

European Growth Audit Network

October 2022

EGAN

VIEWPOINTS

Oversight and governance at high-growth companies

On 14 September 2022, Tapestry Networks hosted the first meeting of the European Growth Audit Network (EGAN) in Berlin, Germany. This *ViewPoints* describes discussions on the following topics:¹

- **Challenges and considerations for directors of high-growth companies**—a members-only session
- **Overseeing talent and culture in rapidly growing companies** with Peter Reinhardt, EY EMEIA people advisory services leader
- **Scaling and overseeing finance in high growth companies** with David Meline, audit chair of ABB and until September 2022, CFO of Moderna

For guest biographies, see Appendix 1 (page 10); for a list of meeting participants, see Appendix 2 (page 11); and for a list of reflection questions, see Appendix 3 (page 12).

Challenges and considerations for directors of high-growth companies

While directors of high-growth companies grapple with many of the same issues that their larger company peers do, they also face distinctive challenges. Members highlighted challenges that are top of mind as they navigate balancing strong oversight and governance against the pace and sometimes “*chaotic*” environments in companies experiencing rapid growth, and they identified good practices for each.

- **Challenge: frequency of meetings leaves little time to prepare.** In high-growth companies, the frequency of board and committee meetings may be intensive. One audit chair noted that her committee met almost biweekly when fundraising and in preparation for an initial public offering (IPO). Even when workloads are heavy, directors want to be prepared for their committee meetings as well as apprised of other committees’ work.
 - **Good practice: share meeting materials and improve committee reports to the board.** Several members ensure that all board members are aware of the work of committees they themselves do not attend by giving the full board access to every

- committee's meeting materials. Others emphasized the importance of finding better ways for the committees to report out to the full board on their meetings.
- **Challenge: directors sit on all board committees.** Some boards have *“committees of the whole,”* where every director sits on every committee. A member asked, *“At what point are we big enough that we don’t all go to every committee meeting?”* This structure is sometimes used to keep the whole board informed of emerging risks and developments, but it is tough to scale. In some cases, committees of the whole have arisen because of small boards and difficulties in sourcing board talent, especially financially skilled directors for an audit committee. One board had only five members, making it difficult to divide the work between committees. Members suggested two good practices:
 - **Good practice: limit committee assignments.** Most members reacted to the practice of having directors serve on all committees as *“extremely unusual”* and agreed that serving on two board committees was the right amount. A few mentioned that serving on all committees was *“becoming a trend,”* surmising that the original intent was to bring new directors up to speed. They suggested that if a new director initially serves on all committees, the arrangement should only last for a year.
 - **Good practice: consider co-opted members.** Some smaller European boards are bringing outsiders onto committees. These “co-opted” members participate fully in committee deliberations and votes but are not members of the full board.
 - **Challenge: determining who from management should attend audit committee meetings.** While most members agreed that CEOs and CFOs should regularly attend audit committee meetings, some wondered who else should be invited. Boards need working relationships with other members of management, but meeting sizes must be manageable. This has become particularly challenging following the pandemic, when virtual meetings allowed increased participation and meeting attendance *“ballooned.”*
 - **Good practice: be clear on issues and people for the audit committee.** As companies grow, board structures, committee charters, and roles often need sharper definition. It can be helpful to revisit the scope of the audit committee and who should attend its meetings. Many audit chairs now invite other executives—such as compliance, controller, HR, internal audit, investor relations, IT, and legal—only on an as-needed basis.
 - **Challenge: ensuring a strong compliance environment, particularly as companies move toward going public.** In smaller companies, compliance functions may lack maturity and structure. As a member noted, *“It only takes one day to go public, but the journey to having the proper processes and controls in place can take up to three years.”*
 - **Good practice: prepare for and make investments as early as possible.** Members acknowledged the costs and resources needed to put systems and controls in place

but generally agreed that the sooner it can be done, the better. An audit chair recommended asking the listing exchange for help in preparing the board and management for the IPO.

- **Challenge: evaluating risk.** One member noted that in addition to the typical strains on the boards of rapidly growing companies, the pandemic and recent macropolitical and -economic events have *“put business models at risk. Every day there’s a new challenge. Valuations of companies have massively changed. Making sure the committee is sufficiently prepared can be difficult.”* Members wondered how boards can best get assurance that the company is well prepared for situations it may not have previously encountered; they cited inflation as an example.
 - **Good practice: narrow the focus and set aside time for brainstorming and deep dives.** Every board faces myriad risks, and legal concerns can turn risk registers into laundry lists. One member asks management to *“get clear on the risks that really matter. Instead of having pages and pages of risks, bring just the top three to the board.”* Another said that *“having a watch list with emerging risks is also very useful.”* A third found the audit committee a good place to brainstorm on risk, since management may be more focused on nearer-term strategy and tactics and outside directors bring unique experience to the table. A member noted that his board holds one meeting per year focused solely on risk management.

Overseeing talent and culture in rapidly growing companies

In today’s competitive labor market, hiring, developing, and retaining talent is difficult for most companies, but distinct challenges exist for companies that are rapidly scaling and continually evolving. Peter Reinhardt, EY’s EMEA people advisory services leader, joined members to discuss key considerations related to talent and culture for directors of high-growth companies. As context for the discussion, he highlighted three unprecedented pressures weighing on companies:

- The warp-speed shift, first to wholly remote work and then to hybrid work, brought on by the COVID-19 pandemic
- The “Great Resignation” or, as Mr. Reinhardt prefers to think of it, the “Great Reevaluation,” in which employees are engaging in deeper reflection on how they want to spend their time
- A return to high inflation—something many management teams and workers alike are facing for the first time

Mr. Reinhardt shared insights from [EY’s 2022 Work Reimagined Survey](#),² highlighting a “gobsmacking” difference in the results: for the first time in the last three years, employees reported that the opportunity for increased total pay was their number-one motivating factor in

considering another job offer. Respondents overwhelmingly favored hybrid or flexible work, with an average preference for two to three days per week of remote work, yet 22% of employers surveyed are requiring employees to return to work five days a week. The survey found that 43% of employees said they “are likely to leave their employer in the next 12 months,” a significant rise from 2021, when just 7% said the same.

As employees stress compensation as their primary motivator and as issues around work flexibility bubble to the surface, members underscored the unique challenges their companies face. Experienced professionals often expect higher pay than a growth company can provide and are typically accustomed to the well-organized and supported functions and brand recognition of a large enterprise. Many companies struggle to balance employees’ desire for location flexibility against the culture building that in-person work can foster.

How can high-growth companies and their boards secure and retain top performers? Mr. Reinhardt and members identified many practices:

- **Get clear on where human-capital management oversight resides within the board.** Members wondered which board committee was most suited to oversee human-capital management. While some thought it was best addressed at the full board level, other companies have formed people and remuneration or human resources committees to specifically address talent and compensation issues. One member thought that human capital belonged in the risk committee since it is a top risk for many companies. While there is no approach for oversight of human capital that fits every company, all agreed that boards must be clear on who owns this issue and, wherever it lands within the board, that there is regular reporting on offer acceptance rates, pay, promotions, employee satisfaction surveys, and the like.
- **Secure an accurate picture of the company’s actual culture.** In smaller companies, the leadership team and CEO are directly “*hands on*” in setting tone at the top, articulating the company’s culture, and getting buy-in from employees. One of the common mistakes Mr. Reinhardt has observed related to talent retention is that “*companies have a wrong sense of where they are culturally.*” He recommended a cultural fitness survey to get an accurate understanding of the company’s culture from an employee perspective.
- **Revisit and communicate culture as it evolves.** Transitioning from a private-company to a public-company culture can be complex. Growth, expansion into new markets, and a more diverse workforce all put stresses on a company’s culture; pressure to reimagine the culture can come from employees, customers, or shareholders, especially as an IPO draws near. As the culture shifts, leaders must make sure that it is communicated across the organization and to outside stakeholders. At one member’s company, the co-founder has regular calls with new hires to reinforce the company’s culture. Boards can help foster a culture of open communication and compliance by constantly raising questions of talent and culture with management.

- **Look for competitive advantages.** Mr. Reinhardt said *“there is a massive opportunity for boldness as a competitive advantage”* related to flexible work arrangements. A member noted that her company, which is purpose driven, finds it easier to attract talent given its mission and that there was a *“compensation discount”* (i.e., purpose-led companies can offer reduced total reward because talent values the mission of the company). While unable to quantify this discount, Mr. Reinhardt agreed that it existed and called it *“a real material value.”*
- **Hire for soft skills.** “Success in hiring starts with getting very systematic and specific about attributes beyond the technical skills in a job description,” Mr. Reinhardt said. For example, high-growth companies may want to be explicit that candidates should be comfortable working outside of the status quo and consider using psychometric testing to determine if candidates are a good fit for the organization.
- **Have a clear onboarding map.** Mr. Reinhardt recommended having a clear process for onboarding and assigning someone not in the new hire’s line of reporting as a *“sherpa”* to help navigate the company’s unwritten rules and culture. He noted that assigning a person outside of the reporting line is time consuming, which is particularly challenging in high-growth companies, but that the practice tends to *“pay off tremendously down the road.”*
- **Think creatively about compensation.** Members flagged several scenarios in which high-growth companies struggle to retain talent and keep people motivated, including equity going underwater, delayed IPOs, and inability to compete with a larger company’s offers. Mr. Reinhardt recommended thinking creatively about compensation—for example, diversifying award triggers and offering additional equity awards. He stressed the importance of being flexible about *when* adjustments can be made; the annual cycle may be far too slow for a growth company.

The great location debate

Members noted that their companies run the gamut on work location: from completely remote to completely in person. One company was experimenting with the four-day work week. Members wondered how work location was linked to productivity and culture. Mr. Reinhardt noted, *“It’s early days and things are still sorting out, but the norms won’t be the same organization to organization or country to country.”* He observed that, anecdotally, the four-day work week has been described as a *“codification of an existing reality instead of an actual shift in the way of doing things.”*

Scaling and overseeing finance in high-growth companies

Ensuring that the finance function is properly scaled and staffed is a key focus for audit committees of high-growth companies. Mr. Meline, who served as CFO of Moderna until September 2022, shared insights about building out a finance organization during a period of remarkable growth. Moderna's revenue increased from \$60 million in 2019, to \$803 million in 2020, to \$18.5 billion in 2021.³ Mr. Meline's finance team also scaled rapidly—from around a dozen to more than 200 professionals during his tenure.

Good practices for finance management and oversight

Mr. Meline and members shared good practices for managing and overseeing finance organizations at companies experiencing rapid growth:

- **Evaluate fit as a company evolves.** Mr. Meline noted that some members of management and the finance team who were a good fit for the company in its earlier, pre-revenue and pre-IPO stages, transitioned to make way for finance talent with more commercial profiles. This was also true at the board level.
- **Add staff incrementally and consider flexible structures.** When new hires were needed, Moderna incrementally added positions (internal audit, tax, treasury, Sarbanes-Oxley Act reporting, etc.). Members were particularly interested in the structure for internal audit, noting that some smaller companies may not have the resources to stand up large internal audit functions, and some may be *“reluctant”* to have internal audit at all. One member suggested using an outsourced internal audit function to evaluate high risk. Mr. Meline added that the reporting structure for internal audit is also a consideration. He started with the internal audit team reporting to both legal and the CFO, and soon shifted the reporting line only to finance, noting that *“what we value as finance leaders is different than what legal staff does, and professional development for finance professionals is difficult under legal.”*
- **Decide where experience or an entrepreneurial mindset will be most effective.** Many members highlighted the challenges of finding talent who have deep experience in mature finance structures but who also could fit into a start-up environment. Mr. Meline said that in his case, *“We needed people with deep expertise because we didn't have time to train them up. But the issue is what members have said—finding people who can thrive in an agile start-up culture, take risks, and roll up their sleeves but who also already have experience.”*
- **Invest time in interviewing.** Mr. Meline described the difficulty in finding people with the right balance of experience and entrepreneurial agility. He estimated that he spent about a third of his time interviewing; Moderna often had unusually senior levels of management talk to potential recruits because *“many people we had just hired were then doing hiring themselves and we needed to ensure continuity.”*

- **Create a rolling set of priorities.** In order to address multiple demands on the finance team’s time and resources, Mr. Meline established a rolling list of priorities that shifted and evolved as needed. With multiple competing priorities, members stressed that investment in automated, enterprise-wide systems and controls was a priority for audit committees.
- **Look ahead to prioritize investments.** Several members had found it challenging to prioritize investment in the finance function, especially in expensive systems, relative to other needs of the business. Mr. Meline suggested asking, *“Who are we today and who will be in six months?”* Based on this, he said, companies could determine the time and resources needed to close the gap. But, he cautioned, *“You always have to keep key principles of accurate accounting in place.”* A member underscored this point: *“I push a finance team to get good systems in place so that when they go public, they don’t have mistakes in the numbers.”*
- **Find ways to quickly scale up ... and down.** Moderna faced the challenge of scaling up to meet exploding demand for mRNA COVID-19 vaccines, then scaling down as the global pandemic came under control. Using a shared service model and bringing in consultants rather than permanent hires provided important flexibility. Internally, it worked to build cultural norms and expectations that roles would change as the business did.

The audit committee’s role

While responsibility for scaling the finance function falls primarily to the CFO and other executives, members and Mr. Meline agreed there were several things an audit committee could do to help with the process:

- **Set the tone at the top.** A member opined, *“As an audit chair, you have the ability to drive some of these decisions—to say, ‘We need to make these investments.’”* Mr. Meline concurred, noting that the audit committee can play an important role by *“agreeing on the model you’re going to use and insisting it’s used across the globe—one country or manager can’t decide to do it another way.”* Another audit chair underscored the point, noting, *“I refuse to negotiate with management on the consolidation of systems in a common control environment.”*
- **Keep management focused.** In addition to insisting on a centralized model, Mr. Meline used the audit committee to help him stay focused on the right issues and *“not get sidetracked.”* To do this, having an audit chair who is familiar with the company’s business environment is important. Members also stressed that establishing norms around how the board interacts with management and understanding the role of each is also useful at rapidly growing companies.
- **Understand that change is inevitable.** Most members agreed that there is a natural evolution of finance talent in rapidly growing companies. *“As an audit chair, you have to get comfortable that turnover is inevitable, people will change, and you have to manage*

the chaos.” To help on this front, one audit chair said, “I tend to interview most people who report to the CFO. I want to make sure they are really cut out for the start-up culture [but also have enough experience to] know what ‘good’ looks like and understand what processes are needed.”

- **Look at the team holistically, offer coaching, and communicate.** One member said that she has grappled with how best to help an inexperienced CFO and has taken a two-pronged approach. First, she has accepted that many smaller company CFOs “won’t have the background to do everything, so you have to look at the entire team and make sure they can plug holes.” Second, she has provided coaching on issues where the CFO lacks skills. “As an audit committee chair, you need to roll up your own sleeves and help [the CFO] play a governance role. It is like a part-time executive role.” Another member added a third suggestion: make sure there is strong communication between the CFO and the audit chair. “Nobody can do everything—leverage each other’s skills,” she said.

About this document

The European Growth Audit Network is a group of directors drawn from Europe's leading high-growth companies committed to a program of learning and problem-solving aimed at enhancing governance of Europe's fastest-growing companies. The network is organized and led by Tapestry Networks with the support of EY as part of its continuing commitment to board effectiveness and good governance.

ViewPoints is produced by Tapestry Networks to stimulate timely, substantive board discussions about the choices confronting audit committee members, management, and their advisers as they endeavor to fulfill their respective responsibilities to the investing public. The ultimate value of *ViewPoints* lies in its power to help all constituencies develop their own informed points of view on these important issues. Those who receive *ViewPoints* are encouraged to share it with others in their own networks. The more board members, members of management, and advisers who become systematically engaged in this dialogue, the more value will be created for all.

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Appendix 1: Guest biographies

David Meline is the audit committee chair of ABB and former chief financial officer of Moderna. As chief financial officer until September 6, 2022, Mr. Meline oversaw financial, business development, and business services functions at Moderna.

Mr. Meline previously served as chief financial officer and EVP at Amgen from 2014 through 2019. At Amgen, he was responsible for all finance, information systems, and global business services activities across 100 countries. In this role, Mr. Meline led enterprise-wide transformation while increasing growth and productivity and reducing development cycle time. Prior to Amgen, Mr. Meline spent six years at 3M Company, where he most recently served as CFO and senior vice president and was responsible for all 3M financial activities across 70 countries of operation. Previously, Mr. Meline held numerous leadership positions at General Motors, including vice president and CFO for GM North America. During his tenure at GM, Mr. Meline lived and worked on five continents.

Mr. Meline received his Master of Business Administration in finance from the University of Chicago, his Master of Science in economics from the London School of Economics and his Bachelor of Science in mechanical engineering from Iowa State University.

Peter Reinhardt is the EMEIA people advisory services leader at EY. Originally from the US and since 2018 based in the UK, Mr. Reinhardt is the leader of EY's EMEIA People Advisory Services practice, consisting of nearly 5,000 professionals across Europe, Middle East, India, and Africa specializing in transformative solutions such as organization design and workforce transformation, people experience, change, learning, HR transformation, and people mobility.

Upon first joining EY in 1993 and for the next 25 years, Mr. Reinhardt was based in Moscow, where, amongst other roles, he led EY's Human Capital practice for Russia and the CIS for 17 of those years, and as such was responsible for the development and delivery of mobility, performance, and reward services across the region.

Mr. Reinhardt has worked with clients in both public and private sectors, from start-ups to MNCs, and across a range of industries including energy, automotive, consumer products, life sciences, tech, and financial services.

A graduate cum laude from Yale University, Mr. Reinhardt is fluent in English and Russian and proficient in German.

Appendix 2: Participants

The following EGAN members participated in all or part of the meeting:

- Mats Backman, Tobii
- Nadja Borisova, BlaBlaCar, Pomegranate Investment
- Susanna Campbell, Northvolt, H2 Green Steel, X Shore, Estrid Sweden, Network of Design
- Carolyn Dittmeier, Illy Caffè
- Brenda Eprile, Atlantica Sustainable Infrastructure, Westport Fuel Systems
- Sandip Kapadia, VectivBio Holding, Molecular Partners, Passage Bio
- Linda McGoldrick, Compass Pathways, Alvotech Lux Holdings, Cranial Technologies
- Carolyn Schuetz, OakNorth Bank
- Sandra Stegmann, Bechtle
- Natalie Tydeman, Nordic Entertainment Group, Modern Times Group
- Mareike Wächter, Westwing Group
- Ulrich Wandschneider, BioNTech, Smile Eyes Group

EY was represented in all or part of the meeting by the following:

- Suwin Lee, EMEIA Private Leader
- Massimiliano Vercellotti, EMEIA Private Assurance Leader
- Ombretta Cabrio, EMEIA Assurance | EY Private BD Leader

Appendix 3: Reflection questions for directors

Challenges and considerations for directors of high-growth companies:

- ? How have board structures and responsibilities at your company changed over time?
- ? How often does your audit committee meet? What, in your opinion, is the right frequency at this stage of your company's growth? What should it be in the future?
- ? Who creates the audit committee agenda at your company? How do you make sure that it addresses new risks as the company grows?
- ? Has your audit committee's scope changed and, if yes, how? Do you feel that its current scope is manageable?
- ? What topics are most discussed in your audit committee? What new topics do you anticipate discussing in the next two to three years?
- ? How comfortable are you with the way your company addresses major risks? What risks are on your risk heat map? Have you added any new risks recently?

Overseeing talent and culture in rapidly growing companies:

- ? How often does your board and audit committee hold substantive discussions on talent and culture-related issues?
- ? What human capital metrics and reports do you get from management? What has been most useful and what do you wish you were receiving?
- ? What are some of the main challenges your company has faced in attracting and retaining talent?
- ? Beyond compensation, what are some other tools that your company has used to attract and retain talent? Have these been effective?
- ? What good practices in hiring, developing, and training talent can you share with your peers?
- ? How does the board ensure the company's approach to talent incorporates its purpose as a value proposition for employees and, in turn, enhances growth and success with customers and other stakeholders?
- ? What has been the role of your board and audit committee in communicating change?
- ? How are you, as a board member, assessing the tone at the top from management and making sure that it is getting scaled appropriately as you ramp up hiring?

Scaling and overseeing finance in high-growth companies:

- ? What concerns you most about the processes and controls your company has in place?

- ? What roadblocks have you encountered to investment in systems and controls? How have you overcome them? How do you prioritize what investments should be made even before they are immediately critical?
- ? How do you ensure that your CFO and finance team continue to broaden and deepen their finance skills as the company grows?
- ? What challenges has your company faced in hiring finance leaders? What good practices have you observed in finding and attracting finance leaders for your company?
- ? How do you assess whether the internal audit team is properly sized and has enough resources?
- ? If your company has become public recently or is currently preparing for an IPO, what good practices for developing critical finance capabilities have you seen?

Endnotes

¹ *ViewPoints* reflects the network's use of a modified version of the Chatham House Rule whereby names of members and their company affiliations are a matter of public record, but comments are not attributed to individuals or corporations. Quotations in italics are drawn directly from conversations with network members in connection with the meeting.

² Liz Fealy and Roselyn Feinsod, "[How Workforce Rebalancing Is Building Pressure in the Talent Pipeline](#)," EY, April 18, 2022.

³ "[Moderna Revenue 2017-2022](#)," Macrotrends, accessed October 4, 2022.