Blank Berekuso

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Please ignore typos. This material is in production.

CHAPTER 11: COMPANY BUILDING

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CHAPTER 11

COMPANY BUILDING

INTRODUCTION

We have finally arrived at Company Building after taking a short detour after Company Creation through Innovation of BMCs, Scaling and Funding. We hope you enjoyed it. Company building is the final step of Blank's process for a reason. When most businesses begin the company-building phase before they have understood their markets and their customers, chaos ensues. This chaos then results in a death spiral for too many startups.

Company Building- Based on Customer Development Model created by Steve Blank
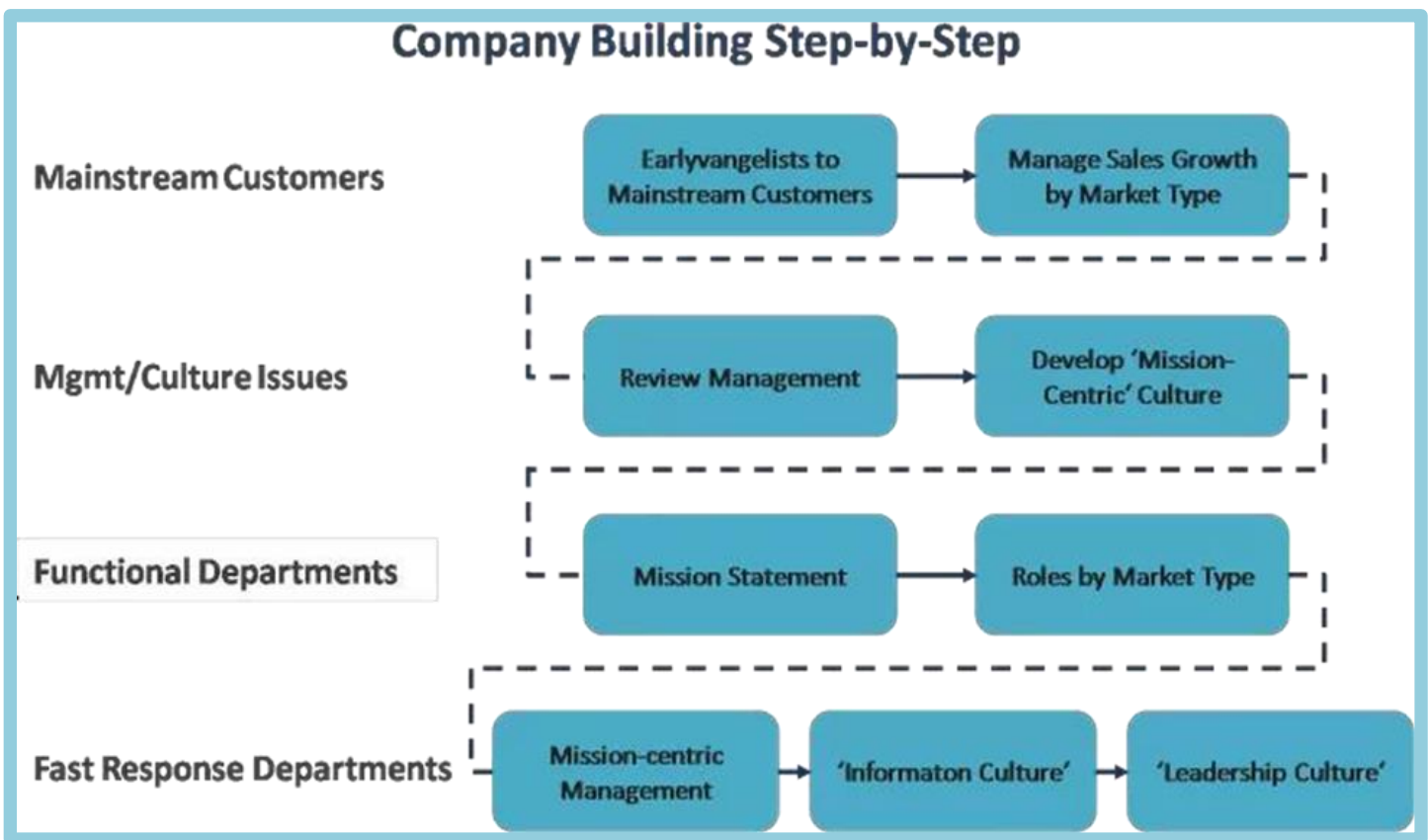
This chapter focuses on the Company Building outline laid out by Steve Blank and punctuate parts of it with contextualized material to capture relevant issues in our local situation. In effect, we explore what company building is and contextualize it to the registration for businesses in the Ghanaian context while comparing it with the registration process in the US. We also talk about building a mainstream customer base and improving the company's infrastructure to scale. We then discuss corporate governance processes needed to maintain the growth

and expansion. Lastly, we discuss the stages between a start-up and a large company and the four phases of company building as outlined by Steve Blank.

Blended Value Spectrum

Traditional Charity	Nonprofit with some Earned Income	Social Enterprise	Social Purpose Business	CSR (Corporate Social Responsibility)	Traditional For-Profit

Mission	Motive	Profit
Stakeholders	Accountability	Owners
Re-Invested in Mission	Net Revenues	Distributed to Owners
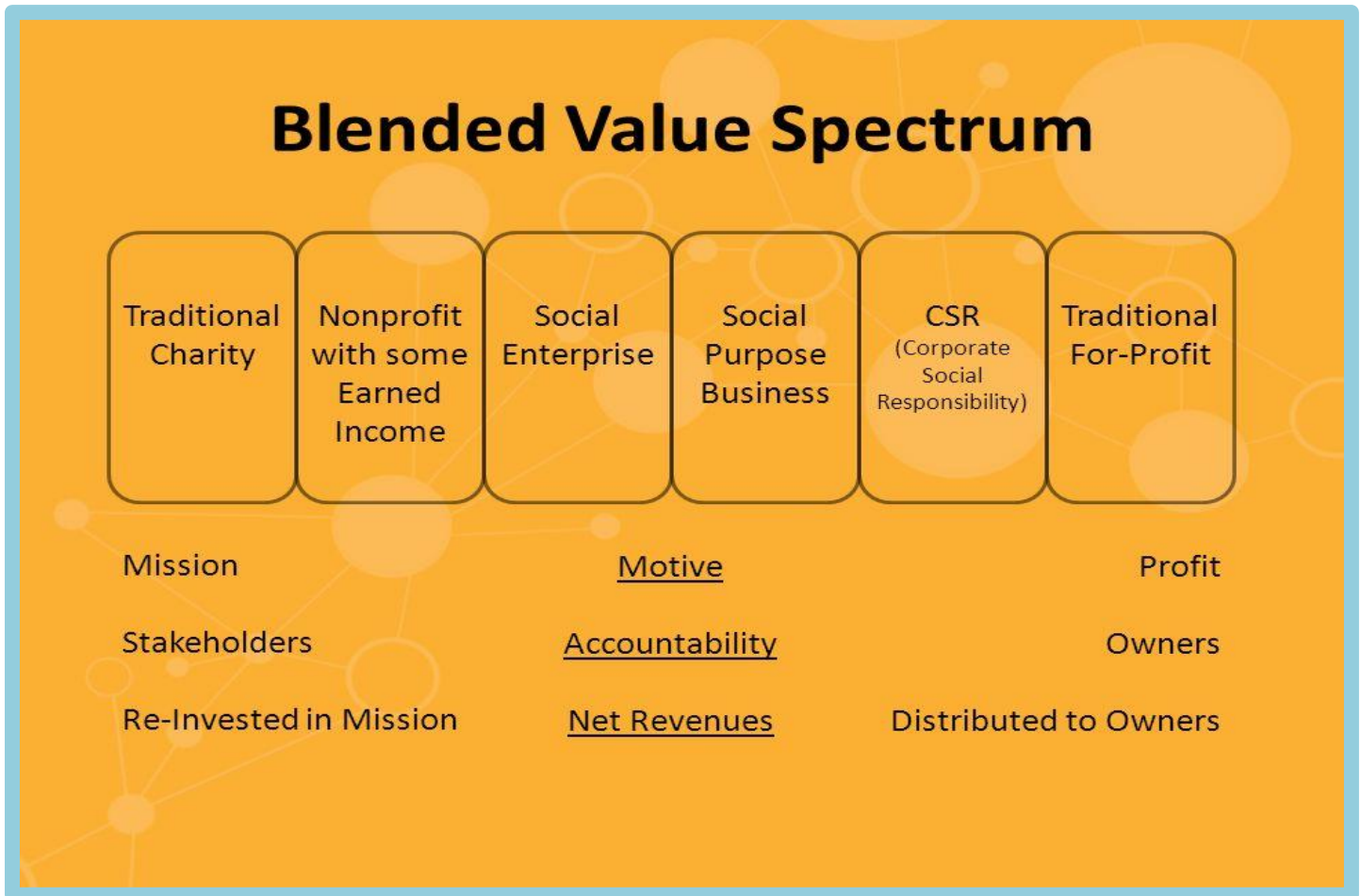
What is Company Building

Company building occurs only at the end of the Customer Development model. When the business can transition from a start-up focused on learning and discovery into a fully-fledged business, this business will include formal departments and a scaled business development model. A company can begin to appoint department heads only at the end of the Customer Development model.

When these departments have been opened, the executives who lead them can move from a learning and discovery methodology to a mission-oriented method. This mission-oriented method helps the company exploit validated information during the first three steps of the Customer Development model. Company building occurs now because your start-up needs to understand its place among its customers and in its market. If you build your company too quickly, the result is often burning through all your cash. Without cash or the knowledge gained in the first three steps, it is nearly impossible to save your company from self-imposed destruction.

Organizational type: Earlier in the semester, we introduced the blended value spectrum to outline the different model's organizations can pursue. One can argue that the type of organization, for instance, a non-profit entity, may have different resource challenges than a traditional for-profit structure which will determine how each structure their departments.

Organizational structures in thinking about departments: There are many different types of modelling of organizational structures when thinking of departments. These structures are often expressed in organograms and therefore are digital templates you fill out these days. For instance, Lucidchart provides three main types of structures to consider: The hierarchical organizational chart (with different reporting structures), flat or horizontal structure, and the matrix structure often used for project concepts.

The hierarchical structure provides a pyramid-shaped organizational chart where each employee should have one supervisor. Most organizations group departments by function—e.g., marketing, HR, sales, etc.— but you could also group by-products for larger companies or physical locations for international companies. A horizontal or flat organizational chart fits companies with few levels between upper management and staff-level employees. Many start-up businesses use a horizontal organizational chart before they grow large enough to build out different departments, but some organizations maintain this structure since it encourages less supervision and more involvement from all employees. A matrix organizational chart looks like a grid, and it shows teams that form for special projects. For example, an engineer may regularly belong to the engineering department (led by an engineering director) but work on a temporary project (led by a project manager).

Organizational type and structure: Start-ups with different organizational types may need to consider different structures. For instance, a non-profit may have more part-time staff than a traditional for-profit and may require a hierarchical structure to organize the staff better. However, a for-profit start-up may need a flatter organizational structure to promote independence, creativity, and a sense of belonging to the idea.

Registration of organization type: Company building needs legal registration of the organizational type identified to sustain the business and scale the value. Contextually, the regulatory environment is crucial for the success of the venture. For instance, the World Bank3 tracks the ease of doing business which shows a correlation between certain factors such as the registration of new businesses. Ghana, for example, ranks 114 out of 190 countries on the ease of doing business and 108 on the ease of registering businesses. So, how easy is it to register a business in Ghana?

When starting a business in Ghana, the first step is to register the business entity legally at the Registrar General's Department (RGD). There are various business registrations; unfortunately, Ghanaian registration does not provide enough breadth of options. Under the laws of Ghana, there are a limited number of business registrations options for the entrepreneur, and it is important to choose the right legal structure that best serves the business intentions.

Here are the various forms of business registration under the laws of Ghana
- **Companies Limited by shares (limited liability for-profit)**
- **Companies Limited by guarantee (non-profit)**
- **Companies with unlimited liability**
- **External Company**
- **Sole Proprietorship**

Essentially, unlike the blended value spectrum above suggests for organizational types, the Ghanaian company registration options do not allow for fully blended social enterprise registration. Companies can only be registered at both ends of the spectrum.

As such, founders expecting investment where they provide dividends need to register as limited by shares. Investors cannot invest in companies limited by guarantee because these companies do not have shareholding, only director positions. Companies registering as limited by guarantee also need to receive a social welfare certificate renewed periodically if they do not engage in activities deemed to be reserved for companies limited by shares.

For comparison, let us consider business registration in the USA. The USA provides a wider range of options for registration types that resonate with the different business models along the blended value spectrum. Unlike in Ghana, you can register as a BCorp in the USA, which captures the blended business model between for-profit and non-profit. In Ghana, it would have been an option in between shares and guarantee. The USA also has a number of options limited by shares: **LLC, C-Corp, and S-Corp**. In essence, the variety of registrations in the USA helps suggests that companies can be hybrid and use different types of business models

Other restrictions placed on registration in Ghana have to do with non-Ghanaians on the founding team. This is relevant because Ashesi is pan-African with international students on venture teams for brilliant ideas. The Ghana Investments and Promotions Commission (GIPC) has extra regulatory requirements where non-Ghanaians are

concerned. It requires the team registering for a company limited by shares to make available $250,000 in a local bank account (certified by the Bank of Ghana) or in the form of production equipment. The amount is $1m for opening a large retail outfit. The non-Ghanaian can also only claim up to 90% of the company, and therefore the local Ghanaian partner needs to have 10% of the $250,000, making a total of $250,000 required for the registration. There are several other conditions that we may not have captured. As a result, the easiest type of business registration that Ghanaians and non-Ghanaians can register is a company limited by guarantee, which does not attract these restrictions (see Appendix for the process of business registration in Ghana).

Some additional restrictions include the following. One shall not convert a non-profit into a for-profit when there is a sudden realization of the potential for profit (the reverse may be permitted). Further, for-profit and non-profit may not have the same directors as it poses a conflict-of-interest situation.

Corporate Governance

Once you have registered the company, have put the right structures in place, there is the need to ensure that the people in positions of power and authority keep in line with the laws of the land and societal expectations. There is also the need to ensure an effective corporate governance regime for the start-up.

As a concept, John Kwasi Adjei[2], and Internal Auditor, describes corporate governance as "*a set of relationships between a company's management, its board, its shareholders and other stakeholders.*" He further explains that corporate governance also provides the structure by which the company's objectives are set, the means of accomplishing those objectives, and the system for monitoring performance. "It also ensures that the board of directors is accountable for the pursuit of corporate objectives and that the company itself conforms to the law and regulations." (Adjei, 2015). Good corporate governance enhances investor trust, protects minority shareholders, and encourages better decision making and improved relations with workers, creditors, and other stakeholders. Good corporate governance also helps to ensure that companies operate more transparently and efficiently. It is widely noted in the popular media that the lack of good corporate governance is the fundamental cause of the business collapse in Africa. Hence, it is essential to learn about it at this level. Below is a description of ways in which Ashesi practices corporate governance (see other examples in Appendix)

Ashesi University: Ashesi University is a private, not-for-profit, non-sectarian institution. It is a Company Limited by Guarantee, under Section 24 of the Companies Code, 1963 (Act 179) of the Republic of Ghana and governed by a Board of Directors. Ashesi University is led by a Founder and President who serves as the Chief Executive Officer and is accountable to the Board of Directors. Ashesi University Foundation supports Ashesi

University, a non-profit, publicly supported US corporation described in Section 501(c)(3) of the United States Internal Revenue Code. A Board of Trustees governs this foundation. The Board of Directors meets about five times every year to take strategic decisions concerning the institution. They also meet the Board of Trustees on certain occasions.

Company Building Process

Once the registration, organizational structure, and corporate governance structures are developed and instituted, the start-up can continue pursuing the company-building process. According to Steve Blank, to begin to build a company from an organization that is learning about customers and markets into a company that is attracting mainstream customers (a continuation of Customer Creation), you will need to do three things:

- You will need to begin to build your mainstream customer base that extends beyond the initial early adopters.
- You will need to ensure that this building also occurs within the company. You need to build the management, organization, and company culture to support your new growth.
- You will need to create departments that are nimble enough to respond quickly to the company's growth. The goal is to have formal departments that can pivot and turn as quickly as you did during the learning and discovery phases that preceded company building.

Company building is only successful if it is consistently flexible. Once it begins drawing in its mainstream customer base, it cannot become complacent. It must remain as flexible and alert as it was before it began to grow. Continuing to build a mainstream customer base: It sometimes seems like the only difference between your start-up and your competitors' established business is revenue. This is not true. Your revenue does not just come from a large number of sales. It comes from understanding your business, marketing, and sales strategies within the market context that you operate in.

These strategies should all be based on the Market Type that you focused on in customer creation. Newmarket sales growth is distinctively different from sales growth in an existing market. Even when you have moved beyond customers and into the mainstream market, you will still see different adoption rates because of the nature of the market.

As a result, everything you do in this stage depends on your market type. The staff you hire and the money you spend will depend on the market you are in. But understanding your market type does not necessarily mean that your work is over. If you followed the model correctly, you determined your market by seeking out early adopters for your product. But the transition between selling to early adopters and selling to a mainstream market is not as

fluid as you might assume. There is almost always a gap between the early adopters and the mainstream market. This gap will vary depending on the market type that you are in.

Building the Company's infrastructure to scale: As sales grow, the company itself will need to grow with it. Growth rarely occurs without change. Two of the most important changes in the company building phase include a change in the corporate management and corporate culture. There is also change that comes from the creation of functioning departments.

The first changes will occur in the **corporate management of the company**. The management changes should also include the development of company culture related to the earlier corporate governance discussion. Many start-ups think of company culture in terms of whether or not they should wear jeans to work. They assume that they must then turn into a large-scale, top-down operation with an execution mindset as they grow.

This is a problem because it often results in a bureaucracy being established far too early. Just because you are mimicking a large, successful company does not mean that you are one. This is dangerous. Imposing this kind of change before a company has grown can inhibit its growth. If you tried to do this when you initially started the company, the company would have never been able to get off the ground. The change that occurs here is the change discussed earlier. This is where the company begins to adopt a mission-centric culture.

In a mission-centric culture, all new leaders and executives you have appointed must realize the work is not yet complete. At this point, a mainstream market is still an uncertain place. Focusing on organization over the mission itself can stifle the innovation, creativity, and mobility that you need to mimic a large business and become one.

The second change will occur when you create functional departments to support the management. These departments are important because it is important to divide up labour at this point in the company. However, these departments should not just be created because you believe that every good company needs them. It is important to create the departments that make the most sense for your business at this stage. When you do this, you will help ensure that these departments are functional and helpful for your business

The stages between a start-up and a large company: In his book, Steve Blank created an outline that described how companies transform from start-ups to large organizations. There are three primary stages in this outline: Customer Development, Company Building, and Large Company.

i.   **Stage one**: Customer Development - This is the stage where a start-up will undertake the first three phases of the Customer Development model: customer discovery, customer validation, and customer creation. This stage focuses on both customer development and product development.

ii. **Stage two** is the company building phase of the Customer Development model. This is, again, where the company moves from the learning and discovery activities and becomes a mission-centric organization. To leap into company building and become a large company, you have to maintain the speed you had as a start-up but with a larger staff, and with a clear mission encourages creativity and innovation for large companies.

iii. **Stage three**: This stage is about building departments. But you need to justify the department's existence with your mission before you build it. There needs to be a clear and strategic need for a role or department before you add it. Building a large company does not mean that you need to replicate a model. You need to build a company that makes sense for your mission. In this case, your mission serves as your strategy.

The difference between a large company and a start-up is not bureaucracy. It is a process. Many entrepreneurs believe that you do not need a process for innovation or success. But a process is necessary for building a large company. Start-ups need to build "fast response" departmental structures that allow them to keep the speed and agility of the early days yet still allow them to keep the organization and process that any large company needs.

Summarizing with the Four Phases of Company Building
(Culled from https://www.cleverism.com/customer-development-company-building/ (need to reference)

All that we have discussed in this chapter can be broken down into four succinct phases of company building. Each of these four phases is necessary for the successful transformation of a start-up into a large company. It is important to keep both the mission and the process in mind as you move through each of these four steps.
Phase One: Continue to Reach Out to Your Mainstream Customers. In the first phase of company building, you continue to adapt from selling only to early adopters to your mainstream customers as you started in Customer Creation.

Phase Two: Review Your Current Management and Create Your Mission. In the second phase, you will take a hard look at the staff you have hired thus far. It is important to determine whether the staff you have can grow to scale, not if you have enough people, per s   e, but to be sure that everyone is working seamlessly on the same mission.

Phase Three: Begin Your Transition to Functioning Departments. Phase three allows you to use all of the learning you got from the first three steps of the Customer Development model. You cannot scale without the right people in place. This is where you need the organizational type, structure, and the right registration to help you set up the right process or departments according to your mission statement and your strategy.

Phase Four: Maintain Your Moment with Agile Departments. In the last part of company building, you will ensure that everything you have built thus far is agile, scaled, and capable of being a "fast-response" structure in a mission-oriented and creative culture irrespective of structure.

Staying Alive after Customer Development

The Customer Development model is a pathway to success for many businesses. But not every business that successfully completes the model manages to see long-term growth or success. Success is not a condition. Success is a process. Rather than searching for an endpoint on a map, a successful company will mark milestones along a path that only ends should the company be dissolved.

Conclusion

Company building comes at the end of the Customer Development model for a reason. Without all of the information you have gleaned from the first three phases, company building isn't possible. Creating a large organization without a market, customer base, product, the right structures, or a great team will always fail any company.

APPENDIX

Any entrepreneur can take away from the Customer Development model because building a business is a process. From beginning to end, you need a process and goals that match each other. Success does not happen in a vacuum. It happens to those who methodically seek it, prove it, and then seek it once more. **NB: You will not be quizzed on the Appendix.**

No.	Procedure	Time to Complete	Associated Cost
1	Agency: Registrar-General Department or Ghana Revenue Authority As of 2012, the applicant needs to acquire a TIN before company registration. The applicant needs to complete a Ghana Revenue Authority Taxpayer Registration Form-Organisation. After processing the TIN, the Ghana Revenue Authority(GRA) sends a text message to the applicant to collect the TIN. This applies to both forms of application submission, whether online or physical ling in person.	Two days on average	none
2	Check for availability of company name and submit company documents to obtain the certificate of incorporation Agency: Customers Service of the Registrar General's Department The promoter/applicant shall request for a search to be conducted at the Companies Registry (customer service) to ascertain the availability and acceptance of the proposed name of the company and submit the company documents for registration. The Registrar may, on a written application and payment of the prescribed fee, reserve a name pending registration of a company: section 15(13) of the Companies Act 1963 (Act 179) An applicant may pick up a prescribed Form A from the in-house bank and submit completed forms at the bank. The Registrar examines and issues a business registration certificate and certified true copy of the form to be submitted as an attachment. Fees are the following: - Name search GHC 25 - Name reservation GHC 50 - Complete set of Incorporation forms GHC 15 - Registration fees GHC 230 - GHC 5 per certification of regulations (assuming three certificates) The incorporation documents and forms can be downloaded online at http://www.rgd.gov.gh. They include: • Company regulations (four copies) • Tax identification number form (one copy)	One day	See comments

	The forms require the following information: Nature of the business that subscribers intend to engage in • Full names of subscribers and shareholders, their addresses, percentage shareholdings, occupation, and any directorships in any other company • Full name and address of company secretary and auditors (a letter of consent to act		
3.	A Commissioner of Oaths authenticates forms required for the certificate to commence business Agency: Commissioner of Oaths Form 4 must be completed to issue the certificate to commence business, which requires authentication before a Commissioner of Oaths. The Commissioner for Oaths, located in the Registrar General Department, usually swears the oath within one day so that the company can obtain the certificate to commence business.	One day (Simultaneous us with previous procedure)	GHC 10
4	Obtain from the Registrar-General Department the certificate to commence business Agency: Registrar-General Department After incorporating the company, the founder must complete Forms 3 and 4 within 28 days, indicating, among other information, the names, addresses, businesses, and occupations of the company's secretary and directors; name and address of the company's qualified auditor; the address of its registered; its register of members; the amount of stated capital; and the number of issued and unissued company shares. All company directors and the secretary must sign forms 3 and 4. As the company's commencement tax, 0.5% of the stated capital is collected by the Registrar- General's Department on behalf of the Internal Revenue Service (IRS). There is also a 100 GHC fee for forms 3 and 4. Four copies of the company regulations and Forms 3 and 4 are required (auditors, banks, solicitors, company secretaries may each require a copy). The Registrar of Companies now automatically registers new companies with the IRS. VAT is charged at 15%, including a national health insurance levy (NHIL) of 2.5%.	Two days (simultaneous with previous procedure	0.5% of the stated capital as commencement tax + GHC 10 (registration fee with Ghana Revenue Authority) + GHC 100 form fees
5	Deposit paid-in capital in an account Agency: Bank The following documents must be presented to deposit paid-in capital in a bank account: copies of company regulations; the certificate of incorporation and the certificate to commence business; and signatures of the authorized company representatives. As part of the KYC (Know Your Customer) procedures, most banks require introductory letters from the company's solicitors to	One day	none

	open the account. Additionally, some banks conduct a physical inspection of the company address.		
6	Apply for business licenses at the Metropolitan Authority Agency: Metropolitan Authority The cost to apply for a Business Operating Permit (BOP) at the Metropolitan Authority depends on the type of business and the category in which it falls. Documents to be submitted depend on the type of enterprise (for example, restaurants must have permits from the re department and the Town and Country Planning Authority—and, among other documents, an inspection certificate from the Ghana Tourist Board). Fees are subject to charge by the Metropolitan Assembly, according to law. According to the Accra Metropolitan Assembly Fee-Fixing Resolution 2015, a commercial retail/standardized wholesale shop "Cat. E" is GHC 270.	Seven days	GHS270
7	Inspection of work premises by the Metropolitan Authority Agency: Metropolitan Authority An officer visits the business premises and reports to the Revenue Accountant of the Metropolitan Assembly, who then submits a report to the Revenue Mobilization Subcommittee of the Metropolitan Assembly. The subcommittee meets to deliberate on the report and then recommend whether any adjustment is required to the Executive Committee of the Metropolitan Authority.	One day (Simultaneous us with previous procedure)	none
8	Apply for social security Agency: Social Security Oce To apply for social security, the company must attach the list of employees, their respective salaries and social security numbers, and their certificate of incorporation and certificate to commence business.	One day	none

Corporate Governance Examples

1. **Camfed Ghana** is an international non-profit organization tackling poverty and inequality by supporting girls to go to school and succeed and empowering young women to step up as leaders of change. They are accountable first and foremost to their clients, who are vulnerable girls and young women. All their systems and processes put this principle into action to secure and reinforce girls' rights and entitlements, and it underpins partnerships at every level. Their financial systems maintain the highest levels of transparency and accountability. As their 'shareholders, communities make decisions on resource allocation with representatives from all stakeholder groups and directly ensure that all their clients receive their entitlements. We build strong but apolitical partnerships with government ministries. They initiate innovative partnerships between communities, government, like-minded organizations, and the private sector to

maximize the resources available to tackle young people's challenges. In addition, they occasionally publish newsletters to inform their various stakeholders of their current activities.

2. **Unilever:** Unilever is a British-Dutch transnational consumer goods company. With a Ghanaian branch, it is co-headquartered in London, United Kingdom and Rotterdam, Netherlands. Its products include food and beverages, cleaning agents and personal care products. Unilever is subject to corporate governance requirements in the Netherlands, the UK, and a foreign private issuer in the US. The Code of Business Principles represents the standard of conduct that all Unilever employees are expected to meet in their business endeavours. A copy of this code is set out in the document 'Unilever's Code of Business Principles. Unilever constantly keeps its corporate governance arrangements under review, and compliance with these requirements are detailed within the corporate governance section of their annual reports and accounts. They conduct their operations per internationally accepted principles of good governance and best practice whilst ensuring compliance with the corporate governance requirements in the countries in which they operate. A comprehensive description of Unilever's corporate governance arrangements, including further details on the Unilever Group structure, is set out in the document **'The Governance of Unilever'**.

The Board of Directors of Unilever are responsible for and committed to sound principles of Corporate Governance in the Company. The Board plays a crucial role in overseeing how management serves shareholders and other stakeholders' short and long-term interests. This belief is reflected in Unilever's governance practices, under which we strive to maintain an effective, informed, and independent Board. Employees at Unilever are committed to doing things the right way, which means taking business decisions and acting ethically and following the applicable legislation.