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## **CORPORATE GOVERNANCE - A WAY OF SUSTAINABILITY FOR STARTUPS**

### **Abstract**

“Innovative entrepreneurship and good public governance are the two key pillars of a nation successful in creating a prosperous society. The objective of innovative entrepreneurs is to convert their new and stunning ideas to jobs for citizens, wealth for themselves and their investors, and taxes for the government. A good public governance system, therefore, must remove all hassles for entrepreneurs to become even more successful in their objectives, and use the tax money honestly and efficiently to provide world-class public good services”

***Shri N. R. Narayana Murthy, Co-Founder of Infosys***

The G-20 summit under the India presidency has recognised the potential and contribution of the startups to fuel the world economy. The Startup-20 engagement group which is constituted for development and growth of global startup ecosystem, has recognized the sincere efforts of every G20 nation to support startups, and are proposing a way to weave the national startup ecosystems into a global one to make them an engine of economic growth.

The Startup-20 group has come with many suggestions and recommendations pertaining to implementation of the corporate governance in startups which are indispensable for long term survival and growth of the startups.

Through the Startup India initiatives of the Government of India, there are around one lakh startups, many incubators, mentors and industry-academia tie-ups, collectively making a robust startup eco-system in India.

The word ‘Startup’ is rather more turning to a fashionable word and getting popularity especially among the young entrepreneurs. Sometimes young entrepreneurs start doing any business by getting inspired from other startup stories and that is one big reason for failure of startups.

However, it is significant to ensure long term survival and growth of each startup and to make them globally competitive. The principles of Corporate Governance are essential to achieve the same.

## Corporate Governance

The corporate governance in simple words is a way and style of management of the business entity, in such a manner where the management complies with all the applicable laws, rules & regulations along with ensuring the interest of all the stakeholders. The Corporate Governance has broad aspects which includes both internal and external elements. The internal aspects of the good corporate governance include the best management practices, optimum utilization of the resources and ethical values of the internal organization. The external aspects include the regulatory compliances and other stakeholders.

The Startup-20 group emphasizes on a robust global startup eco-system, good corporate governance practices will play an important role for creating global startup framework and attracting investment from the global investors.

The Institute of Company Secretaries of India has more precisely defined the Corporate Governance as “Corporate Governance is the application of best management practices, compliance of law in true letter and spirit and adherence to ethical standards for effective management and distribution of wealth and discharge of social responsibility for sustainable development of all stakeholders.”

### Need of corporate Governance in Startups

A business of a startup firm is meant to provide a unique solution of a particular problem by way of creative and innovative idea, that may be a product or services. Another vital aspect for a startup business is to ensure its growth and sustainability along with employment generation and wealth creation. Corporate Governance is essential for existence of the Company. Corporate governance is needed to create corporate culture of SMART governance i.e., simple, moral, accountable, responsive and transparent governance system on which stakeholders may rely upon. Corporate Governance is needed in startups from initial stage for following reasons-

#### **(a) Performance of a startup -**

A better governance system facilitates in timely and quality decision making system in startup which is critical for planning and management of the activities. The improved performance of the startup results into easy financing and ultimately the prosperity of the startup.

#### **(b) Enhance investor’s trust -**

Startup funding at initial stage is very difficult due to lack of data and uncertainty of the business. While investing in any business, the investors review and conduct the due diligence of entire business system, which includes compliances of applicable laws, rules, regulations along with detailed financial analysis, stakeholders’ interest and future prospectives of the business. Good Corporate Governance implemented from initial stage of a startup will automatically take care of these aspects and enhance the investors trust on startups.

### **(c) Access to Global Market -**

Good Corporate governance practices facilitate to access the global market for the startups. The advocacy Startup-20 group to create a global startup ecosystem is based on the same concept. Access to global market means, the startups are required to adhere with the global or internationally accepted business and management principles. The G-20 summit itself has opened many business avenues for startups. However, to get the benefits of international trade and commerce, the startups are required to be equipped with globally accepted business principles which inter alia includes compliances of applicable laws, disclosure and transparency.

Access to global market will lead to more customer base and source of finance which are vital for long term survival, growth and sustainability of the startups

### **(d) Enhancing startup valuation -**

Good corporate governance practices which include accountability, transparency and responsiveness towards the stakeholders creates goodwill of the business and ultimately increases the value of the business.

### **(e) Corporate Governance as a tool of risk management -**

Good corporate governance also instrumental in risk management for startups. Every business decision especially at the early stage of the startup has a vital impact on long term survival and growth of the startup.

### **(f) Accountability -**

Accountability is an indispensable part of the corporate governance. As the startups are always a new business in new or existing market, good corporate governance creates the environment for accountability towards the stakeholders.

### **(g) Strong reputation -**

The startups are required to have a strong reputation in front of the stakeholders especially among the clients and financiers. Good corporate governance paves the way to create strong reputation.

## **Self-regulation for startup founder**

There is a great importance of the 'good corporate governance' in the startups to ensure sustainability, survival and long-term growth. The startup founders are those entrepreneurs who conceive the business idea which transforms into the startup. The startups founder direct and control the business, make the initial relations between the management, customers, suppliers and all other stakeholders. The startup founder must operate the system in an ethical and sustainable manner. The startup founders are required to set the standards and guidelines to operate the startup activities in an ethical and responsive manner to set the examples for other employees.

