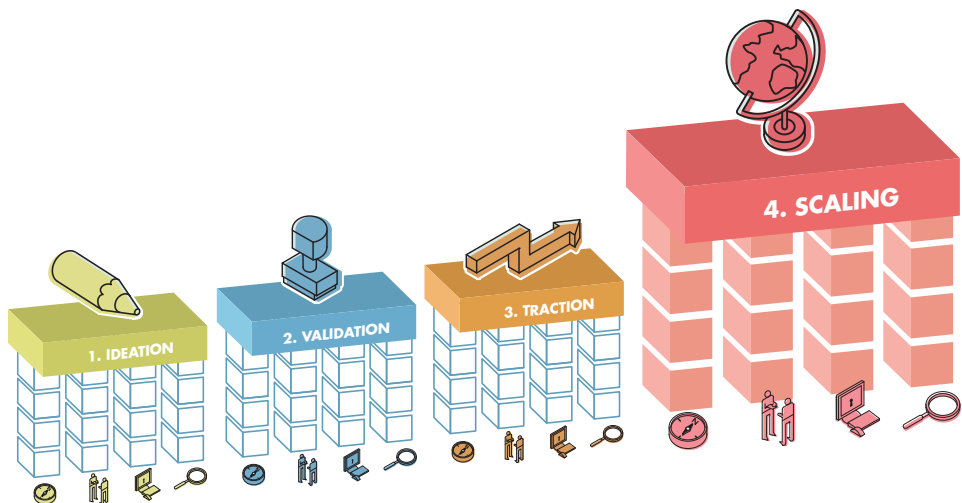


5.5. Checklist

- ✓ Systematize essential business processes and create a formal process for review and approval of the medium and long-term strategy.
- ✓ Structure the risk management process and include it into strategic planning.
- ✓ Create intellectual property review and improvement processes.
- ✓ Create a succession plan for the key company positions.

At the end of the scaling stage, the company is expected to have reached the advanced stage in the four pillars of the governance model in businesses with high growth potential. Regarding the first pillar, it adopted a formal strategy review and approval process and implemented a risk management and compliance process. It also dedicated itself to promoting ethical behavior and created a code of conduct.

Concerning the People & Resources pillar, it implemented mechanisms to attract and retain talent and established a succession plan. As to the third pillar, it progressed in the protection of intellectual property. Lastly, with respect to the fourth pillar, it moved towards a more robust process and accountability structure, through the implementation of control mechanisms (such as independent audit).



PILLARS

-  STRATEGY & PARTNERSHIP
-  PEOPLE & RESOURCES
-  TECHNOLOGY & INTELLECTUAL PROPERTY
-  PROCESSES & ACCOUNTABILITY

Conclusion

We have reached the end of this document and we hope that its key messages are clear and can be implemented by startups' founders, as well as their partners, investors and other participants in the entrepreneurship ecosystem.

This report detailed the following:

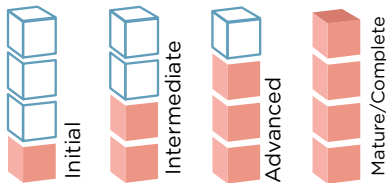
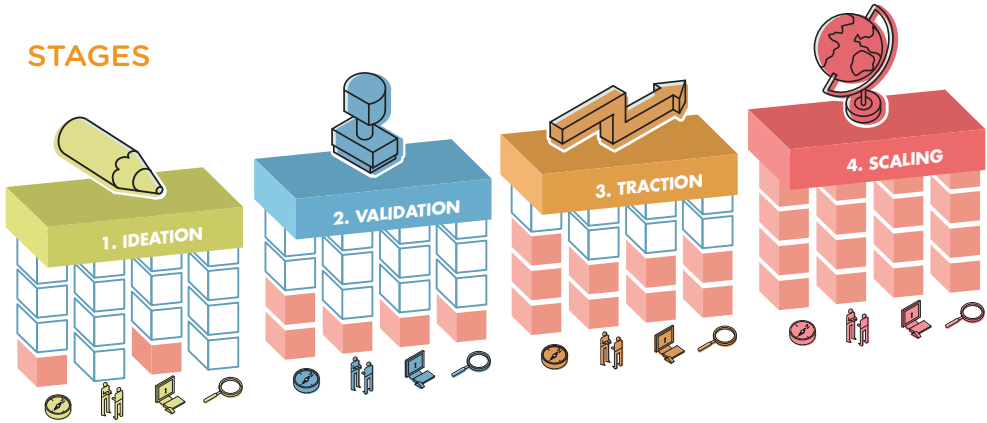
- corporate governance can make a difference for the healthy development and creation of value in high growth companies;
- these practices are accessible and should be implemented according to the stage of maturity of the business;
- there are four governance pillars that should be addressed by startups and scale-ups: strategy & partnership, people & resources, technology & intellectual property and processes & accountability;
- Good governance practices should be present from the moment the startup is still an idea and should be part of the entrepreneurship's culture.

When reaching the end of the scaling stage, the concept of startup – a company in an initial stage, scalable in an environment of extreme uncertainty, of high economic potential and innovative – no longer fully reflects the status of the organization: the venture has already matured in its four key governance pillars. When it becomes a scale-up, we can say that it is transitioning into a more consolidated company. And, in this devel-

opment process, corporate governance has also evolved and contributed to making this a successful process based on solid foundation, adapted to the specific needs of each company.

With this document, we hope to have contributed to ensuring that corporate governance is taken into account from the conception of the startup, until its transformation into a benchmark for the market and for society.

STAGES



PILLARS

-  STRATEGY & PARTNERSHIP
-  PEOPLE & RESOURCES
-  TECHNOLOGY & INTELLECTUAL PROPERTY
-  PROCESSES & ACCOUNTABILITY

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Annex – Glossary

ADVISORS	Professionals who advise a company on projects in which a specialized vision is required for the success of the business. In relation to startups, the advisor's role is to guide the entrepreneur in structuring the business and providing support in attracting investments.
INDEPENDENT AUDIT	Activity performed by a professional with no ties to the organization, or by a firm specialized in auditing. The primary responsibility of the independent auditor is to analyze whether the financial statements prepared by management present fairly, in all material respects, the organization's financial position.
INTERNAL AUDIT	"Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes" (definition by The Institute of Internal Auditors, IIA).
CLIFF	Period of acquisition of the right to exercise stock options related to vesting. During this period, the employee should remain with the company and achieve the set out goals in order to, later, have his stock option right assured.
CODE OF CONDUCT	Document comprising rules to guide administrators and employees in their daily professional conduct.
AUDIT COMMITTEE	Advisory body to the board of directors, whose mission is to assist in the control of the quality of financial statements and internal controls, aiming at the reliability and integrity of the information to protect the organization and all stakeholders.

BOARD OF DIRECTORS	Committee in charge of the decision-making process of an organization's strategic direction. In addition to monitoring the executive board, it plays the role of guardian of the organization's principles, values, business purpose, and governance system, and is its main component."
FISCAL COUNCIL	Supervisory body independent from the board of directors and the executive board. It is a significant element of the mechanism of checks and balances established by governance. The objective of the fiscal council is to assist in safeguarding the interests of the organization itself, by exercising supervision of the acts of the administrators, giving opinions on various matters, reporting deviations and irregularities, and rendering accounts directly to shareholders through opinions.
STRATEGY & PARTNERSHIP	Startup governance pillar that addresses the medium and long-term vision and aspects of relationship between partners.
FAIRNESS	Corporate governance principle that concerns the fair and equal treatment of all partners and stakeholders, taking into account their rights, duties, needs, interests, and expectations.
EQUITY	Term used to represent the interests of a member or shareholder in a company. Such interests may be represented by units of interest, shares or other securities.
SCALING	Scale-up stage in which the company is already established. Its objective from then onwards is to grow at a fast pace, taking advantage of opportunities and expanding the business in terms of geography, market or products, pursuant to the organization's strategy.
FOUNDERS' AGREEMENT	Document signed by the founders of a company in the pre-operational phase, establishing important aspects of the company that is starting its activities, such as the functions and responsibilities of the founding team, the ownership of shares and the right to property and intellectual property.
RISK MANAGEMENT	Risk management is understood as a system intrinsic to strategic business planning, composed of continuous and structured processes – designed to identify and respond to events that could affect the organization's objectives – and a corporate governance structure – responsible for keeping this system alive and in operation. Through these processes, the organization can map opportunities for gains and reduce the likelihood and impact of losses.
CORPORATE GOVERNANCE	Corporate governance is the system by which companies and other organizations are directed, monitored and encouraged, involving the relationships between partners, board of directors, executive officers, supervisory and control bodies, and other stakeholders. Good corporate governance practices convert basic principles into objective recommendations, aligning interests for the purpose of preserving and optimizing the long-term economic value of the organization, facilitating its access to resources and contributing to the quality of the organization's management, its longevity and the common good.
IDEATION	Startup stage between developing the idea and understanding the problem it proposes to solve or the market gap it proposes to fill in.
IPO (INITIAL PUBLIC OFFERING)	First public offering of a company's shares on the capital market.
OPTION POOLS	Percentage of the capital proposed for granting of stock options to employees of the venture. In other words, it is the number of shares reserved for future issues to employees.
PEOPLE & RESOURCES	Startup governance pillar that involves intellectual capital and tangible and intangible resources.

ACCOUNTABILITY	Corporate governance principle that recommends that governance agents report their performance in a clear, concise, understandable and timely manner, fully assuming the consequences of their acts and omissions and acting with diligence and responsibility within the scope of their duties.
PROCESSES & ACCOUNTABILITY	Startup governance pillar that addresses processes that will allow progress in the development phases and create the foundation to grow in a sustainable and consistent way.
MINIMUM VIABLE PRODUCT	Initial version of a new product/service that allows the team to collect as much validated learning from consumers as possible with minimal effort.
CORPORATE RESPONSIBILITY	Corporate governance principle that indicates to governance agents the economic and financial viability of organizations, reduce the negative external factors of their businesses and their operations, and increase the positive ones, taking into account, in their business model, the various forms of capital (financial, manufactured, intellectual, human, social, environmental, reputational, etc.) in the short, medium and long terms.
SCALE-UP	"Scale-up is a company whose accelerated cycle of growth and wealth creation is fundamentally based on the scalability of its business model" (definition by Endeavor).
STARTUP	Startup is a scalable organization, with high economic potential and innovative (not necessarily related to technology).
STOCK OPTION	Financial compensation system for professionals in a company, according to which employees and executives are entitled to buy company shares at a fixed price and within an established period of time.
TECHNOLOGY & INTELLECTUAL PROPERTY	Startup governance pillar that will distinguish ideas from operable models and ensure the sustainability and protection of the intended innovation.
TRACTION (PRODUCT MARKET FIT – PMF)	Stage in which the startup becomes a scale-up, where the service/product offered is validated and the main challenges include winning customers and increasing revenue while observing the organization's principles and values, laying the foundations for the scaling stage.
TRANSPARENCY	Corporate governance principle that addresses the need to make available to stakeholders the information that is of interest to them, and not just the information imposed by laws or regulations. It should not be restricted to economic and financial performance, but should also consider the other factors (including intangibles) that guide management action and that lead to the preservation and optimization of the organization's value.
VALIDATION (MINIMUM VIABLE PRODUCT – MVP)	Startup stage where the startup's product, market and business model are undergoing experimentation, seeking to respond to the uncertainties that were mapped in the ideation stage.
VESTING	Practice whereby the employee of a company acquires, after a given period (cliff) and after meeting certain goals, the right to exercise the option to purchase company shares. This system is commonly used by startups to attract and retain talented professionals.

“Many startups and scale-ups fail to reach their full potential due to marketing, corporate, product, management or regulatory reasons. These businesses have the potential to bring innovation to the market, but face growth difficulties because partners are not aligned on strategic issues. In this time, corporate governance becomes the biggest challenge faced by entrepreneurs.”

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