Start-Up Problems: Governance - How Board Reports can help drive a young company

Welcome to White Lake's new series of blogs focussing on common problems faced by start-up companies and potential solutions to these problems. This is the first part of a multi-part series focussing on various operational, financial, business model, governance and valuation issues. White Lake's team are experts in the identification of these issues, origination of solutions and execution to ensure your business does not fall into any of the major pitfalls reported in our flagship blog on the issues getting to Series B investment. In this blog, we will explore a couple of the issues mentioned last week – for solutions to any of the other issues please feel free to contact us.

White Lake is a company of VC Investment Managers who work with growth companies on strategic finance.

Governance Issue 1: Board Reports – making them useful not just another chore

One common issue is that many young companies see the Board Report as a "necessary evil" whereby once a month they have to waste valuable operational time piecing together a document that often does not give Directors a true view of where the company needs help.

VC investors need to be able to quickly and easily understand the current situation in the company from the Board Report. The easiest way to do this is graphically – using a "traffic light" or RAG (Red, Amber, Green) status report on the agreed key performance indicators (KPIs).

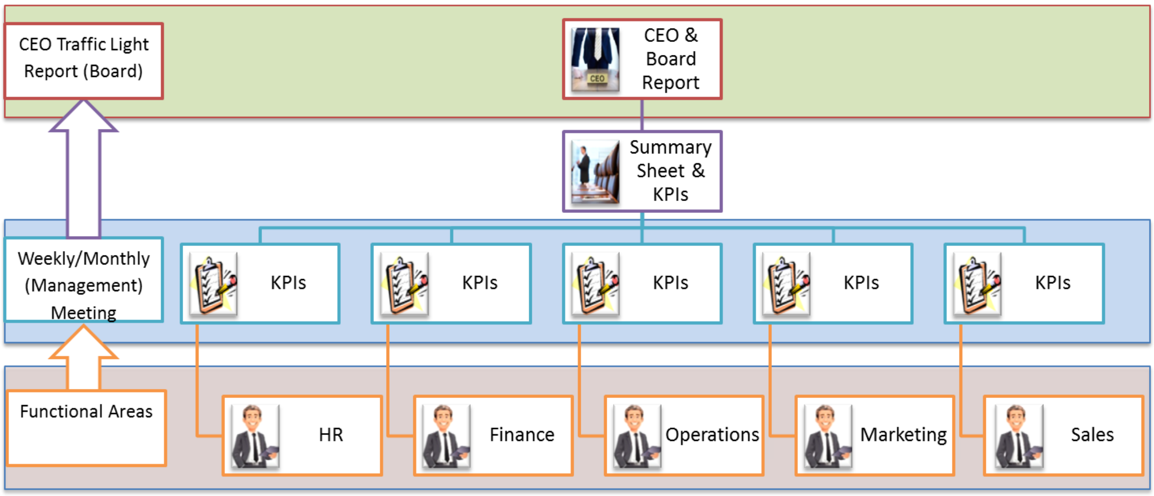
The trick is not to make the Board Report a unique project each month but rather to make it a seamless culmination of all the other periodic management reports and processes which are based on KPIs. In essence, the Board Report should be a "cut and paste" of the summaries of these existing management reports provided to the CEO, with the CEO providing an overlay dashboard to the Board.

Make the Board Report a dashboard driven report which actually reflect how the business is run.

"What gets measured - gets done"

Ideally the Board Report should be a subset of the KPIs which are reported at the weekly or monthly Management Meeting. Hence, once managers have prepared for the Management Meeting they thus have prepared for the Board Meeting.

Board Report is a summary of the full Management Process



A process to get to this system:

1. Set the KPIs for the business – this is the key part and not as simple as it may seem. You need KPIs which influence behaviours in the way you require.
2. Translate these KPIs into lower level KPIs which segment your company by department or function.
3. The org chart and budgeting system should reflect this segmentation.
4. Set the management reporting process – including periodic meetings and reports – based on the KPIs.
5. The Board Report will be a subset of the high level report of each manager.

It is vital that the KPIs chosen at each level are the correct ones – and that the org chart/budgeting system reflects a sensible delivery vehicle for these KPIs.

Here's a simple example of where things go wrong – making true the maxim that "what gets measured - gets done":

Area	**KPI**
Sales	Sales revenue target
This may well be the right KPI – or not… If the sales target on a monthly basis is met without adherence to a target gross margin or target price this can result in hitting the target being a detriment to the company – by losing cash or signalling wrong pricing to the market. Also if the sales cycle is long – it may be discouraging for a manager and thus sales person to report only on sales that close. Should the KPI include – new prospects? Target outbound calls made? So you need to drill into how you want the KPI to drive required actions.	

Below we have a sample dashboard a CEO could use to drive his company. On one sheet you can easily get a high-level picture of the company's performance.

SAMPLE– CEO Dashboard

Date-Year	CURRENT MONTH				YEAR TO DATE				OUTLOOK FOR FULLYEAR			
Financial	Actual	Estimate	+/-		Actual	Estimate	+/-		Estimate	Plan	+/-	
Revenue	£0.0m	£0.0m	£0.0m		£0.0m	£0.0m	£0.7m		£0.0m	£0.0m	£0.0m	
Gross margin	0%	0%	0%		0%	0%	0%		0%	0%	0%	
EBITDA	£0.0m	£0.0m	£0.0m		£0.0m	£0.0m	£0.0m		£0.0m	£0.0m	£0.0m	
Cash	£0.0m	£0.0m	£0.0m		£0.0m	£0.0m	£0.0m		£0.0m	£0.0m	£0.0m	

Sales Pipeline	Actual	Target	+/-		Customer Execution	Actual	Target		Employee Wellbeing	Actual	Target	
Order Coverage	£0.0m	£0.0m	£0.0m		Site Deliveries	-	-		Annual Appraisals	0%	0%	
Proposal made	£0m	£0m	£0m		Site Alarms	-	-		Role model org Achieved	0%	0%	
									Lost Time Accidents	0	0	

Highlights – What's going well:

- Point 1
- Point 2
- Point 3
- Point 4

Concerns – What needs to be addressed:

- Point 1
- Point 2
- Point 3

Quarterly Focus:

- Point 1
- Point 2
- Point 3

Path to Breakeven:

- Point 1
- Point 2
- Point 3
- Point 4

When the Board is lacking sufficient measurement criteria and/or using inappropriate KPIs to understand overall performance they will not ask the right questions or provide the required support to an early stage company. Such a situation can mean major flaws/problems go unnoticed.

Real Business Insight: Execution

The implementation of the above is possible over a 1-2 month period or two Board sessions.

I have worked with companies, there was a misalignment between Board Reports and the KPIs managers actually worked to. In turn, this meant it was hard for the CEO and the Board to effectively evaluate the performance of the company and therefore *"steer"* the company. There was a similar issue with regard to the organisational chart which did not reflect the same KPIs. In other words, the misalignment across different aspects of the company made it hard to evaluate performance and make correct decisions.

Solution

In this scenario, I worked closely with the CEOs to analyse the company and derive appropriate target-driven KPIs to measure and then monitor performance in order to assist decision-making to grow the business. We developed a *"traffic light dashboard"* system for each manager which fed directly into the CEO's dashboard and to the Board pack. Following this, the new KPIs were then matched to a new organisational chart. Expanding from these new indicators was an ability to develop effective annual budgets for each department and thus the company budget for the year. This was successfully executed and implemented within a two month time-frame.

In the next part of our *"Start-Up Problems"* series we will be focussing on financial bottlenecks, problems and on the day to day issues companies find themselves in and potential solutions to these issues.

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