

# Navigating the *Startup* Landscape

A Discourse on Sustainability  
and Governance



AELEX Technology, Media  
and Telecommunications  
Practice Group



**AELEX**

LEGAL PRACTITIONERS & ARBITRATORS



# Introduction

On February 29, 2024, AELEX Partners ('AELEX') commenced its quarterly webinar series, themed 'Start, Scale, Sustain', with a discussion on sustainability and governance. This virtual event aimed to stimulate a comprehensive dialogue on the topic of startup sustainability and corporate governance. The chosen topic addressed a crucial issue within the startup ecosystem, gaining particular significance in the wake of the winding up or strategic redirection of numerous startups, despite having secured substantial funding in earlier fundraising rounds.

Moderated by Peretimi Pere Akinmodun, a Senior Associate at AELEX, the event featured valuable contributions from a distinguished panel: Tolulope Omoloeye-Osindero, Head of Legal and Compliance at Branch; Dotun Olowoporoku, Partner at Ventures Platform; Tiwalola Osazuwa, Partner at AELEX; and David Oluranti, Vice President, Legal, Regulatory and Government Affairs at Flutterwave.

The discourse focused on the importance of instilling corporate governance practices among startups and the adoption of sustainable legal, business, and financial practices. It was observed that founders, engrossed in product development, milestone achievement, and revenue generation, often overlook the establishment of corporate governance frameworks and the cultivation of sustainable practices within their companies.

Core corporate governance elements, including board formation, regulatory compliance, financial auditing, and internal company culture, were identified as crucial components to be addressed from the outset. A proactive approach to accountability frameworks, even during bootstrapping, was advocated, especially when external capital infusion is anticipated.

In summary, this article provides a comprehensive overview of the major talking points from the webinar, shedding light on critical considerations for startup founders in navigating challenges, establishing governance structures, and fostering sustainable growth. Below are the major highlights.

## 1. Board Composition and Operations

Emphasis was placed on the critical role of the board, particularly at the early stage, with recommendations for a diverse three-member board possessing relevant expertise. Founders were advised to be attentive to regulatory requirements especially in sectors like finance or investment in setting up their board. Board operations were portrayed as existing on a spectrum, cautioning against extremes—either a dormant board or one overloaded with heavyweights. The need for nimble early-stage boards was emphasized, while the introduction of independent and non-executive directors was encouraged during subsequent scaling. Founders were advised to identify the key competencies required on the board to support the company's growth and mitigate risks. This may include expertise in the industry, financial acumen, legal knowledge, or specific skills relevant to the startup's operations. Also, it was noted that articulating the long-term goals and vision of the company is key and understanding where the company aims to be in the future will help in structuring a board that aligns with these objectives.

## 2. Importance of regulatory compliance

Regulatory compliance is a critical aspect for startups, and it is important to adhere to the legal requirements and standards set by governing bodies.

Non-compliance can lead to severe consequences, including legal penalties, reputational damage, and operational disruptions. Startups must thoroughly research and understand the regulatory landscape relevant to their industry and geographic location. This includes local, national, and international regulations that may impact their operations. Certain industries have specific regulations and compliance requirements. Startups operating in sectors such as finance, healthcare, or telecommunications may need to comply with industry-specific rules and standards. Identifying and addressing these requirements is crucial. Founders were advised to develop and implement internal policies and procedures that align with regulatory requirements and clearly communicate these guidelines to employees, integrating them into daily operations to foster a culture of compliance. Also, maintaining comprehensive documentation of compliance efforts, including policies, procedures, and audit reports are pivotal, as well-documented compliance practices can serve as evidence in the event of regulatory scrutiny and demonstrate the startup's commitment to adherence. Founders were encouraged to continuously monitor regulatory developments and be prepared to adapt quickly to changes by adjusting their strategies and operations to remain compliant with evolving regulations. Startups must navigate various reporting rules, including filing annual returns with the CAC and tax returns with the FIRS. Depending on the industry, additional requirements from regulatory bodies like CBN, SEC, and SCUML may apply. Engaging a skilled lawyer is crucial to prioritize and understand these regulatory obligations, helping startups identify immediate needs and those that can be addressed later in their lifecycle.



### 3. Fundraising

Securing adequate funding is a critical component of a startup's journey toward sustainable growth. Crafting an effective fundraising strategy involves structuring funding, prioritizing needs, and implementing cost-effective measures. Before embarking on fundraising efforts, startups should have a clear understanding of available funding options. These may include bootstrapping, angel investors, venture capital, crowdfunding, grants, and loans. Each option comes with its own set of considerations and implications, necessitating careful evaluation based on the startup's stage and objectives. Startups must prioritize their funding needs based on critical aspects such as product development, marketing, talent acquisition, and operational expenses.

Identifying and categorizing these priorities enable founders to allocate funds strategically and communicate their financial requirements effectively to potential investors. It was emphasized that investor relations extend beyond securing funding; it involves maintaining transparent and open communication with investors. Providing regular updates on milestones, challenges, and future plans contribute to trust-building. Engaging investors as strategic partners also fosters long-term relationships and may lead to additional rounds of funding.

### 4. Seeking legal advice

Seeking legal and expert advice is paramount for startups aiming to achieve sustainability and navigate the complexities of the business landscape effectively. Early-stage decisions, such as founders' agreements, equity discussions, and bringing in new investors, carry significant implications for the long-term viability and success of the startup.

Startups face various legal risks, including intellectual property disputes, contract breaches, regulatory non-compliance, and litigation threats. Legal experts assess potential liabilities, mitigate risks, and implement preventive measures to protect the startup's interests. Legal advisors assist startups in identifying, assessing, and managing legal and business risks proactively. By seeking legal expertise in the early stage of a startup's lifecycle and implementing risk management strategies, startups minimize exposure to potential liabilities and safeguard their reputation and assets.

### 5. Leveraging technology

Leveraging technology is pivotal for startups aiming to advance sustainability and maximize their capital efficiency. Incorporating innovative solutions, such as data analysis, artificial intelligence (AI), blockchain, and transaction monitoring tools, not only enhances operational efficiency but also contributes to sustainable business practices. Startups can harness the power of data analytics to gain insights into their operations. Analyzing data allows for informed decision-making, identifying areas for improvement, optimizing resource allocation, and enhancing overall efficiency. This data-driven approach contributes to sustainability by reducing waste and streamlining processes. Artificial intelligence can be employed to optimize capital usage. AI algorithms can analyze spending patterns, identify cost-saving opportunities, and predict market trends. This proactive approach aids startups in making strategic financial decisions, maximizing the impact of available funds, and promoting financial sustainability. Implementing blockchain technology provides startups with a secure and transparent way to track the authenticity of products or transactions.

This is particularly relevant in supply chain management, where blockchain ensures traceability and authenticity, contributing to sustainable and ethical business practices. As startups handle increasing amounts of sensitive data, prioritizing data protection is essential. Implementing robust cybersecurity measures, encryption protocols, and compliance with data protection regulations safeguard customer information and contribute to the sustainability of the business by maintaining trust and reputation.

## 6. Investor Relations

The discourse recognized the transition from the Fear of Missing Out (FOMO) era to a more discerning investor landscape. Investors are now more focused on substantive and sustainable investments, emphasizing the need for startups to showcase a robust business model, clear value proposition, and a commitment to long-term sustainability. The investor relations landscape is evolving towards a more collaborative and purpose-driven model. Startups were encouraged to approach investors not just for funding but as valuable partners who contribute mentorship and guidance. Likewise, investor influence, was highlighted as crucial for the adoption of sustainable practices by startups.

## Conclusion

The curtain on the discourse was drawn with acknowledging the inherent risk in venturing into the startup realm and the importance of leveraging fear as motivation for success. The concluding message emphasized the need for calculated risk-taking rather than heedless actions in the pursuit of rapid progress, cautioning against unwarranted risk aversion.

The AELEX Webinar underscored the indispensability of integrating corporate governance practices early in startup journeys and adopting sustainable business practices. Founders equipped with a commitment to accountability, transparency, and ethical decision-making were recognized as pivotal contributors to the enduring success and positive impact of their startups.



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