



Private Enterprise

# Emerging Giants Success Guide

A guide to growing your business

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# Foreword

Innovation and startups help drive a nation's economy forward as a key engine of economic growth. Thanks to the lean startup process and technology advances, entrepreneurs are scaling companies to sizeable revenues with smaller teams and less cash than just a few years ago. The cycle of innovation is speeding up, and talented entrepreneurs are ready to take over and invent the next disruptive technologies.

KPMG Private Enterprise understands the importance of entrepreneurs working to transform new ideas into thriving companies. Founders face considerable challenges as they work to bring new ideas to the marketplace while taking incremental leadership responsibilities. Raising capital, finding talent, acquiring customers, complying with regulatory requirements, and other management initiatives take time and are important to maximize business success. We are delighted to share highlights from our experience in this guide including operational, financial, tax and, accounting matters, and other business considerations.

We have been committed to serving startup companies around the world for many years and hope you find this guide insightful. We welcome your feedback about this publication and look forward to the opportunity to assist in your business strategies.



**Conor Moore**  
National Leader,  
KPMG Private Enterprise,  
KPMG in the US



**Kevin Smith**  
Head of KPMG Private  
Enterprise in EMA,  
KPMG in the UK



Your company's pitch may define your success in raising capital, building business alliances, and gaining market share.



# Developing your pitch

The traditional multipage, chart-laden business plan that venture capitalists used to rely on to evaluate opportunities is largely being replaced with documents that convey essential information in a more concise format.

The executive summary and pitch deck both play important and related roles in helping potential stakeholders understand your business proposition and attracting outside capital.

## Executive summary

In most cases, the executive summary will be the first document you submit to potential investors, and will be reviewed to determine whether they are interested in learning more about your startup. This one- or two-page document will provide basic information about your company, team, product or service, and market.

Your goal in preparing an executive summary is to describe the product briefly, identify the market opportunity, introduce the founders and management team, provide financial projections, and create enough interest to gain an invitation to an in-person pitch meeting with VC investors.

## Pitch meeting deck

During the initial pitch meeting, you'll be asked to share a presentation with slides highlighting more detailed information.

### VCs will be interested in the following information:

	Company, including the founders and their industry experience
	Product or service, including features and benefits, and product specifications and technical requirements
	Management and technical teams, with an emphasis on your engineering talent, relevant experience, and entrepreneurial track record
	Market opportunity and existing competitors
	Sales and marketing strategy, including pricing and distribution
	Development milestones
	Financial information, including projected sales and profits, capital requirements, and exit strategy
	Other capital already in the company
	Perceived valuation
	Other advisers or consultants supporting your company

In addition to the potential financial returns, VCs will be interested in evaluating your team's ability to execute while creating and sustaining a viable product. While they may appear skeptical as they evaluate the opportunity, VCs will play a critical support role in your company if they decide to invest.

VCs offer valuable advice and experience to help you avoid common pitfalls and optimize your company's approach to the marketplace, and often provide access to business partners or markets more readily than a startup might be able to achieve on its own.

An appropriate legal structure provides an important foundation for your startup.



# Choosing a legal structure

Choosing the most appropriate legal structure is an important decision that establishes a foundation to support the company's growth and operational effectiveness as it matures.

In addition to limiting potential liability and helping you develop appropriate tax strategies, the right legal structure can help your company safeguard its intellectual property, attract outside investors, and reduce potential disputes as your venture moves through later stages of its lifecycle.

There are different types of legal structures, each offering distinct advantages and potential drawbacks to growth-stage companies. Evaluating your options carefully is important because it's easier and more cost-effective to make the correct choice early, instead of revising your legal structure later.

Given the potential challenges of making the best choice, and the importance your legal structure can play in your company's success, it's important to obtain appropriate legal, financial, and tax advice about your options.

## Company structures

One of the first decisions startups have to make is the appropriate corporate structure. Creating your company as an independent entity can help founders shield their personal assets from potential liability claims, protect intellectual property, and provide tax benefits.

### To form a company, consider the following steps:

- 1 Decide whether a limited liability company (LLC) or corporation is best suited for your company. Angel investors and VCs generally prefer to invest in corporations, but there may be advantages to forming an LLC in some circumstances.
- 2 Review tax considerations with a professional adviser. In broad terms, corporate taxes are due at the entity and shareholder levels, while an LLC may choose to pass taxes through to its owners.
- 3 Conduct trademark and registration searches to be sure your desired company name is not being used by an organization offering similar products or services.
- 4 Enlist an attorney to help with the incorporation requirements and related documentation that will need to be filed with the state in which you incorporate (which may not necessarily be the location where your company is based).
- 5 Work with your advisers to determine whether, and how, equity will be offered to employees.
- 6 Consider your growth plans and exit strategy, and discuss with your advisers whether those factors can affect your initial legal structure decisions.

It is also critical that you and your cofounders develop an operating agreement to outline issues such as equity arrangements, IP ownership, employment terms, and other items that, without an agreement, may be subject to litigation later on.

By considering these issues at the earliest stages of your company's lifecycle and developing an appropriate legal structure, you can help set the stage for your venture's future market growth and success and pave the way to an attractive exit strategy that helps you maximize your company's value.

Your brand is one of your company's most valuable assets. It connects your company to the hearts and minds of your customers, investors, and the marketplace and begins building on day one.



# Building your brand

Branding is much broader than logos and tactical activities. Your logo, tagline, and website are all expressions of your brand. Your actual "brand" is the emotional response and mental associations people make with your company as a result of the multitude of interactions with your brand expressions, products, employees, and services. It is your company's persona, identity, and purpose in the world.

## Building a strong brand

Building a brand is all about shaping public perceptions. To do this effectively requires careful planning and execution. At the core of this are some simple best practices. Here are a few to help you get started:

### 1 Define a higher purpose and mission statement

At the core of every strong brand is a higher purpose that explains why the company exists beyond profits. A purpose is a motivating, timeless statement that outlives your tagline and growth cycles. It inspires and unites your employees for a shared cause and serves as a foundation for your mission statement and other external brand messages. Think of your purpose as an internal declaration of why you exist and your mission statement as an external communication of what you do and for whom. Here are a couple examples:

— Google's defined mission is to "organize the world's information and make it universally accessible and useful." The derived purpose behind their mission is to "share information."

- The defined mission of McDonald’s is to be the “world’s best quick service restaurant experience. Being the best means providing outstanding quality, service, cleanliness, and value, so that we make every customer in every restaurant smile.” The derived purpose behind their mission is to “make people smile.”

Remember your brand starts internally with your culture, values, and mindset long before it hits the market. This all begins with the development of a purpose and mission statement.

## **2 Differentiate your brand**

As you define your purpose and mission statement, consider how your startup is unique in solving a problem for your target market. Make sure your customer promise is differentiated from the competition. A strong purpose and mission statement articulates what’s unique and special about your company and the value it provides to the world. Keep in mind, differentiation without relevance adds no value to your brand. The uniqueness of your offering is only powerful if your target market agrees. Marrying differentiation with relevance is a recipe for success.

## **3 Pick a brand name**

Good products, great customer experience, and strong brand messaging will be most impactful to your startup’s success, but a brand name should not be overlooked. Consider choosing a short name that is memorable and invokes positive thoughts. Your name should be easy to pronounce and read. To ensure consistency, create your brand name in conjunction with your mission statement and product offerings. It is also wise to search trademark databases to ensure your preferred name is available.

## **4 Build a visual identity**

Your visual brand identity is built through the consistent use of visual expressions.

Here is a list of common visual expressions that you can expect to use to develop your brand identity:

- Logos
- Stationery/Letterheads
- Advertisements
- Brochures and sales materials
- Presentation templates
- Taglines
- Product packaging
- Websites and digital/mobile pages
- Business cards

As you build your visual identity, ensure the overall look and feel and design attributes fit your brand personality. Take Whole Foods as an example. Their logo is green and incorporates the image of fresh produce. This is very much in line with their brand promise to provide natural, organic food. To help ensure consistent use of your visual brand elements, consider creating a simple style guide. This document defines what your visual identity looks like (i.e., logos, color schemes, fonts, and taglines) and provides guidelines for how to properly use these visual elements.

## **5 Brand is experiential**

Branding is more than logos and taglines. Every interaction, both passive (e.g., customer reading a website) and active (e.g., customer interacting with a salesperson), shapes the overall brand perception. It is crucial all points of interaction with the customer represent your brand. Take the cosmetics company Lush as an example. They “believe in making effective products from fresh organic fruit and vegetables.” When you walk in their stores, their products are shown in raw unpackaged form. Handwritten signs sit next to each product listing the all-natural ingredients. Employees give hands-on demos to interested consumers. All interactions with Lush embody their brand promise.

## **6 Always be consistent**

The most damaging thing you can do to your brand is to be unpredictable. Consumers build a brand perception based on what they’ve come to expect from your company. Be genuine and consistent in everything your company does. Whether the consumer is surfing your company’s website, driving by a billboard ad, reading an email from a service rep, or using your products, the brand experience and visual identity should be consistently invoked and easily recognizable.

A good product coupled with a well-executed brand will position your company for long-term success securing a special place in the minds of your consumers. The most successful startups craft a brand strategy early on.

Tapping into a strong ecosystem that includes venture capitalists, experienced entrepreneurs, talent, and business advisers is key for startup success.



# Leveraging the ecosystem

Silicon Valley continues to be the epicenter for tremendous innovation including startups and global tech enterprises. Having the largest venture capital market in the world doesn't hurt either, in addition to the optimistic pioneer spirit that has made Silicon Valley the top R&D center in the world offering a unique ecosystem to startups.

Other cities in the United States and around the world are aiming to replicate Silicon Valley's successful ecosystem. New York is getting a bigger footprint in digital media, with the local government developing a plan to proactively attract and nurture the tech startup community. The importance of the ecosystem can be seen in other cities as startup hubs emerge in cities ranging from Seattle to Cambridge and Portland to Austin, each with its own ecosystem offering support networks to assist entrepreneurs.

## Enlisting help

The primary advantage of aligning your venture within the startup ecosystem is your improved access to experience and resources that can help you bring your venture to market quickly and successfully.

### As you develop your company's support network, keep the following in mind:

<b>Investors</b>	In addition to capital, experienced VCs and angels can introduce you to resources within their portfolio companies or specific industry sectors.
<b>Incubators and accelerators</b>	At the early startup stage, incubators/accelerators can provide short-term access to facilities and resources where company founders can network with other startup teams, share ideas, and learn from each other's experiences.
<b>Mentors</b>	Experienced entrepreneurs, or people with critical technical or industry experience, can provide informal guidance about your company, technology, markets, or other important success factors. Effective mentors can draw upon their experience and relationships to introduce you to key contacts and provide valuable feedback. As your startup gains momentum, mentors and investors can provide a starting point for recruiting advisory board members or directors.
<b>Advisers</b>	Startups maximize their chances of success when they concentrate on what they do best and refrain from trying to solve business challenges they do not have the skillset to manage. Attorneys, accountants, and other professionals have the experience and knowledge to help founders manage these challenges and build a successful business. Advisers can also introduce company founders to their own ecosystems of mentors, investors, talent, and other advisers.
<b>Talent</b>	While engineering talent will likely be critical, startups often need to supplement their founders' skills in financial, legal, marketing, or other specialized functions.
<b>Economic development agencies</b>	Many states and cities trying to foster technology companies and jobs offer financial and logistical support to growth-stage companies.
<b>Colleges and universities</b>	Educational institutions can provide a rich source of knowledge, with many programs connecting entrepreneurs with key resources including labs, researchers, alumni, and startup ventures.
<b>Enterprises</b>	A number of large companies and industry groups have developed initiatives to promote industry innovation and identify promising technologies. Many companies have programs to help founders with a number of resources including technology, mentors, and capital.

Startups need access to capital to optimize their potential opportunities.



# Raising capital

Raising capital is typically one of the first issues a startup company will need to address, and your ability to attract investors will likely play an important role in the ultimate success of your company and its exit strategy.

Raising capital will typically take place in several stages (known as rounds), each of which will likely carry different terms, conditions, and milestones. Equity is the most common approach to early-stage investment, since most startups will not have enough revenue or history to attract debt financing.

Using equity to raise capital will also have important benefits in attracting and retaining talent, since many team members will be motivated by your company's growth potential and the possibility of equity appreciation.



<b>Bootstrapping</b>	<p>The first round, often called bootstrapping, will typically come from founders' savings and credit cards. In addition, many founders will reach out to their friends and family members to raise their initial seed capital.</p> <p>Potential investors will expect founders to have "skin in the game," and to have made a financial commitment in the growth of their Startup. Investors will be less likely to invest if founders have not also taken personal and financial risks to get the startup off the ground.</p>
<b>Angel investors</b>	<p>Angel investors are individuals or groups that specialize in making early-stage investments in startup ventures. In the United States, the Angel Capital Association has accredited nearly 200 investor groups and more than 8,000 individual investors.</p> <p>Angel investors often learn about potential investments through referrals from other investors, a startup's advisers, or through trade groups or networks.</p>
<b>Strategic investors</b>	<p>Strategic or corporate-backed investment funds are a growing force in the venture capital community, with most Fortune 500 companies having an internal venture investment unit. Strategic investors partner with startups to get a front-row seat to cutting-edge technology in their market segment or complementary industries.</p> <p>From a startup's perspective, there are a variety of advantages to working with strategic investors, including industry guidance, market credibility, and access to their customers. In addition, a strategic investor is likely to provide an attractive acquisition partner as the startup gains product and marketplace momentum.</p>
<b>Government investment funds and grants</b>	<p>A growing number of states have launched angel or venture capital funds to attract businesses and promote economic development. Startups with a strong scientific or technical focus may qualify for federal, state and local grants designed to foster the development of new technologies and tech-related employment.</p>
<b>Bank financing</b>	<p>For some startups, taking on debt may be a more attractive option than diluting the ownership stake of the founders or other investors through equity offerings. While traditional banks may not be a viable option for most early-stage companies, there are several players in the venture lending space who are willing to take more risk (for a higher return) and lend to startups.</p>

**Tax compliance is a necessity. An effective tax planning strategy can add considerable value to your business.**



# Tax matters

Taxation is a critical factor in the success and financial health of your business, and obtaining tax advice at the earliest stages of your Startup's development is advisable to prevent early mistakes that can have a lingering detrimental impact.

Companies should pay attention to tax-related issues in the following areas:

## Registration

New businesses must, in general, apply for a U.S. Federal ID number.

Registration can be effected by applying online with the Internal Revenue Service (IRS).

Registration for the following taxes should be considered:

- Federal income taxes
- State income taxes
- Employment taxes
- Sales tax (on a state-by-state basis)
- Property tax.

Depending on the nature of the business, other taxes may also apply.

It may also be necessary to register with state regulators to gain the appropriate license or permit to undertake business in that jurisdiction.

## Early-stage considerations



Seek early advice on the various taxes your company may be liable for



Determine how you wish to set up the entity (for example, as a corporation or a pass-through entity)



Consider the taxation consequences, including VAT, of setting up operations or selling products overseas



Determine if your personnel are employees or independent contractors



Consider the tax consequences of noncash remuneration (such as share-based compensation)



Identify possible tax credits and incentives your company may qualify for



Obtain external tax advice before any acquisition or disposal

## Compliance



Ensure someone is responsible for tax compliance; this is an area where an external accountant or CPA may be of particular assistance



Tax returns and payments of different tax types are due at various times of the year; ensure you understand the required tax filings and the associated payment calendar



Incorporate tax charges and payments into your budgets and financial projections

**International operations and customers can create revenue growth and increase operating efficiency.**



# Doing business globally

In an increasingly global economy, startups are evaluating the potential advantages of international operations in their earliest stages. Questions about approaching high-growth international markets are likely to emerge during discussions with potential investors.

As mobile and cloud technologies bring greater numbers of connected consumers to the global marketplace, acquiring and serving international customers is far easier today than it would have been only a few years ago.

In addition, adding international operations can dramatically improve your company's access to technical and engineering talent. Adding team members based in international markets can provide access to a broad selection of resources, as well as potential cost savings versus operating exclusively within the United States.

Along with considerable rewards, foreign trade can introduce challenges including tax implications, foreign exchange risks, and other issues. While most can be resolved with careful planning, specialized advice is often recommended when your venture approaches an international market, or considers collaborating with a business partner located outside the United States.



**Matters to be considered include:**

<b>Corporate structure</b>	This can help you optimize tax costs, both in the international market and on remittances.
<b>Transfer pricing</b>	Specific tax rules govern the price at which goods and services are transferred within a group structure.
<b>Double taxation agreements</b>	These agreements, where they exist, avoid tax being charged locally and at home on the same profits. They are not in place with all countries.
<b>Impact on staff</b>	Is it necessary for team members to be based outside the United States? What is the cost? What is the local recruitment market like?
<b>Regulation</b>	How well do you understand local laws and regulations? Have you evaluated their potential effects on your business and related compliance costs?
<b>Currency</b>	Where relevant, can you mitigate against foreign exchange risk?
<b>Language, culture, and business practices</b>	The potential effects of differences should not be underestimated.
<b>Capital</b>	If required, is it available locally?

**In choosing a location, the above factors should be addressed, along with the following important considerations:**

- What markets does a location give you access to?
- Does an international market help you raise new capital?
- Are tax incentives available to companies establishing a presence in a given market?
- Do international companies have a history of success in the location?
- What are the costs or tax implications of leaving a location?

Remember to use your network of investors and professional advisers to provide information on potential new markets. They can also use their contacts to open doors and make the process easier for you.

Although the potential challenges and implications need to be evaluated, international expansion can provide tremendous opportunities for growth-stage companies to reduce operating costs and expand their markets dramatically.

Proper accounts are required to meet filing requirements and to maintain control over your financial resources.



# Maintaining accounts, implementing controls, and assessing audit requirements

The importance of maintaining accurate accounts should never be underestimated. Current and accurate financial information is critical for tax reporting purposes, raising capital from outside investors, and updating investors about your company's progress.

In addition, your accounts will provide critical insights into your company's financial and operational performance that will likely influence your strategic decisions. Financial data can also help you identify spending patterns and improve the efficiency of your capital employment.

## Other advantages properly maintained accounts would provide include:

- Saving you considerable time and expense in preparing external financial statements
- Helping you develop accounting policies and processes to support a better control environment
- Adding value by facilitating financial due diligence for investment or exit purposes

## The early stages

Your financial reporting needs and requirements will vary according to your company's growth stage. In the early stages, focus on:

- Keeping it simple; there may be no need for a full-scale ERP system immediately after founding
- Seeking advice on revenue recognition, as it is commonly not appropriate for emerging technology companies to recognize all revenue when invoiced; understand the impact of the new revenue recognition standard to your organization
- Completeness and accuracy of underlying records for all business transactions, including equity transactions, which are the priorities
- Cash forecasting to keep investors informed about liquidity
- Understanding and fulfilling your tax compliance requirements, including sales taxes and VAT
- Outsourced providers who can assist with employment matters and payroll taxes
- Upgrading accounting personnel and systems when the core business gains momentum and before a major liquidity event.

## Controls

Money will probably be a scarce resource, so controls over cash flows are critical. They will also instill confidence in your investors. Focus on:

- Monitoring and management review controls, which can be effective for smaller enterprises if controls are executed with the appropriate rigor and precision to identify exceptions
- Monthly bank reconciliations to ensure completeness and accuracy of cash balances
- Protecting systems and intellectual property from unauthorized access and use
- Developing a budget to guide operations in the achievement of milestone goals from available capital resources; regularly compare actual results to budget

# Revenue recognition



## New revenue recognition standards and corresponding accounting change

- Impact of new revenue recognition standard and mapping to new accounting rules
- New accounting policies — historical results and transition
- Reporting differences and disclosures
- Tax reporting/planning



## Financial and operational process changes

- Revenue process allocation and management
- Budget and management reporting
- Communication with financial markets
- Covenant compliance
- Opportunity to rethink business practices
- Coordination with other strategic initiatives



## Revenue recognition automation and ERP upgrades

- Automation and customization of ERP environment
- Impact on ERP systems
- General ledger, subledgers, and reporting packages
- Peripheral revenue systems and interfaces



## Governance and change

- Governance organization and changes
- Impact on internal resources
- Project management
- Training (accounting, sales, etc.)
- Revenue change management team
- Multinational locations

- Reviewing expenditures before purchase commitments to minimize waste and ensure alignment with strategic priorities
- Establishing standard terms and conditions for sales arrangements, with exceptions subject to appropriate review and approval
- Implementing procedures to comply with applicable equity issuance requirements, including board approval of stock option grants with proper support for fair-value-based assumptions
- Understanding obligations and restrictions embedded in financing arrangements.

### **Audit and filing requirements**

Generally, private companies are not required to prepare audited financial statements by the U.S. or state governments. However, some private companies are contractually required by investors, bankers, or board members to perform an audit of their financial statements for a number of reasons, including:

#### **Early-stage considerations**

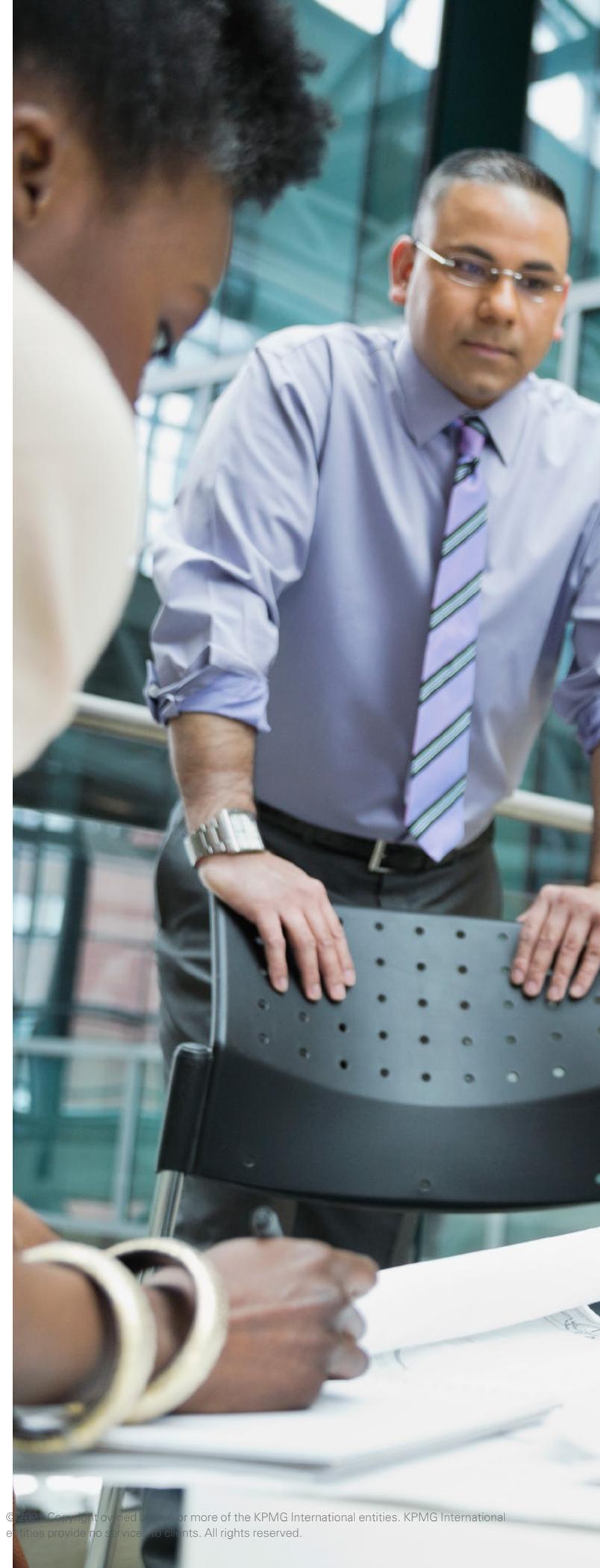
- Debt covenants
- Preferred stock investor agreements
- Good corporate governance practice

For other private companies, there is flexibility in the timing of completion of annual audits. Entrepreneurs and board members exercise judgment in deciding when to complete an external audit based on the following considerations:

#### **Early-stage considerations**

- Number of years since inception
- Complexity of historical transactions
- Availability of resources to successfully support an external audit
- Anticipated timing of IPO and M&A events
- Proposed teams and costs by external auditors

While there are benefits to delaying an external audit in the early stage, it can be very difficult to complete audits of past periods when the company begins to experience high growth.



# Gearing up for an IPO

For many private companies, the process of going public will necessitate a fundamental shift in financial reporting and planning. IPO candidates will need to comply with the local regulatory requirements for their respective exchange. In the United States, this means compliance with the federal Sarbanes-Oxley Act, including certifications of financial results by officers, U.S. GAAP accounting practices, and SEC reporting requirements.

The Jumpstart Our Business Startups (JOBS) Act provided some relief for qualifying emerging growth companies in the transition to full SEC reporting requirements. Nevertheless, investors will want to understand the company's history of financial reporting and business performance, so many companies will need to prepare quarterly results of operations for recent periods and a detailed presentation of management's discussion and analysis of financial position, results of operations, critical accounting policies, and capital resources.

In addition, material weaknesses in internal controls will need to be remediated and disclosed. Needless to say, this can be a lengthy and resource-intensive initiative and may be difficult to manage in parallel with the ongoing responsibilities of the finance department.

The finance department will also require a fundamental transformation as the company prepares to go public. Financial reporting in the public market requires companies to create and maintain strong processes and controls that stand up to the rigors of compliance. It is also strongly advised that the finance department be staffed by professionals with experience reporting to capital markets.

The market will also expect to see a strong and detailed financial plan, as well as robust forecasting and budgeting capabilities. Forecasting, in particular, will be critical to the management team as it strives to provide reliable earnings guidance as a public company.



**Strong corporate governance is critical to adding organizational value and preparing the company for long-term opportunities.**



# Corporate governance considerations

When entrepreneurs initially focus on building and growing a company around a new product, service, or technology, they often do not pay much attention to how their businesses will be governed. Yet, as experienced entrepreneurs have come to recognize, good corporate governance is critical to adding value and preparing the company for short-term challenges and long-term opportunities.

A common misconception about corporate governance is that it is only about the board of directors. In practice, corporate governance encompasses policies, procedures, and principles that guide how the company sets strategy, manages risk, monitors its assets and resources, ensures management accountability and financial transparency, satisfies legal and regulatory obligations, and communicates with internal and external stakeholders. Most importantly, corporate governance sets the organization's tone and culture.

While there is much talk about "good corporate governance," there is no single formula that is ideal for every company. Factors that determine the level and complexity of corporate governance include the size and scale of the company, the need to access capital markets, the regulatory environment, and the development stage of the business.

From the perspective of an entrepreneur seeking to build a successful company, what are the most critical or effective governance practices? How do these practices evolve as a business matures? Given stakeholder demands

for good corporate governance at all companies, we see lenders, insurers, and venture capital and private equity investors increasingly focusing on the governance practices of private companies — many of the SEC and listing exchange requirements that apply primarily to public companies.

It is helpful to consider governance practices mandated for public companies that are increasingly being adopted voluntarily by many private companies today.



### **Board composition — Majority of independent directors**

For small companies — where directors, shareholders, and management may essentially be the same — board composition may not be an issue. As a business begins to grow, however, independent directors can play a critical role in management debates, setting strategy, and supporting and monitoring the CEO.

Independent directors can offer substantial benefits:

- Providing broader perspectives on business and financial issues
- Offering expertise in areas such as financing, M&A, emerging technologies, international markets, and risk management
- Providing board leadership to help instill the right tone and culture.

Independent directors can also play an important role in defining the company's path as it matures and migrates to a more robust governance structure.



### **Board committee structure — Audit, compensation, nominating, and governance**

Some private companies will want to consider the need for board committees — particularly the three committees that are mandatory for public companies — that are composed of independent directors. Many private company boards form audit committees that play a critical role in financial reporting processes in several respects:

- Assessing and, where appropriate, strengthening the company's financial reporting processes globally
- Helping build and oversee an appropriate control environment, including internal controls over financial reporting, risk management and compliance programs, tax risk and reporting, and an internal audit function
- Engaging and managing the external auditor relationship.

Private company boards, particularly if there are outside investors, often form compensation committees composed of independent directors to set compensation for members of the senior management team. While many private company boards do not establish nominating and governance committees, they often form this committee as they begin to consider an initial public offering and the need to create a public company governance structure.



### **Corporate governance — Next steps for private companies**

In developing and maintaining an effective governance structure for the company, we recommend every private company:

- Bring the right people and perspectives to the table periodically to assess the governance structure
- Identify key elements of the governance structure; for each element:
  - Assess the current state
  - Identify short-term (one-year) and long-term (three-to-five-year) objectives
- Ensure the present (and future) governance structure meets the expectations of key stakeholders and serves as a foundation to achieve the company's strategic objectives.



# How KPMG Private Enterprise can help

## **KPMG Private Enterprise**

Passion is what drives entrepreneurs. It's also what inspires KPMG Private Enterprise advisers to help you maximize success. Our advisers offer a range of services specifically designed to support venture-backed companies as they navigate each stage of the business journey — from idea to exit. We use our knowledge of the VC ecosystem to help entrepreneurial ventures simplify the complex challenges of creating the technologies of tomorrow in highly competitive industries, while also meeting diverse regulatory, compliance, and financial reporting requirements. Working with KPMG Private Enterprise, you'll gain access to a trusted adviser who shares your entrepreneurial mindset.

Learn more at [home.kpmg/privateenterprise](https://home.kpmg/privateenterprise)

## About the author

**Conor Moore,**  
**National Leader, KPMG Private Enterprise**

Conor is the national leader of KPMG Private Enterprise in the U.S. and an audit partner in KPMG in San Francisco. He has close to 30 years of experience providing audit and accounting services, including extensive experience with venture-backed technology companies. Conor regularly provides leading guidance to high-growth companies on technical accounting issues including revenue recognition, equity accounting, and stock compensation. Conor received a Bachelor of Commerce degree and a Diploma in Professional Accounting from the University College of Dublin.

## Contributors

We acknowledge the contribution of the following individuals who assisted in the development of this publication:

**Patrick Lee,** Senior Adviser, Audit Committee Institute

**Patricia Rios,** Global Director, Technology  
Innovation Center

**Jules Walker,** Senior Director, KPMG Private Enterprise

**For more information about this publication, or about how KPMG Private Enterprise can help your business, please contact:**

**Conor Moore**  
**National Leader,**  
**KPMG Private Enterprise,**  
**KPMG in the US**  
T: 415-963-7559  
E: conormoore@kpmg.com

**Kevin Smith**  
**Head of KPMG Private**  
**Enterprise in EMA,**  
**KPMG in the UK**  
T: +44 (0) 207311350  
E: kevin.smith@kpmg.co.uk

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