

corporate governance toolkit

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The HR landscape is shifting with The Muse providing a two pronged solution to align values and bridge the gap. For companies, The Muse provides a platform to communicate a company's culture and employee experiences. For job seekers, The Muse provides a research platform to navigate the career journey. We currently have 550 companies on The Muse with 65% of The Muse users under 35, 55% female and 49% non-white.

This Corporate Governance Toolkit is part of a series of Muse Guides called "Policy in a Box" that was created in partnership with DBL Partners, an impact investor that made its first investment in The Muse in 2015.

The Toolkit is meant to be a simple, helpful guide for a young start-up and their General Counsel or staff who are navigating the maze of corporate governance principles, ethics, and procedures for working with their Board of Directors.



You're a young growing start-up company and you've started to have regular meetings with your Board of Directors, some of whom are likely large institutional investors in the company. Corporate Governance is a crucial part of the company's current and future growth from the perspective of maintaining efficient, and ethical, operational processes to ensuring long-term growth, profitability and sustainability. **The Muse's Corporate Governance Toolkit helps answer key Board Governance questions.**

WHO IS ON YOUR COMPANY'S BOARD OF DIRECTORS?

At the outset, it's important to know who is on your Board of Directors. At a young start-up, it will typically be made up of the founders of the company, individuals at the major institutional investors in the company and one or two independent members. The composition of the Board may change over time especially as you raise more capital.

It is good practice to keep a list of the names of each of your company's Board of Directors, their firm, if any, whether they are independent or a shareholder, and their ownership percentage, which can be found in your company's capitalization table ("cap table").

WHAT ARE THE BOARD'S RESPONSIBILITIES?

A Board's responsibility and role can vary across companies, but generally, it will:

- Review the company's performance
- Help set strategic objectives and brainstorm how to meet them
- Evaluate risk and compliance
- Give input on or suggest key executive new hires

- Consider sustainability issues (e.g., environmental and social factors as part of the overall business strategy, and the material risks of not considering these factors)
- Ensure that proper business ethical standards are met across all areas of the business and at every stage of the company's lifecycle

DO YOU NEED BOARD COMMITTEES?

At a certain stage, your company may want to consider establishing Board Committees made up of a subset of your company's Board.

For example, a Compensation Committee will be tasked with determining and approving executive and high-level employee compensation packages. An Audit Committee will typically assist in the Board's oversight of a company's accounting and financial reporting processes, the audits of the company's financial statements and overall risk management and compliance practices.

HOW SHOULD YOU PREPARE FOR A BOARD MEETING?

Meetings are typically held 4-6 times a year, with 4 quarterly in-person meetings and 1-2 phone

conferences, but may happen more frequently depending on your company, your Board, or if any major decisions or approvals are needed. If possible, all meetings for the year should be scheduled in advance.

TWO WEEKS BEFORE THE BOARD MEETING

Start preparing your draft presentation to the Board (often referred to as a board deck), which will serve as the agenda for the meeting and help move the meeting along efficiently. It often requires input from multiple stakeholders in different departments (finance, marketing, product, etc.) so make sure you leave ample time to have everyone review and add to it. Typical board decks will include:

- Company-wide updates
- Pivotal new hires
- Financial progress and forecasts
- New product and service launches and roadmaps
- Committee Reports (if the company has ongoing committee or external auditor work)

3-5 days before the meeting, send the Board the deck, list of options grants, and the prior board meetings minutes to allow board members to review and request additional information if needed.

HOW DO YOU ISSUE STOCK OPTIONS?

If your company grants stock options, draft a list of grants for new hires, existing employees (usually for promotions) or advisors. The list should include certain details such as:

- Name, role and the number of options
- Vesting start date (usually the date an employee starts working or is promoted) and the vesting schedule (typically 4 years with a 1-year cliff)
- Equity tier (if your company has established equity tiers or bands)
- Grant type (e.g., Incentive Stock Options (ISOs), Non-Qualified Stock Options (NSOs), Restricted Stock Units (RSUs))
- State of residence of the person receiving the grant
- The total grants percentage of outstanding shares available
- The total grants percentage of fully diluted ownership
- The amount of options remaining in the pool after the grant
- If there is a person getting a large grant or one that is outside of a pre-determined equity tier, it may be helpful to specify why in the meeting.

DURING BOARD MEETING

Board meetings usually last between 3 and 5 hours. Remember, preparation beforehand, and focused conversations during the meeting leads to a results-oriented and efficiently run board meeting.

All board members should be present (or at least a quorum must exist). You should review your company's corporate bylaws to determine the number of members needed to establish a quorum.

Someone present in the meeting, typically the Corporate Secretary if you have named one, is responsible for taking notes, which will be used to create the meeting minutes.

Members of the company's executive team and sometimes other employees will present the board deck, and answer board member questions.

The Board will review and come to a decision around approval of minutes from the prior meeting, the stock option grants and any other items that may require approval such as:

- Annual budgets
- Investment, divestments or capital expenditure exceeding certain thresholds such as acquisitions
- Commitments to term loans and lines of credits from banks and financial institutions

TWO WEEKS FOLLOWING A BOARD MEETING

After the meeting, board members may ask questions, or request copies of certain documents or reports that were reviewed or discussed during the meeting.

Whoever was responsible for taking notes during the meeting (usually the Corporate Secretary) should draft board minutes, using concise and unambiguous language.

Minutes need to reflect the basics, such as compliance with procedural requirements, identification of the board members present, the matters considered and the actions taken or approved, as well as other decisions reached.

You should generally include the following in the minutes:

- Date, time and location of the meeting
- Whether the meeting was in person or held by telephone
- Whether there was a quorum

- Names of presenters or other participants who were present during the meeting
- General overview of meeting and the major issues discussed
- Indication of action taken (language to consider: "discussed", "agreed", "approved", "resolved")
- Resolutions adopted if any
- Whether and when an executive session occurred, and which directors participated in the executive session
- The prior meeting's approved minutes and the list of approved options should be attached

A finalized copy of the meeting minutes will need to be filed and stored for future reference. Many minutes contain sensitive information, so it's critical to store them in a secure location that is password-protected.

Finally, don't forget to issue the stock options that your Board just approved. If using Carta, or other electronic cap table system, the options should be issued through that system.

HOW SHOULD YOU EVALUATE YOUR BOARD OF DIRECTORS?

You should consider an annual assessment of the effectiveness of the Board and the contribution of each individual member.

This does not always need to be a formal process but some issues to consider when thinking about whether your Board is being effective and serving the company's needs are:

- Size and composition
- Independence
- Information and accountability
- Committee performance
- Availability and support
- Directorial responsibilities and committee contribution

We hope The Muse's Corporate Governance Toolkit helps make it easier to implement a process for handling corporate governance and corporate formalities at your start-up. The information provided does not, and is not intended to, constitute legal advice. All information, content, and materials are for general informational purposes only. For more resources on corporate governance visit Stanford GSB Corporate Governance Research Initiative:
<https://www.gsb.stanford.edu/faculty-research/centers-initiatives/cgri>

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