Startups, Raise the Bar

- By Amitabh Kant

India's meteoric rise as a global powerhouse of start-ups is nothing short of extraordinary. With a staggering number of over 98,000 start-ups, 400+ incubators, and 108+ unicorns, India has firmly established itself as the global start-up capital. These cutting-edge innovative ventures are not only transforming the socio-economic landscape of India but are also attracting the interest of international investors and governments. At this pivotal moment, we must recognize the paramount importance of corporate governance and self-regulation in creating a robust ecosystem that fuels the sustained growth and success of these bright spots on India's entrepreneurial horizon.

As per recent reports, India's ed-tech unicorn Byju's has delayed submitting audit records, reflecting weak corporate governance principles. In the past too, several promising startups like GoMechanic, Housing.com, BharatPe and Zillingo have all suffered due to glaring gaps in governance. A profitable business model is not the only ingredient for entrepreneurial success. Indian start-ups must also judiciously navigate regulatory, legal and tax frameworks as this will prevent future complications and mitigate risks down the road.

Startups are national assets and many have become unicorns owing to the phenomenal digital public infrastructure built by the country. India has ensured a policy environment which promotes ease of doing business for startups, cutting through the regulatory cholesterol and simplifying many processes. This has fostered a vibrant culture of innovation and creativity for Indian entrepreneurs. At such a stage, government intervention as a result of corporate governance lapses can stifle innovation and kill the momentum of the startup revolution. Thus, diligent self-governance is non-negotiable for startups to prevent such an escalation. A 'growth at all costs' mindset without adequate focus on finance and governance, can lead to a toxic culture and negligence that can be detrimental to the entire startup movement.

Learning from examples of recent failures, startups should not succumb to the pressure of just increasing valuation and top-line growth, but instead focus on sustainable long-term value creation. Emphasizing the need for finance, accountability, and auditors, startups should implement high-quality corporate governance and self-regulation practices systematically. With guidance from experienced mentors, startups can adopt best practices and pave their way to becoming successful and responsible entities. It is essential to understand that finance and governance are the key pillars that attract more investment and enable startups to seamlessly transition into big corporates, thereby ensuring their continued success.

Self-governance for startups is not a one-size-fits-all approach. It should be tailored to the specific needs, size, and growth stage of the startup. As the startup evolves and matures, governance frameworks may need to be reviewed and adjusted to align with the changing requirements and strategic goals of the organization. Implementing corporate governance and self-regulation norms early in a startup can bring about numerous advantages like enhanced accountability, improved decision-making, reduced risk, increased access to capital and partnerships and a stronger reputation.

The newly established Startup20 Engagement Group under India's G20 Presidency has recommended a possible Startup Governance Maturity Level Framework, addressing each stage of the startup journey. At the first level, from the inception to early stage, startups must ensure appropriate documentation and effective communication of information to stakeholders. At the second level, in the early to growth stage startups must implement digitized financial management systems to enhance transparency and accountability. Finally, during the growth to IPO stage, startups should optimise internal operations, document reporting processes, seek third party reviews and attain a high level of proficiency in self-governance practices.

A considerable number of foreign individuals and entities continue to express their desire to invest in Indian businesses. However, it is important to structure these investments in accordance with legal, tax, and regulatory requirements, particularly to comply with foreign exchange laws and regulations. Engaging with investors transparently is essential for startups in India. Timely and accurate financial reporting, clear communication channels, and alignment of interests help foster strong relationships and attract further investment.

Startups in India will greatly benefit from having a diverse set of industry experts and investors who will bring forth valuable insights, strategic guidance, and intercept any governance lapses. Startups need to identify, assess, and manage risks associated with their operations. This involves implementing risk management processes, conducting risk assessments, and establishing mitigation strategies to protect the startup from potential threats or uncertainties.

The buck really stops at the vision and values of the founders, who must prioritize good governance and self-regulation from the outset rather than treating it as an afterthought in their start-up journey. At the same time, venture capital and private equity firms must also rethink the *scale fast, enhance value fast* narrative to help entrepreneurs strike a healthy balance between sustained growth and long-term value creation. Only such an astute approach can facilitate a seamless transition for a business from a start-up to a well-established corporate entity. Moreover, by embracing innovation and staying attuned to market trends, startups can pivot their strategies and seize emerging opportunities.

The market potential for Indian new-age companies extends beyond just the 1.4 billion people within India and encompasses the next 4-5 billion individuals worldwide who are entering the middle class. Notably, Indian startups are making significant disruptions globally, particularly in emerging sectors like health, nutrition, and agriculture. Given the increasing instances of financial irregularities and corporate governance lapses, it is essential for startups to prioritize ethically sound governance principles. Despite potential disruptions in venture capital funding, Indian startups that demonstrate due diligence and compliance along with robust business models will continue to attract investments. By setting the bar high with new standards for corporate governance in entrepreneurship, India has the opportunity to lead the world with exceptional start-ups that can become trailblazers.

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