

Startup Success Starts with Governance Documents and Clear Ownership Rules

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If you are launching a new business without proper governance documents, you're risking financial loss and business owner disputes. Every business owner needs properly drafted governance documents. This cannot be overstated.

It's exciting to launch a new business, but failing to properly document the business relationship between owners is a major pitfall. It is not uncommon for attorneys to have witnessed this firsthand, numerous times, and it almost always results in financial loss or dispute. An episode on [Acquiring Minds podcast](#) provides a powerful example of the troubles you can face without these governance documents (jump to the 51-minute mark to hear why).

Learn how to safeguard your venture from the outset. Assuming a business is structured as an LLC, an operating agreement sets the governance foundation and prevents many avoidable disputes.

Key Provisions to Consider

- **Equity Vesting Schedule:** For startups and emerging companies, it's critical to protect the company from premature departures. Implementing a vesting schedule keeps everyone incentivized for the long haul, ensuring commitment and stability.
- **Dispute Resolution:** Conflict is inevitable. Whether it's a disagreement over strategy or management style, a clear dispute resolution mechanism (such as mediation or arbitration) can help resolve disputes without causing a full breakdown of the business. In the *Acquiring Minds* podcast example, a "shotgun clause" would have been helpful. This is a buyout mechanism that also doubles as a form of dispute resolution. These tools work together to protect the business during critical decision-making moments.
- **Equity Buyout Terms:** Define how ownership interests can be bought or sold to ensure fairness while protecting the business from being forced into unwelcome arrangements. Important terms include shotgun clauses, puts, and call options.
- **Decision-Making Processes:** Specify how major business decisions will be made. This includes setting voting thresholds and identifying areas that require unanimous consent. It's also important to establish early on whether someone will hold a majority stake in the company. Even a 1–2% difference in ownership can make a significant impact.
- **Exit Strategies:** Plan for the future by outlining provisions for dissolution, sale, or succession. For instance, drag-along rights protect majority shareholders in a sale, while tag-along rights safeguard minority interests. These provisions ensure smooth transitions and clarity for all parties.

Don't Rely on A Handshake

A handshake may start a partnership, but only a well-drafted operating agreement can protect it. Having robust governance documents isn't just a best-practice, it's essential for protecting your venture and ensuring long-term success. Don't overlook the importance of partnering with experienced legal professionals to get it right.