

Governance: Challenges & Measures A Swot Up On The Start-Up's In India

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Abstract- *In the current global business world, there is a rapid development of new and emerging Startups. It is been observed that start-ups in growth stage see good traction in the first 2 years. In the years three, due to the pressure of targets, they start falling apart due to the various challenges they confront with that take up a lot of their productive time into firefighting, fixing this in hush-hush, making uninformed decision on some of the most important activities, leaving them with less time to focus on the core business. This is a usual story of almost a good majority of start-ups. One big cause identified for the firefighting is “GOVERNANCE & COMPLIANCE”.*

A typical governance concept does not mean lack of focus on business, but it simply means lack of proper processes, tools, methods, support services (eco system) and accountability to plan, direct and control a start-up's resources to run the business successfully in the long-run.

The present paper critically analyses the challenges faced by start-ups at various stages and it is aimed to put forward the recommendations which guide them to set best practices towards good governance, being complaint, aware and support others. The researcher intends to analyze the data gathered from primary and secondary source. This study recommends certain guidelines to come with an appropriate and relevant strategy.

Keywords- Fire fighting, Start-ups, Governance, Swotting

I. INTRODUCTION

Startups have been the talk of the town ever since the rise of some Indian and Global Unicorns since the beginning of this decade. Most startups in India started with an imitation of their global peers and some have created a good space for themselves in the Indian market. Some have been extremely successful, and some went down the hammer. For those who have been successful, it has not come without their share of challenges. Most Startup you talk to would mention Growth hacking, how to increase Sales, Unit economics etc. as their challenges but one of the biggest challenges that they confront

with, at the growth stage, is the Corporate Governance. Most start-ups researched had issues pretty much in common, in relation to the Corporate Governance, and the reason given were obvious i.e. ignorance, lack of awareness, lack of education & training and the complexity of governing laws, Government support & ecosystem, Mentoring on Governance & Compliance, affordability, etc. This paper is an attempt to highlight some of the challenges that Start-ups face in India with respect to Corporate Governance & Compliance with the rules laid down by Government. of India and Corporate India.

Corporate Governance is essential for the success of any organization and the Board of Directors play a vital role in leading, guiding the company in a timely manner to implement appropriate strategies and controls. To safeguard the values and reputation of their organizations, they develop vision, mission, lay down the code of conduct for corporate governance and oversee the Govt. compliances. For this purpose, board needs to set the objectives and goals through crafting the policies and procedures. Finally, the more crucial part of Corporate Governance is the proper implementation of the policies and its periodic review by the Board.

Primary responsibility if the Directors is to ensure the interests of all the stakeholders are well protected across the major components of any business as they expect surety, security of their investments & impact to the society at large. To satisfy the stakeholders, corporate governance and Govt. Compliance makes an effort in sound participation to ensure rule of law, transparency and fairness, responsiveness and responsibility, efficiency and effectiveness, reliability and accountability are the main components that results in good governance within the ethical framework of the written constitution of India.

II. REVIEW OF THE LITERATURE

Article: 1

GOOD GOVERNANCE: NEEDS AND CHALLENGES

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The paper discusses about the absence of good governance which impacts the implementation of development schemes for the quality life of the citizens. On the other hand, if the power of the state, exercised in improper ways then the poor will suffer the most, as poor governance generates and reinforces corruption, poverty etc. Many significant efforts or initiatives have been launched to improve the quality of the governance, over the past few years. Lawlessness is increasing in several areas of the country, and armed group are helping in restoring to violence with impunity for ideological reason.

Article: 2

Good Governance in Afghanistan: Challenges and Solutions

Said Nasim Bahman

Balkh University, Afghanistan

The article reveals the Governance concept is new to the country and there were no historical experiences. This paper basically examines the state of good governance in Afghanistan through evaluating four indicators in detail (rule of law, reforms, capacity building and transparency). Accordingly the problems in the four named sectors can be considered as serious challenges to good governance in Afghanistan. Consequently the paper suggests that performing good governance in Afghanistan requires extensive improvement in these sectors.

Article: 3

Effective e-Governance for Good Governance in India

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This paper examines on Governments worldwide are seeking to harness the potential offered by these new technologies to create new dimensions of economic and social progress. The paper also discusses the need for transformation from traditional governance to e-governance and focuses on the factors for good governance. This paper specifically

addresses the e-government initiatives that have a direct impact on the citizens and in which the citizens derive benefit through direct transactions with the governmental services.

III. OBJECTIVES

1. To study about the select up-growing Start-ups
2. To identify the challenges faced by up-growing Start-up
3. To Swot-up the identified challenges and recommend the appropriate strategies

IV. RESEARCH METHODOLOGY

The study is descriptive and qualitative by nature and identifies the challenges faced by Start-ups in corporate governance and compliance. The challenges faced by the entrepreneurs are gathered and the corresponding data is processed with the help of interactions and discussions made with the experts such as VCs, Start-up Founders, bureaucrats, government officials, directors and senior personnel of various companies.

V. SOURCES OF DATA

The data gathered from primary and secondary sources

Primary Source: The data is gathered through

- the inquiry with the entrepreneurs
- the discussions had with the experts

Secondary Source: The data is collected through published material, various websites and government reports

Growth Stage Start-ups in India and its Challenges

The extensive study of literature reveals that during the initial period of setting-up of a start-up, entrepreneurs exhibit lot of zeal and enthusiasm. Over the next 2 yrs the business grows for example; by 200% year on year, in some cases. But something starts falling apart in the year 3 which takes up a lot of their productive time into firefighting leaving them less time to focus on the core business, this is a usual story of almost a good majority of Start-ups. One big cause identified for the firefighting is "Governance" i.e. lack focus on Governance.

Lack of focus on Governance does not mean lack of focus on business but it simply means lack of proper processes, tools, methods, support services (Eco system) & accountabilities to Plan, Direct and control a start-up's resources to run the business on a long term basis.

A typical governance concept, applied to big corporates, heavily focus on the role of the board of directors, it's conduct, protecting stakeholder interests, risk management techniques etc. While these are not just relevant for a start-up that have assumed a significant growth and are on their way to become a large companies, but also the smaller startups that are in the phase of growth hacking or are in the early stage .

Unlike large corporations, a lot of start-ups are initially formed with peers, friends & family working together to develop a product or a service and seldom involve parties that are not relevant to what they are developing. Therefore, most start-ups do not have a formal board of directors driven organization structure and established practices in good governance. Neither they are aware of all the Govt. compliances that are mandatory to be complied with.

Most of their external interactions are with the start-up communities such as SLP, TiE etc. that have established a strong network of mentors and founders to support start-ups in the early stages. These support groups help most new founders and entrepreneurs in navigating the business landscape but not necessarily help them set Processes, tools and best practices toward good governance. During the research, several major start-ups post-mortem reports show that around nine out of 10 start-ups fail for various reasons and one of them being "Governance".

More established start-ups who are well funded such as; through venture capitalists or angel investors, have interactions with representatives of VC fund houses but this is limited to mostly Sales, Growth related area, with an exception of few who also involve in day to day business.

Areas where Start-up failed from the research sample:

- a. Accounting & Tax management Practices
- b. Legal & Govt. Compliance Practices
- c. HR, Recruitment, Compensation practices
- d. Roles & responsibilities of Founders & the Board
- e. Financial Practices: Equity, ESOPs, Funding etc.

VI. RECOMMENDATIONS

1. Directors on the Board: Most Start-ups do not begin with the identification of potential directors early in the life of the start-up. This does not become important to start-ups until they reach the Series-A stage. During this stage, a major portion of the start-ups end up diluting their equity and onboarding a Director from the Venture finding company. Most start-ups do not negotiate on the role & responsibilities and seldom investigate & vet potential candidates for the

directorship simply because they are so eager to get the funding. They ignore the most important part of the relationship building for a successful future of the business.

Although a potential director may enhance a company's reputation and credentials, a start-up needs to evaluate the skills, capabilities of that potential director. He/she needs to have relevant experience and industry connections to support the founders for not just running start-up but also to follow the best practices of Corporate Governance. For example: it was observed by the researchers that the start-up who are only looking for Directors with a sole purpose of funding, they identify and evaluate people those have experience in connecting start-ups to investors and various sources of funding or fund houses. However, the research also highlights that adding a director primarily for financial or funding purposes may lead to an early sell off due to conflict of priorities.

2. Single Window Governance Service: Government has introduced a lot of policies to support startups such as MSME, Startup India, Stand up India, DIPP etc. programs. These programs primarily focus on building Entrepreneurial capabilities, mentoring and funding opportunities while the corporate governance related activities are left to individuals to pick as choose services of local CAs, CSs, Payroll service providers etc. Although Government provides all the information with necessary forms to be filled and submitted with the timelines, it becomes overwhelming for a startup to comply with a long list and therefore they choose to either delay or hold off or outsource until it becomes critical. For example: a Venture Capital funding comes with a due diligence on current business realities to get funding. One of the aspects of the due diligence is the "compliance".

Generally, it is observed that a lot of startups do it in the last minute and only as a "tick mark" to be eligible for the funding round. If Government of India can nominate, in every, District head quarter, a team of professionals who can take care of all the compliance and corporate governance related activities at a nominal fee and create awareness will provide a platform for all startups to focus on core entrepreneurial activities and at the same time lay the foundation of a Corporate Governance at the seed stage of a start-up leading to role models of corporate governance and raise awareness in the startup community.

3. Incentive based Strat-up-mentoring-start-up Program: India is a country where people need hand holding at many stages unlike US or other developed markets where everything can be put online, and people would easily follow those steps and comply. Although, Digital India is platform where are all Government services are under one umbrella but a rural or

semi urban start-up in non-tech space may not be able to follow or understand every step online and require personalized services that can help them be compliant. Government can introduce a program where a start-up can mentor another start-up in corporate governance and be eligible to get some additional benefits upon accomplishing one cycle. This way, Government can reduce the burden on the single window team and reduce the cost of their compliance due to subsidized services.

VII. CONCLUSION

In nutshell, while swotting up on startups it was observed that the major focus of startups was on funding rather on sustainability. The government initiated support schemes were only focusing on the entrepreneurial skills while corporate governance activities are ignored. It was also found that there was imbalance in providing uniform facilities and services to all the stakeholders of various startups under rural, semi-urban and urban areas. It is recommended that startups should aim to have the visionary directors who focus on best practices of Corporate Governance. The Government must concentrate on the support system which strengthens the core entrepreneurial skills. It is also suggested that the Government has to introduce a single window system that educates and promotes awareness among those startups which are deprived of tech facilities through the other startups as their mentors which have achieved their goals.

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