



nestoradvisors
A MORROW SODALI COMPANY

Member of the UN Global Compact SDG Ambition Programme



CORPORATE GOVERNANCE TRAINING FOR EARLY-STAGE OFF-GRID SOLAR COMPANIES

TRAINING 1: CORE CORPORATE GOVERNANCE TRAINING

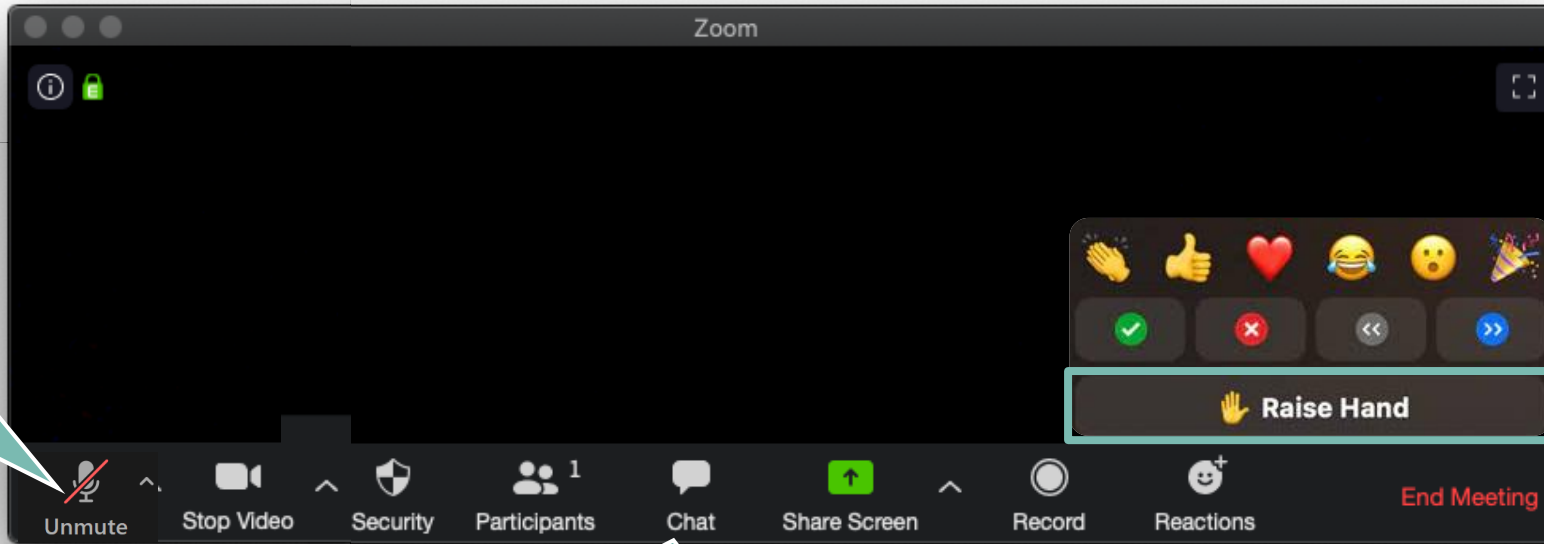
GGLA

14th December, 2021

AGENDA

Day 1	Duration (mins approx)
Training introduction	15"
Introduction to corporate governance	20"
The value of governance	10"
The governance of growth and early-stage companies	60"
Training wrap-up, introduction to case, and participant Q&A	15"
	120" (2 hours)

RULES OF THE GAME



Please keep yourself muted unless you are invited to speak

To ask a question, use the raise hand button and the presenter will invite you to speak

Post any questions you have in written form (if you prefer) here

Interactivity  Polls

We will have polls during this training

PRESENTERS



David Risser, Managing Director

- Managing Director at Nestor Advisors Ltd (2020 – present, joined 2003);
- Advising on governance of listed, public and private companies and improving board effectiveness for two decades;
- SDG Ambassador for Nestor Advisors ;
- Member of the OECD MENA Corporate Governance Working Group;
- Lectures at the London Stock Exchange and various Institutes of Directors;
- Certified in Risk Management Assurance (CRMA), The Institute of Internal Auditors;
- Certification, Managing the Company of the Future, London Business School;
- Education: Post-graduate diploma in Banking, Finance and International Economics, EM Lyon – University Lumière of Lyon (1999).



Patrick McNamara, Associate

- Associate at Nestor Advisors (2019 – present).
- Worked primarily on projects reviewing the corporate governance frameworks and practices of banks and MFIs in Europe, Latin America, and the Middle East.
- Participated in multiple projects with Central Banks in the Middle East and Europe, reviewing and amending both their supervisory approach and corporate governance regulations.
- Co-delivered multiple trainings to DFIs and FIs on corporate governance and has undertaken multiple board evaluations for financial institutions in both Eastern and Western Europe.
- Previous experience in banking and academic research. B.A. in Philosophy, Politics, and Economics- University of Oxford (2017); M.A in Security Studies- Georgetown University, Washington D.C. (2019).

AUDIENCE INTRODUCTION



- Please introduce yourself
- What is your position in your firm?
- What are your expectations for today?

ZOOM POLL

zoom

How important is good governance for
the success of your company?



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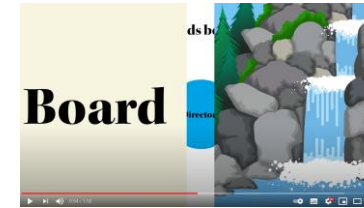
INTRODUCTION TO CORPORATE GOVERNANCE

ZOOM POLL

zoom

How familiar are you with the concept
of corporate governance?

DEFINING CORPORATE GOVERNANCE

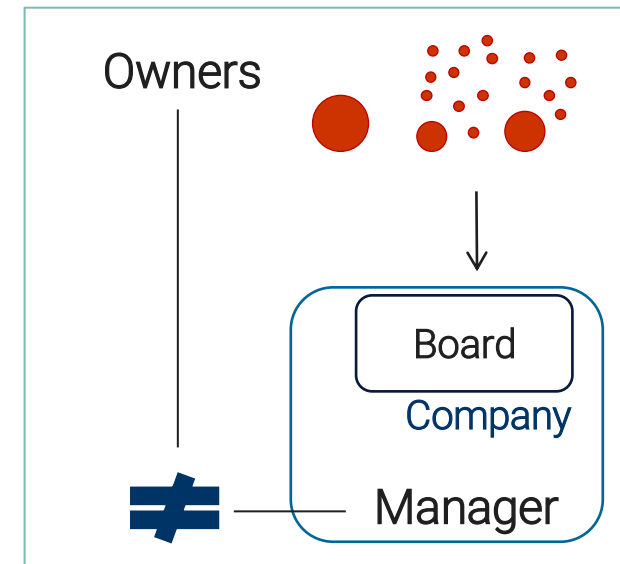
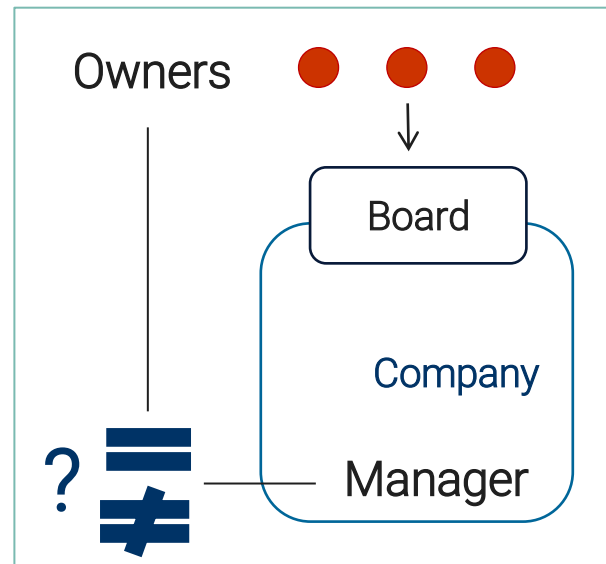
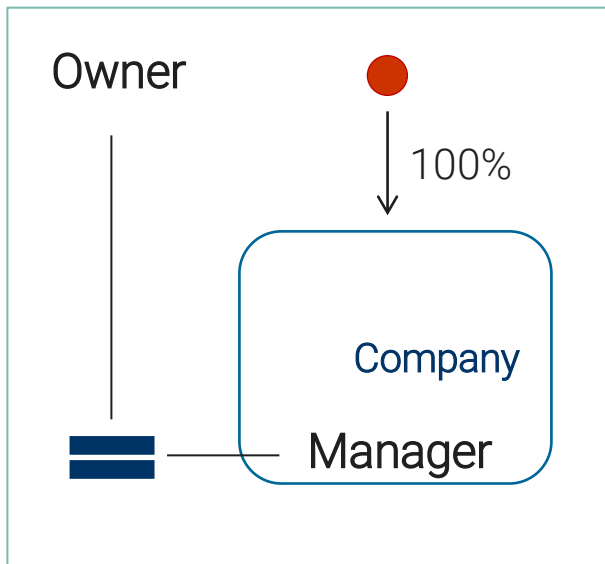


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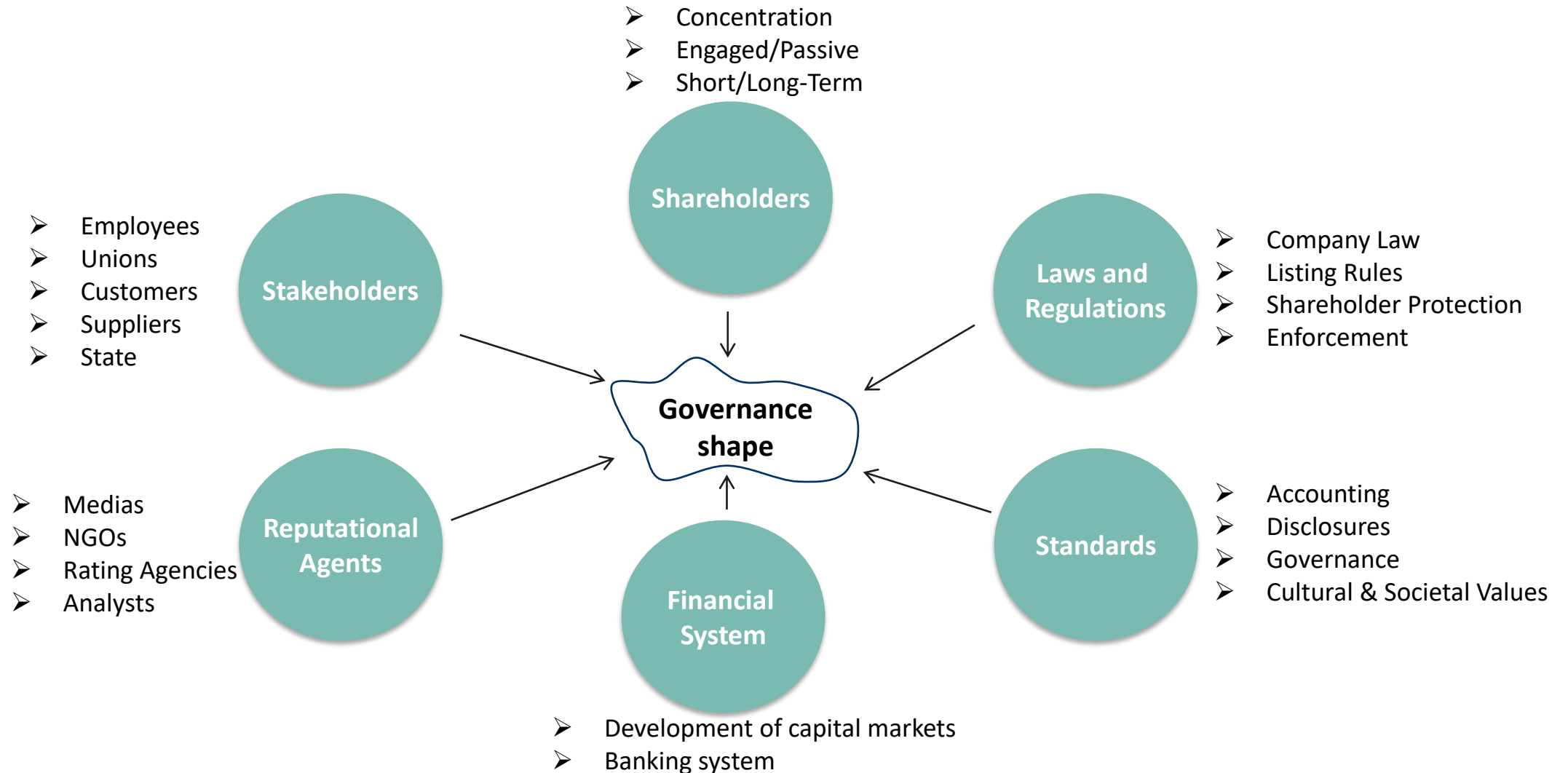


MODELS OF CORPORATE GOVERNANCE

- Who decides?
- Who implements the decisions and runs the company?
- Who controls?
- What are the interests served?
- A single model?



THE SHAPE OF CORPORATE GOVERNANCE



THE FUNDAMENTAL PRINCIPLES OF CORPORATE GOVERNANCE



SOURCES OF GOVERNANCE BEST PRACTICE

CG PRINCIPLES, CG CODES, STEWARDSHIP CODES



PROXY ADVISORS, RESPONSIBLE INVESTORS, STANDARD-SETTERS



COMPANIES, PEERS



GUIDANCE FOR EARLY STAGE COMPANIES



Creating Markets, Creating Opportunities



Entrepreneurial Development Bank

COMPONENTS OF GOOD GOVERNANCE – OUR VIEW

<p>LEADERSHIP</p>	<ul style="list-style-type: none"> • An independent, competent and engaged (board) leadership, capable of systematically exercising its strategic and monitoring functions
<p>RISK GOVERNANCE AND INTERNAL CONTROL</p>	<ul style="list-style-type: none"> • (Board) oversight of the effectiveness of risk management • A sound and transparent distribution of decision-making authority • A coherent control environment throughout the organisation
<p>QUALITY OF INFORMATION</p>	<ul style="list-style-type: none"> • The availability of material, timely, and reliable information to the leadership • The quality of the company’s governance disclosures to investors
<p>ALIGNMENT OF SHAREHOLDERS, MANAGEMENT AND EMPLOYEES</p>	<ul style="list-style-type: none"> • Remuneration and other “people” policies that align the incentives and interests of various corporate players (board members, management, major shareholders and other stakeholders) • Ensuring that corporate culture and ethics are properly defined and disseminated
<p>SHAREHOLDER AND STAKEHOLDERS PROTECTION</p>	<ul style="list-style-type: none"> • Enabling shareholders to participate in corporate affairs • Protecting outside shareholders and stakeholders from insider abuse

COMPONENTS OF GOOD GOVERNANCE – THE DFI VIEW

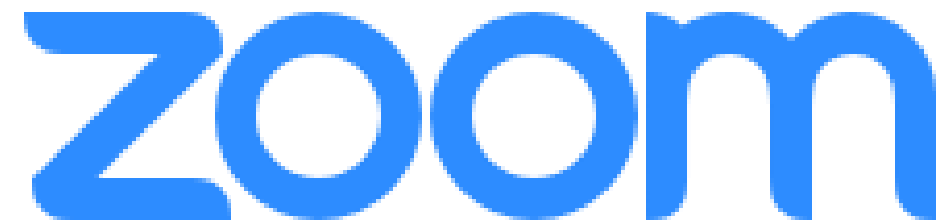




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THE VALUE OF CORPORATE GOVERNANCE

THE VALUE OF GOVERNANCE

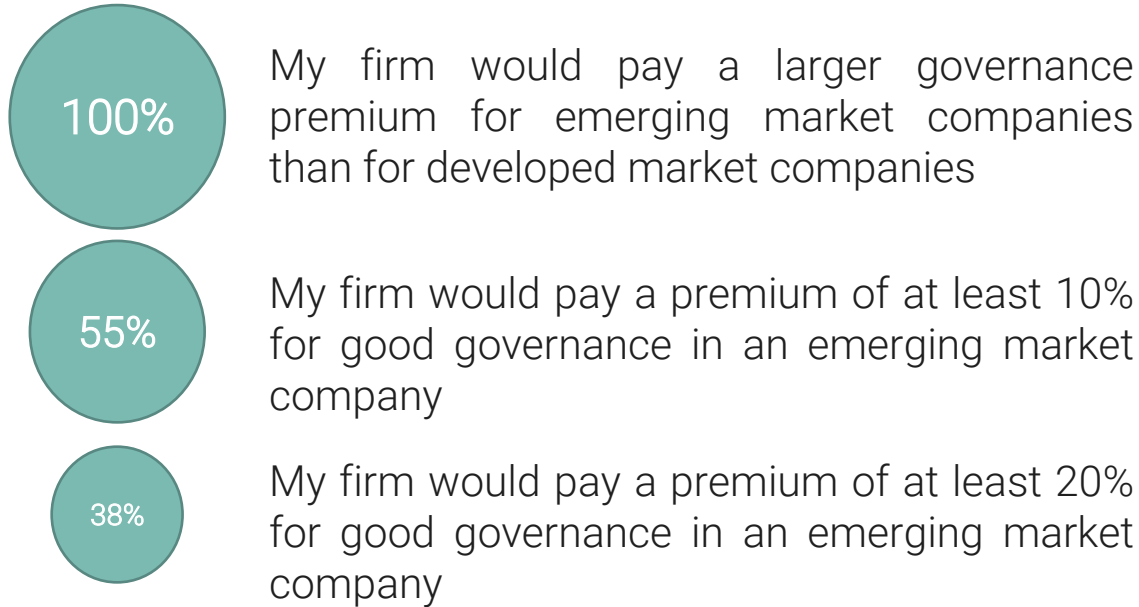


How do you believe good corporate governance can add value to businesses?

1. Expands access to finance
2. Reduces organizational inefficiencies and improve strategic decision making
3. Enhances brand and better shareholder/stakeholder relationships
4. Reduces risk, improve growth outlook, and increase potential for long-term business sustainability
5. Other

HOW INVESTORS LOOK AT CORPORATE GOVERNANCE

Decision-makers at Emerging Market-focused Funds



Source: IFC, *Corporate Governance Matters to Investors in Emerging Market Companies*, 2010

Survey of 42 Global Institutional Investors



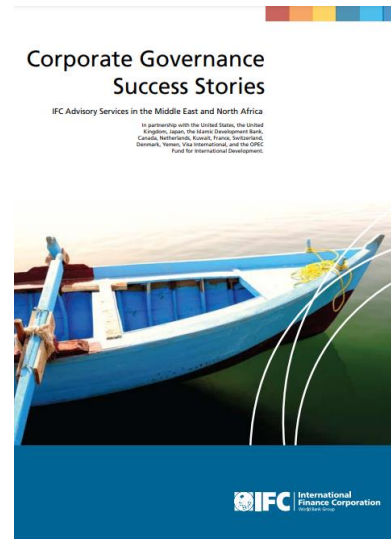
Source: *Morrow Sodali Institutional Investor Survey 2021*



264 Companies observed

- Investing in companies with **better CG at the time of disbursement** is associated with a **better average credit risk rating** by **almost 1.50 points** throughout the IFC investment period
- Companies that **improved CG during the investment period** achieved about **20 % higher performance (ROE/ROIC)**
- Companies from the **top CG quartile** exhibit an average ROE **3x higher** than that of the **bottom CG quartile** (18.56 percent versus 6.91 percent)
- CG is an equally important factor across sectors and irrespective of the type of investment relationship**

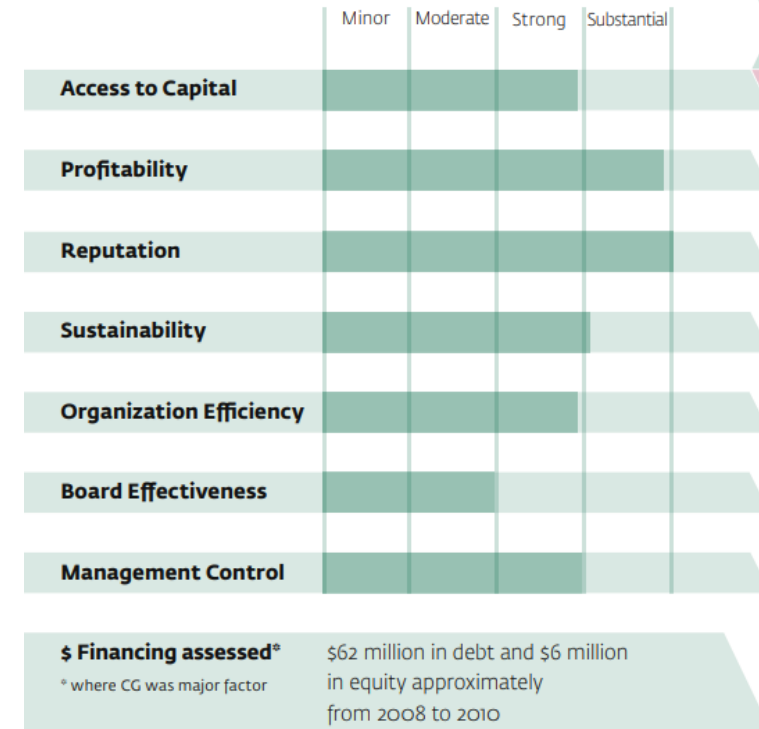
THE VALUE OF GOVERNANCE – CONCRETE EXAMPLE



- Family-owned business based in Egypt;
- Having attained series B funding, the group family governance framework was evaluated with a focus on enhancing professionalisation:
 - Formerly had no board committees;
 - Founder Chair had significant operational involvement;
 - No succession plans in place.

Impact Scorecard

How have the changes impacted...

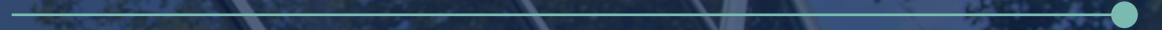




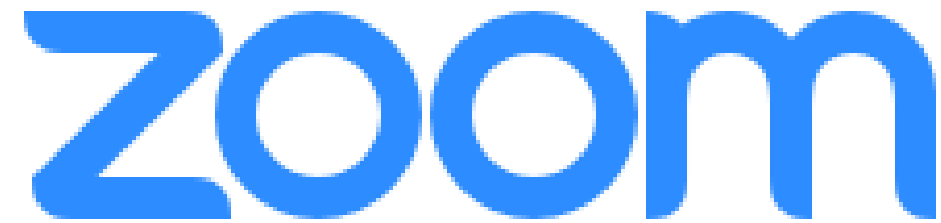
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THE GOVERNANCE OF GROWTH AND EARLY-STAGE COMPANIES



INVESTORS



Why do investors care about governance in early-stage companies? (multiple-choice question)

1. Improved performance
2. Counter “founder dominance”
3. Reduction in reputational risk
4. Reduction in investment risk
5. Increased accountability, better oversight and effective decision making
6. Supporting development mission
7. Other

GOVERNANCE OF EARLY-STAGE COMPANIES / SMEs

CG addresses challenges such as...

- Overreliance
- Understanding and separation of different roles (even if held by same person(s)) – executive, board member, shareholder
- Succession planning
- Family vs. Business Relationships
- Conflict management
- Risk management

THE FOUR STAGES OF SME EVOLUTION



Start-up
(Stage 1)



Active Growth
(Stage 2)



Organisational
Development
(Stage 3)



Business Expansion
(Stage 4)

	Start-up (Stage 1)	Active Growth (Stage 2)	Organisational Development (Stage 3)	Business Expansion (Stage 4)
Size	Small (<50)	Small to medium (50-75)	Medium (76-150)	Medium growing (150-250)
Enterprise focus	Developing products, testing the market	Sales & growth, increasing product variety, creating client base	Optimising own structure / processes after growth	Further growth, supported by improved internal organisation and processes
Revenues	Loss making	Target breakeven	Beyond breakeven	Positive and growing

BUSINESS AND INVESTOR CONCERNS ACROSS STAGES



START-UP (STAGE 1)

Risks for investors

- Need for business to develop accountability structures and basic systems/policies.
- Founder makes all decisions, big key-person risk.
- Mixing of family and business interests.
- Unreliable and biased communication about performance.

Risks for business

- Rush to implement rules/procedures that reduce company's agility.



ACTIVE GROWTH (STAGE 2)

Risks for investors

- Unclear systems and policies.
- Internal company checks and balances ineffective.
- Risk of unequal treatment among shareholders.

Risks for business

- Need to balance flexibility with growing demand for strategic focus, defined structures.
- "Silo" approach to communication across departments.



ORGANISATIONAL DEVELOPMENT (STAGE 3)

Risks for investors

- Need for more professional staff versus family/friends.
- Conflicts between founding partners, new management, and investors.

Risks for business

- Expanded staff and product offerings but internal structure, policies still rudimentary.
- Incentive systems do not correlate with performance.



BUSINESS EXPANSION (STAGE 4)

Risks for investors

- Professional management just "window dressing:" control remains with founders / family members.

Risks for business

- Decision making concentrated on processes and not on growth. Risk of bureaucracy.
- Management may become risk averse, reducing entrepreneurial drive, innovation, and creativity.
- Risk of increasing overhead.

AUDIENCE QUESTION

zoom

Which stage resonates most with you?

1. Start-up
2. Active growth
3. Organisational development
4. Business expansion

KEY GOVERNANCE TOPICS FOR SMES

<p>A. Culture and Commitment to Good Governance</p>	<ul style="list-style-type: none"> • Owner’s Awareness and Commitment to good governance • Appropriate Organizational Structure • Key Policies and Processes
<p>B. Decision Making and Strategic Oversight</p>	<ul style="list-style-type: none"> • Management Decision Making • Advisers/Advisory Board • Board of Directors • Succession Planning • Human Resource Planning
<p>C. Risk Governance and Internal Controls</p>	<ul style="list-style-type: none"> • Internal Controls • Audit (internal and external)
<p>D. Disclosure and Transparency</p>	<ul style="list-style-type: none"> • Financial disclosure • Non-financial disclosure
<p>E. Ownership</p>	<ul style="list-style-type: none"> • Shareholder participation • Founder / Family Role • Shareholder Dispute Resolution

A: COMMITMENT TO GOOD GOVERNANCE



STAGE 1: START-UP

- Owner’s vision of the business is developed
- Identify core business functions and distribute among team;
- Adopt essential documents to provide minimum structure to regulate the distribution of tasks.



STAGE 3: ORGANISATIONAL DEVELOPMENT

- Document / review efficiency of processes.
- Appoint someone responsible for governance;

STAGE 2: ACTIVE GROWTH



- Key positions are filled
- Develop basic policies to regulate authority as key elements of an internal control system.



STAGE 4: BUSINESS EXPANSION

- Establish corporate secretary function;
- Consider establishing an even more substantive board;

A: COMMITMENT TO GOOD GOVERNANCE – FROM GROWTH TO PROFESSIONALIZING STRUCTURE AND PROCESSES



- Owners' Awareness and Commitment



- ✓ Signal intent to good governance
- ✓ Set tone at the top
- ✓ Articulate long-term vision

- Organizational Structure



- ✓ Appoint someone responsible for improving governance practices
- ✓ Periodically review organizational structure
- ✓ Ensure changes communicated to staff

- Key Policies and Processes



- ✓ Regularly review efficiency of core processes
- ✓ Consider appointing person to monitor adherence to policies
- ✓ Develop calendar of company events

A: COMMITMENT TO GOOD GOVERNANCE – CASE EXAMPLE

Cegover

No independent directors or a 'champion' of CG



Independent director appointed and family member selected to drive CG reforms

Executive involvement from Chair testament to poor delineation between Board and Management



Restructured organisational chart which reduced executive interference from Chair

Infrequent board meetings and key decisions made without a board majority



Periodic board meetings with greater engagement

A: COMMITMENT TO GOOD GOVERNANCE – AUDIENCE QUESTION



Which of these criteria do you think would be the most challenging for your company to meet? (you can select multiple options)

1. Discussing the importance of governance with management and staff.
2. Setting the right tone at the top through policies, actions, and communication.
3. Articulating a long-term vision for company.
4. Appointing someone responsible for improving governance practices / compliance.
5. Conducting periodic reviews to evaluate the company's organizational structure / reporting lines.
6. Appointing a person to formally monitor adherence to company policies / processes.
7. Developing a calendar of company events.

B: DECISION MAKING AND STRATEGIC OVERSIGHT – SUMMARY OF KEY ACTION POINTS



STAGE 1: START-UP

- May use informal, trusted advisors;
- Founder(s) make decisions in consultation with a few key executives;
- Communicate expectations on authority limits to key personnel.

STAGE 2: ACTIVE GROWTH

- External advisors formally engaged;
- Key decisions made in collaboration with key executives;
- Limited delegation of signing authority;
- Staffing priorities identified.



STAGE 3: ORGANISATIONAL DEVELOPMENT

- Continuous and structured outside advice;
- Enterprise-wide discussions on strategy, financing, and staffing;
- Formalised Executive Committee;
- Formalised HR policies.

STAGE 4: BUSINESS EXPANSION

- Board procedures ensure effective meetings;
- Board-approved succession planning policy.



B: DECISION MAKING AND STRATEGIC OVERSIGHT– FROM GROWTH TO PROFESSIONALIZING STRUCTURE AND PROCESSES



- Succession Planning



- ✓ Develop basic succession-planning framework for senior management
- ✓ 1) determine leadership demand. 2) evaluate current talent supply. 3) mobilize / develop potential leaders

- Management Decision Making



- ✓ Establish formal ExCo and ensure committee has clear terms of reference.

- Human Resource Planning



- ✓ Make HR function strategic partner of management team
- ✓ Expanding job description for each position into a detailed ToR. Review qualities / qualifications of staff
- ✓ Design incentive system to attract high-caliber talent
- ✓ Take care of hygiene factors to retain staff

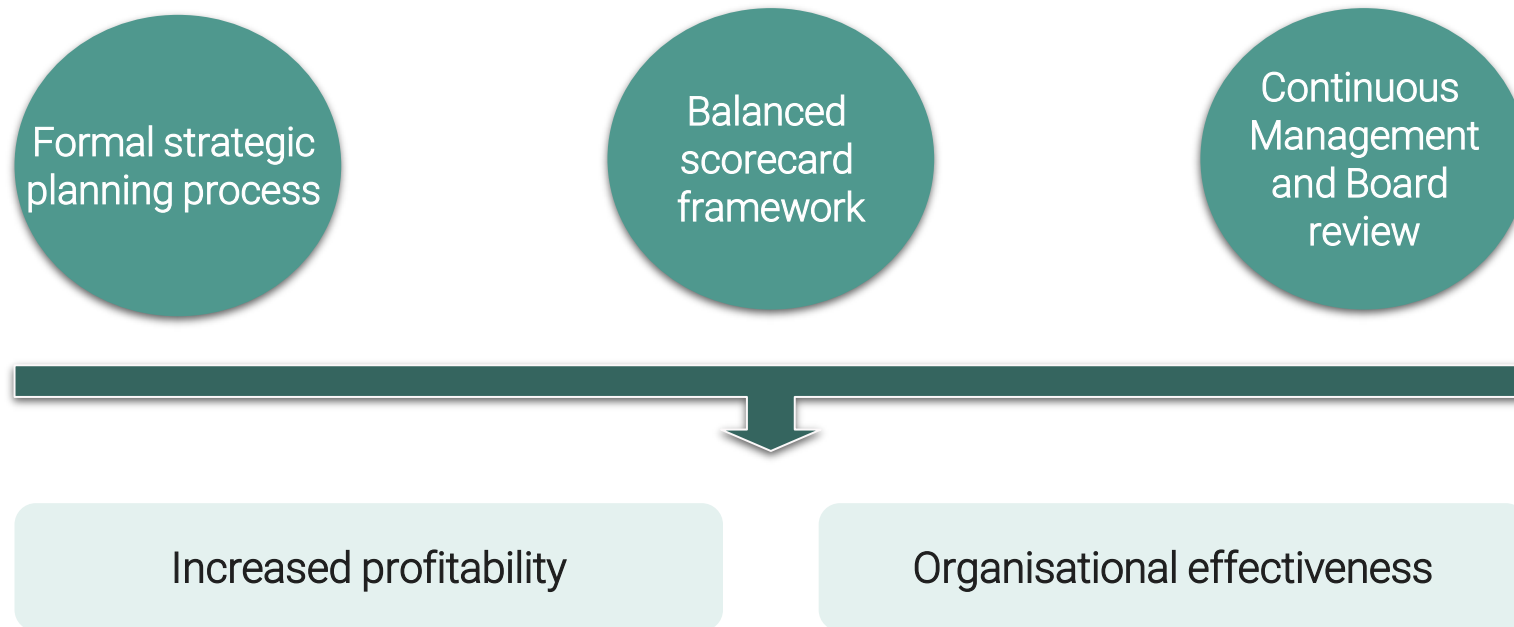
- Advisers/Advisory Board



- ✓ Consider whether setting up formal advisory board would add value.

B: DECISION MAKING AND STRATEGIC OVERSIGHT – CASE EXAMPLE

Cegover



B: DECISION MAKING AND STRATEGIC OVERSIGHT – AUDIENCE QUESTION



Which of these criteria do you think would be the most challenging for your company to meet? (you can select multiple options)

1. Setting up an Executive Committee (with clear terms of reference).
2. Setting up a formal advisory board.
3. Developing a succession-planning framework for senior management.
4. Making HR function a strategic partner of the strategic management team (e.g., helping design compensation programs or performance management systems).
5. Expanding the job description for each position into a detailed ToR (that include the qualities and qualifications required).
6. Reviewing the qualities / qualifications of current staff.
7. Designing an incentive system to attract high-caliber talent (with clear career-growth opportunities/performance incentives).
8. Take care of hygiene factors to retain staff (attractive work environment, competitive compensation etc.).

C: RISK GOVERNANCE AND INTERNAL CONTROLS – SUMMARY OF KEY ACTION POINTS



STAGE 1: START-UP

- Separate company cash sources and bank;
- Routinely monitor and analyse cash flow needs.

STAGE 2: ACTIVE GROWTH



- Basic risks identified, analysed, mitigated, and integrated;
- Controls on cash management;
- Consider whistleblowing mechanism.



STAGE 3: ORGANISATIONAL DEVELOPMENT

- Professional CFO
- Independent audit function;
- Clear authority and reporting lines;
- Procedures to monitor and mitigate strategic and operational risks.

STAGE 4: BUSINESS EXPANSION



- Sound internal control systems;
- IA reporting to Board / Audit Committee;
- Independent external auditors;
- Timely and secure sales / accounts reporting.

C: RISK GOVERNANCE AND INTERNAL CONTROLS – FROM GROWTH TO PROFESSIONALIZING STRUCTURE AND PROCESSES



- Working capital and cash flow management



- Internal Controls



- Information technology management



- Ethics / Conduct



- Internal Audit



- ✓ Hire a professional CFO
- ✓ Create policies / procedures to monitor and mitigate strategic and operational risks
- ✓ Define authority / limits of business units, reporting lines, and guidelines on key processes, to create accountability path
- ✓ Develop simple IT strategy to anticipate future business needs
- ✓ Conduct independent IT audit
- ✓ Develop detailed code of ethics and business conduct
- ✓ Establish remedial actions to violations of code
- ✓ Establish an independent IA function
- ✓ Seek maximum possible independence to assure full transparency of risks/problems

C: RISK GOVERNANCE AND INTERNAL CONTROLS – CASE EXAMPLE

Cegover

No Board committees



Audit Committee created

No internal audit function



Internal audit function created and periodically reports to senior management and the Board

External auditor not independent



Credible audit firm selected to conduct external audit for the entire Group

C: RISK GOVERNANCE AND INTERNAL CONTROLS – AUDIENCE QUESTION



Which of these criteria do you think would be the most challenging for your company to meet? (you can select multiple options)

1. Creating policies and procedures to monitor and mitigate strategic and operational risks (aligned with the business vision).
2. Defining the authority and limits of business units, their reporting lines, and guidelines on key processes.
3. Hiring a professional CFO.
4. Developing an IT strategy.
5. Conducting an independent IT audit to ensure systems are secure and support organization goals and objectives.
6. Developing a code of ethics and business conduct (with consequences of non-compliance communicated throughout the company).
7. Establishing an independent IA function (in-house, outsourced, or co-sourced).
8. Ensuring IA has the maximum possible independence.

D: DISCLOSURE AND TRANSPARENCY – SUMMARY OF KEY ACTION POINTS



STAGE 1: START-UP

- Basic financial accounts

STAGE 2: ACTIVE GROWTH



- Monthly reconciliation of bank accounts;
- Agree with shareholders on disclosing key nonfinancial information;
- Develop the public profile of the enterprise.



STAGE 3: ORGANISATIONAL DEVELOPMENT

- Financial statements in accordance with national standards;
- Key non-financial information publicly disclosed;
- Basic performance reports shown to external advisors.

STAGE 4: BUSINESS EXPANSION



- Financial reporting in accordance with best practice;
- Financial statements audited by recognised audit firm;
- Quarterly financial and performance reports as well as annual reports.

D: DISCLOSURE AND TRANSPARENCY – FROM GROWTH TO PROFESSIONALIZING STRUCTURE AND PROCESSES



- Financial disclosure



- ✓ Prepare financial statements in accordance with national accounting standards.

- Non-financial disclosure



- ✓ Identify info to include in briefing papers for regular meetings with external advisers/advisory board.
- ✓ Means to communicate key decisions and information to staff.
- ✓ Define key nonfinancial information to disclose publicly.
- ✓ Present through accessible channels, e.g. website.
- ✓ Ensure regular communication of the code of ethics/business-conduct policy.

D: DISCLOSURE AND TRANSPARENCY – CASE EXAMPLE

Cegover 



D: DISCLOSURE AND TRANSPARENCY



Which of these criteria do you think would be the most challenging for your company to meet? (you can select multiple options)

1. Preparing financial statements in accordance with national accounting standards.
2. Establishing a disclosure function (possibly combined with a compliance officer / CFO / CoSec).
3. Identifying the information to include in briefing papers for the meetings with external advisers / advisory board.
4. Defining the key non-financial information to disclose publicly (accessible through channels such as the company website).
5. Establishing the means to effectively communicate key decisions and other relevant information to all staff.
6. Ensuring there is regular communication of the code of ethics/business-conduct policy.

E: OWNERSHIP – SUMMARY OF KEY ACTION POINTS



STAGE 1: START-UP

- Role / responsibilities of founder(s) clearly established;
- Basic understanding of roles of family members;
- Mechanism for shareholder disputes.

STAGE 2: ACTIVE GROWTH



- Awareness of family succession planning;
- Annual shareholders' meeting.



STAGE 3: ORGANISATIONAL DEVELOPMENT

- Clear distinction between roles of founders, family members, and management;
- Family succession plans as well as clear career paths for non-family executives;
- Annual meeting includes discussions of key decisions, dividends, and plans.

STAGE 4: BUSINESS EXPANSION



- Policies and mechanisms to regulate family members' ownership, employment, and other benefits;
- All shareholders are regularly updated;
- Formal mechanism for resolving governance-related disputes.

E: OWNERSHIP – FROM GROWTH TO PROFESSIONALIZING STRUCTURE AND PROCESSES



▪ Shareholder Participation



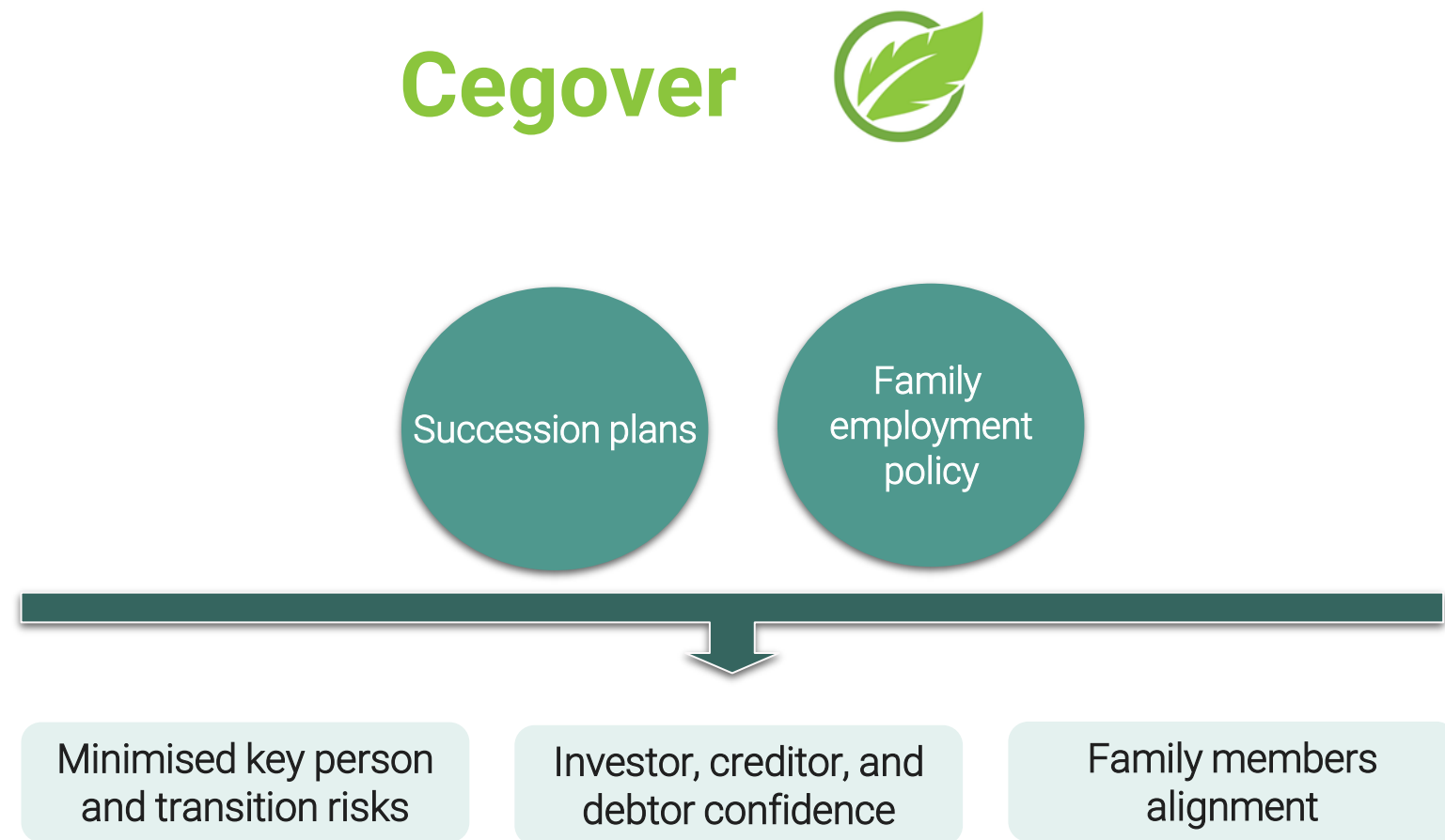
- ✓ Ensure shareholders meetings are well-organized and function effectively
- ✓ Provide as much advance notice as possible.
- ✓ Ensure documentation is distributed promptly.
- ✓ Make meetings relevant / interesting; listen to shareholders on voting issues.

▪ Founder/Family Role



- ✓ Create clear distinctions between 1) owners, 2) employees and 3) non-employee/non-shareholder family members.
- ✓ When defining family roles, consider: 1) family subsystem, 2) business subsystem, and 3) ownership subsystem.
- ✓ Family members “wearing multiple hats” should understand proper behaviours.
- ✓ Identify clear career paths for non-family members.

E: OWNERSHIP – CASE EXAMPLE



E: OWNERSHIP – AUDIENCE QUESTION



Which of these criteria do you think would be the most challenging for your company to meet? (you can select multiple options)

1. Ensuring shareholder meetings are well-organized and function effectively to allow for full shareholder participation.
2. Ensuring documentation is professional and distributed promptly to shareholders.
3. Making shareholder meetings relevant and interesting
4. Listening to shareholders on voting issues.
5. Creating clear internal distinctions between 1) owners, 2) employees, and 3) non-employee/non-shareholder family members.
6. Ensuring that family members “wearing multiple hats” understand the proper modes of behavior in their roles.
7. Identifying clear career paths for non-family executives / technical specialists.



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WRAP-UP AND Q&A

WRAP-UP AND Q&A



PREVIEW OF NEXT WEEK'S CASE STUDY



- An interactive, multi-year case study analysing the corporate governance challenges as an OGS company develops and matures.
- Please read the case study document with which you will be provided and think about the discussion questions ahead of next week.