BUSINESS INTEGRITY TOOLKIT FOR YOUNG ENTREPRENEURS

Case studies

Case study: know your co-owner.

Rebuilding an organization after a founder exit In the start-up world, teams typically evolve as the company evolves. Exits are common. However, for one social enterprise in the Philippines, a co-founder exit would bring to light some fundamental management and business issues which would threaten to nearly end their business.

Rafi* and John* set up a social enterprise that would allow women from underprivileged communities to find more meaningful work. John brought in a former colleague to be their third co-founder, on the back of her background and passion for social good. This co-founder would eventually take on website development and project management for a major project involving a multi-storey building. For the latter project, she brought in her own team.

As the months passed by, it became apparent that there were a few red flags surrounding the projects that their co-founder was handling.

"One of the first red flags was when our co-founder hired a team from India to work on our website. The time difference and the language barrier made it a bit more challenging. The lack of communication led to delays, despite the fact that the website was already paid for," shared Rafi. "When we worked on the multi-storey building, we were always delayed as well. Moreover, we were not billing our client and therefore, we also were not getting billed on time."

Rafi and John soon realized that the company was losing money because of the lack of transparency and accountability. The timesheets from their employees for their multi-storey building project were inaccurate. Some employees would come in late or absent but would be registered as if they started work at the right time. Other employees would even sleep in the rooms they were supposed to be working on.

The money they were earning at their main business ended up being diverted to this side multistorey building project, and they had to act quickly, as they were burning that money fast.
business.

Rafi and John ended up assigning a staffer of their own to the site, and the staffer uncovered even more anomalies, such as the site supervisor being so lax that a task that would take three days to finish would now be stretched out to five to seven days.

They then stepped in and started implementing changes to get the project back on track, such as replacing workers who were not performing up to standard and replacing them with those who could finish tasks more efficiently.

The supervisor suddenly resigned and went missing in action without a proper turnover to Rafi and John's team. Their co-founder eventually just sent mail to Rafi and John to inform them of a deed of sale and that her shares had been sold to one of her parents. The co-founder also accused Rafi and John of backstabbing them and took to social media to air her grievances. Worst of all, their cofounder eventually ended up setting up a similar company with a similar service, profile, and even pricing.

For Rafi and John the entire saga revealed a conflict in ideas about growth and values. Despite the setback, they are still determined to move forward from the incident and continue growing their business.

"Because of the incident, we learned how valuable it was to set up our by-laws and add a noncompete clause," said Rafi. "We now make sure that we have the right of first refusal. To protect ourselves, our future co-founders will have to be vested. They have to earn their shares."

*Names changed to protect privacy