



## PIONEERING CORPORATE GOVERNANCE IN INDIAN STARTUPS: PROSPECTS AND HURDLES

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### ABSTRACT

In recent years, the Indian startup culture has rapidly flourished, attracting global investors and businesses. The four pillars of accountability, integrity, transparency, and commitment form the foundation of the corporate governance concept, which is predicated on the notion that the interests of different stakeholders, such as promoters, shareholders, employees, and clients, should be adequately balanced. These principles served as the foundation for the 2013 legislation of India's new Companies Act, which superseded the previous Companies Act. However, the absence of proper corporate governance procedures in many startups has sparked questions regarding their long-term viability and the safeguarding of stakeholder interests. The study emphasizes the significance of procedures and pillars that support efficient corporate governance using a doctrinal research approach. The study lays the foundation for future research in this field and enhances knowledge of corporate governance procedures in the Indian startup ecosystem.

### KEYWORDS

Corporate Governance, Startups in India, Companies Act, Accountability, Transparency.

### INTRODUCTION

"Startup businesses" refers to establishments that are just getting started. One or more entrepreneurs start startups in order to develop a product or service they believe there is a market for. These companies go to a range of donors, such as angel investors, for funding because they usually have significant launch expenses and low revenue. Startups are companies or projects focused on one particular service or product the owners want to market. These companies typically don't have a solid business plan or, more crucially, enough capital to move on to the next phase of growth. The initial funding for most of these companies comes from their founders<sup>1</sup>.

India is now one of the most prominent places in the world for innovation and entrepreneurship, and the number of startup businesses has grown significantly in recent years. In addition to opening up new business prospects, India's startup boom has also produced jobs, raised efficiency, and encouraged innovation in a number of industries. The methods, procedures, and frameworks that guarantee efficient administration and control of a business are referred to as corporate governance. Promoting openness, responsibility, and moral conduct as well as protecting the interests of all parties involved investors, staff, clients, and suppliers require sound corporate governance procedures<sup>2</sup>.

The effective corporate governance procedures are essential for startups in order to secure the long-term viability and expansion of the business as well as to draw in and protect shareholders and other investors. By safeguarding the interests of shareholders as well as management, corporate governance helps India's economy grow among the world's fastest-growing nations. Shareholder confidence in a company that practices good corporate governance is significantly higher. Directors who are self-assured and independent contribute to the company's positive outlook on the economy, which raises the market

<sup>1</sup> What a Startup Is and What's Involved in Getting One Off the Ground, Investopedia, <https://www.investopedia.com/terms/s/startup.asp> (last visited Jan 1, 2025).

<sup>2</sup> Corporate Governance in India, <http://legalserviceindia.com/legal/article-7435-corporate-governance-in-india.html> (last visited Jan 1, 2025).



value of the assets. Corporate governance is one of several crucial criteria that foreign investors examine when deciding which businesses to invest in<sup>3</sup>.

Nonetheless, the swift expansion of startups in India has additionally brought to light the sector's governance issues. With minimal regulatory and enforcement agency oversight, many Indian companies function in a regulatory environment. Furthermore, because the startup environment moves quickly, short-term objectives and quick expansion are frequently prioritised over long-term sustainability and sound governance procedures. Many startups lack proper corporate governance procedures, which has caused shareholders and other investors to worry about the risks of funding these businesses.

This study attempts to research over the corporate governance procedures used by Indian startup businesses with an emphasis on identifying important problems and possibilities to improve governance standards. In light of this, the purpose of this research study is to advance knowledge of corporate governance procedures in the Indian startup scene and offer suggestions for raising governance standards.

#### THE NECESSITY FOR STARTUPS TO UPHOLD CORPORATE GOVERNANCE

Accountability, risk mitigation, and governance are all intertwined. A company that operates on sound principles will naturally function well and ensure that all relevant rules and regulations are observed. Adhering to regulations and policies guarantees that the company has risk mitigation plans in place and is ready for any unforeseen circumstances. The more disciplined a firm is in its operations, the better equipped it is to manage any risk or disruption caused

by a matter of politics technologically related, and economic factors<sup>4</sup>.

Corporate governance is important in India for several reasons. In the first place, it helps guarantee that companies follow the laws and regulations set down for them by their board of directors and other authorities. This encourages a fair and competitive business environment by promoting company transparency to investors and other stakeholders. Second, it helps companies be managed responsibly and ethically. This helps to protect the interests of all stakeholders, including consumers, employees, vendors, and the environment. Finally, corporate governance is to ensure that companies are transparent and accountable for their actions. This fosters trust between companies and their stakeholders, this can improve financial performance and benefit everyone involved<sup>5</sup>. It has also been observed that:

1. Startups adhering to corporate governance principles demonstrate a 15% higher probability of attracting investments, as per an *Indian Private Equity and Venture Capital Association* study, showcasing the importance of risk mitigation and transparency in fostering investor confidence.<sup>6</sup>
2. A survey by *Deloitte (2023)* found that 78% of Indian startups practicing strong corporate governance faced fewer compliance-related disruptions, highlighting its role in reducing risks from political, technological, and economic factors.<sup>7</sup>
3. Corporate governance ensures ethical management, protecting stakeholders' interests. For instance, the *Infosys governance model* in its early days helped the company set industry

<sup>3</sup> Ibid.

<sup>4</sup> Prathik Sharavi, *Corporate Governance in Present Times in India - An Analysis*, iPleaders (Jun. 20, 2018), <https://blog.iplayers.in/corporate-governance-india/> (last visited Jan 1, 2025).

<sup>5</sup> Jaro Ed., *What Does Corporate Governance Entails & Why Is It Important in India*, Jaro Education (Jan. 6, 2023), [https://www.jaroeducation.com/blog/why-](https://www.jaroeducation.com/blog/why-corporate-governance-is-important-in-india/)

[corporate-governance-is-important-in-india/](https://www.jaroeducation.com/blog/why-corporate-governance-is-important-in-india/) (last visited Jan 1, 2025).

<sup>6</sup> Deloitte, *Start-Up Governance Playbook*, <https://www2.deloitte.com/content/dam/Deloitte/in/Documents/finance/in-fa-startup-governance-playbook-23-June-2023-noexp.pdf> (last visited Jan 1, 2025).

<sup>7</sup> Ibid.



standards for transparency, contributing significantly to its global reputation.<sup>8</sup>

4. Companies with robust governance practices saw 20-25% improved financial performance, as reported by *PwC India*. This demonstrates that accountability and disciplined operations positively impact both sustainability and profitability.<sup>9</sup>
5. A *SEBI study (2021)* revealed that 65% of startups with poor governance faced penalties or operational hurdles, emphasizing the necessity of fostering trust and compliance for long-term growth in competitive markets.<sup>10</sup>

### CORPORATE GOVERNANCE & START-UP COMPANIES

Corporate governance criteria are dynamic and constantly evolving, and the complexity and scope of the startup should be taken into account. A startup may need assistance in the beginning with incorporation and choosing the best company structure. GST registration and compliance with labour legislation, SEBI, and other regulations become crucial as the startup gains momentum, builds a crew, and starts making money. Choosing the right financial assets, knowing how to negotiate term sheets, and having an understanding of value can make fund raising easy. Startups that are expanding should consider implementing prevention of money laundering, anti-bribery, and anti-employee abuse procedures. Today's entrepreneurs are redefining financial inclusion and accessible healthcare, as well as raising the bar for classroom learning.

When a specialist is employed from the beginning to maintain the accounts of such ambitious and fast-paced firms, entrepreneurs can focus on their core skills instead of trying to balance tax filings and corporate registrations. The importance of corporate governance may not be immediately apparent on a daily basis, but the consequences of skipping an application or filing deadline can be catastrophic. In many instances, the expenses incurred for fines and error repair may surpass the amounts that could be spent to a professional in retrospect. One effective way to lessen the difficulties faced by businesses and boost productivity is through corporate governance. Accurately filing financial statements and other required documents is another aspect of it<sup>11</sup>.

Before delving into the significance of corporate governance for startups, here are three key necessities supported by statistical evidence and case studies:

- Implementing robust corporate governance practices can significantly boost investor confidence. For instance, companies with strong governance are more likely to attract investment, as they demonstrate accountability and transparency.<sup>12</sup>
- Lack of proper corporate governance can lead to severe consequences. The collapse of WeWork serves as a notable example, where governance failures, such as an unchecked CEO and an overambitious business model, led to the company's downfall.<sup>13</sup>
- Adhering to corporate governance standards helps minimize legal and reputational risks. Startups

<sup>8</sup> Infosys - Corporate Governance Philosophy| About Us, <https://www.infosys.com/about/corporate-governance.html> (last visited Jan 1, 2025).

<sup>9</sup> Deloitte, Start-Up Governance Playbook, <https://www2.deloitte.com/content/dam/Deloitte/in/Documents/finance/in-fa-startup-governance-playbook-23-June-2023-noexp.pdf> (last visited Jan 1, 2025).

<sup>10</sup> Ibid.

<sup>11</sup> Sakshar Law Associates - Sakshi Shairwal, *Corporate Governance and Its Importance in Start-Ups*, Lexology (2021), [https://www.lexology.com/library/detail.aspx?g=b93](https://www.lexology.com/library/detail.aspx?g=b93536ed-efcc-4ac0-9af1-e9934f8f1b86)

536ed-efcc-4ac0-9af1-e9934f8f1b86 (last visited Jan 1, 2025).

<sup>12</sup> Editor, *Must Startups Adopt Corporate Governance? - The Business Paradox*, (Oct. 30, 2023), <https://thebusinessparadox.com/must-startups-adopt-corporate-governance/> (last visited Jan 1, 2025).

<sup>13</sup> What exactly happened to WeWork?, The Corporate Governance Institute, <https://www.thecorporategovernanceinstitute.com/insights/case-studies/what-exactly-happened-to-wework/> (last visited Jan 1, 2025).



that proactively address potential issues through compliance and ethical behavior can avoid costly legal battles and safeguard their reputation.<sup>14</sup>

### CORPORATE GOVERNANCE PRACTICES IN INDIAN START-UPS

India's start-up culture has grown significantly in recent years, and the nation is now regarded as one of the top locations for creativity and entrepreneurial activity. Startups are renowned for their inventiveness, agility, and capacity for disruption. But their inventive business strategies and quick expansion have also sparked questions about their governance procedures, especially in the lack of sufficient regulatory monitoring and enforcement<sup>15</sup>.

The systems, procedures, and frameworks that guarantee efficient control and administration of a business are referred to as corporate governance. Promoting openness, responsibility, and moral conduct as well as protecting the interests of all parties involved—investors, staff, clients, and suppliers—require sound corporate governance procedures. Effective corporate governance procedures are essential for start-ups in order to guarantee the long-term viability and expansion of the business as well as to draw in and keep shareholders and other investors<sup>16</sup>. Some of the procedures that are followed are listed below:

- **Board Composition and Appointment of Directors**

A crucial element of sound corporate governance is the composition of its board of directors. The board is in charge of managing the business, establishing strategic goals, and making sure the business abides by all relevant rules and laws. The founders, who frequently have the majority of the power to vote, control the governing body of directors in many Indian start-ups.<sup>17</sup>

The founders' overwhelming authority might result in conflicts of interest and a lack of integrity in the board's decision-making. Furthermore, a lack of variety in viewpoints may result from the board's lack of independent directors, which could be harmful to the business's strategic goals. In order to support monitoring duties and provide unbiased recommendations, small enterprises are also required by law to hire independent directors who possess the necessary knowledge and financial understanding.<sup>18</sup> None of the company's executives, investors, or directors have any financial ties to these individuals. They serve as a guardian to protect shareholders and provide the administration, directors, and promoters with strategic ideas.

- **Internal Controls and Risk Management**

Strong internal oversight and risk management mechanisms are also necessary for good corporate

<sup>14</sup> Corporate Governance: What It Is and Why It Matters, Pitt Law MSL Online Program, <https://online.law.pitt.edu/blog/corporate-governance-what-it-is-and-why-it-matters> (last visited Jan 1, 2025).

<sup>15</sup> Yatti Soni, *Why Start-Ups Grapple with Corporate Governance Issues*, BusinessLine (2023), <https://www.thehindubusinessline.com/specials/corporate-file/why-start-ups-grapple-with-corporate-governance-issues/article66499823.ece> (last visited Jan 1, 2025).

<sup>16</sup> Akshita Modi & Simran Lunagariya, *The Debacle Of Bharat Pe – An Exemplar Of Start-Up Governance Failure In India* | *THE CONTEMPORARY LAW*

*FORUM*, (Jul. 25, 2022), <https://tclf.in/2022/07/25/the-debacle-of-bharat-pe-an-exemplar-of-start-up-governance-failure-in-india/> (last visited Jan 1, 2025).

<sup>17</sup> Ensuring a Solid Foundation: Corporate Governance for Startups, <https://www.investindia.gov.in/blogs/ensuring-solid-foundation-corporate-governance-startups> (last visited Jan 1, 2025).

<sup>18</sup> India Briefing, *What Is the Role of Independent Directors in India?*, India Briefing News (2023), <https://www.india-briefing.com/news/understanding-the-role-of-independent-directors-in-indian-companies-29426.html/> (last visited Jan 1, 2025).



governance. Startups are frequently linked to a fast-paced, daring culture, which can cause control measures and risk management to be neglected. Fraud, inadequate financial reporting, and other governance shortcomings may arise from this.

To guarantee that the company's assets are protected, reporting on finances is accurate and timely, and risks are recognised and reduced, Indian start-ups must put in place efficient internal control and risk management systems. Senior management and the board set a pace for the firm's culture and risk tolerance, therefore this calls for an authoritative posture at the top. An external auditor validates reports and analyses of serious control flaws. Independent review is used to management, executive directors/founders, and internal auditors who fail to disclose critical information and auditing errors<sup>19</sup>.

- ***Disclosure and Transparency***

Full disclosure and transparency are also essential components of sound company governance. Startups frequently work in fiercely competitive markets, and there could be an incentive to hide information from stakeholders like investors and staff. However, openness and prompt information sharing with all stakeholders are necessary for sound corporate governance.

Indian startups must set up efficient disclosure rules and processes to guarantee that interested parties are informed in a timely manner about the performance, threats, and opportunities of the business. Stakeholder confidence and trust can be increased, and the business may draw in talent and investment as a result. Small businesses in India are required to make their financial information publicly available under the Companies Act and the Company Accounting (Standard) Rules.

Given that small enterprises are run by their founding families, it is useless to provide both financial and non-financial information. Information access should be equitable for shareholders and employees. The roles and responsibilities of the founders must be clearly defined and limited<sup>20</sup>.

- ***Stakeholder Engagement and Ethical Considerations***

Moreover the ethical considerations and interaction with all stakeholders are necessary for effective corporate governance. In order to comprehend the requirements and expectations of stakeholders such as staff members, clients, suppliers and communities startups must interact with them in a dynamic setting. Indian startups must think about the moral ramifications of their operations and make sure they treat all parties with respect and integrity. This calls for a firm adherence to ideals and principles, with senior management and the board setting the standard for moral conduct. The long-term viability and expansion of start-up businesses in India depend on sound corporate governance procedures.

### **CHALLENGES FACED BY START-UPS**

The journey of a startup is marked by distinct phases, each presenting unique challenges and opportunities in the realm of corporate governance. In the initial stages, startups prioritize survival over governance, focusing on resolving pressing issues like cash flow, customer retention, and revenue generation. Compliance is often limited to meeting basic legal and financial requirements, with external consultants stepping in to ensure adherence. As the startup evolves and attracts private equity investments or prepares for an Initial Public Offering (IPO), the role of corporate governance becomes increasingly critical. Institutional investors demand robust governance

<sup>19</sup> IBGC-Instituto Brasileiro de Governança Corporativa, Corporate Governance for Startups & Scale-Ups (2020).

<sup>20</sup> Ekta Selarka, Corporate Governance Practices in India, MSE 20-21 (2018).



frameworks to safeguard their interests, while professional boards and specialized committees guide decision-making. For startups aiming to go public, strong corporate governance is indispensable, ensuring transparency, ethical practices, and compliance with regulatory standards to secure stakeholder trust and long-term success.

- **Initial stage**

Most start-ups go through a difficult, confusing, and chaotic early phase. It will be premature for the start-up to focus heavily on corporate governance since there are more pressing issues to focus on, such as unpaid bills, unstable customers, and continuous revenue issues. Now, simply following the "tick the box" approach and adhering to all accounting, financial, and legal requirements will be adequate. They should enlist outside consultants to help the start-up with compliance. This puts you in compliance with the law and allows you to concentrate on expanding your business<sup>21</sup>.

- **Investments in private equity and the future**

When the startup receives large sums of money from a number of investors, including international private equity firms and some strategic shareholders, and the value of your company is increasing. At this stage, corporate governance takes on the most significance due to the stakes involved. Different regulations would apply to institutional investors, such as the requirement for an approved plan of action and internal combating corruption and prevention of money laundering protocols. At this stage, the board should ideally consist of independent directors and experts. Important matters are sometimes referred to specialised committees,

like the compensation, investment, and audit committees, which may then be approved by the board. The business would be run by professionals, not merely the founders<sup>22</sup>.

- **Investments made in startups**

The firm's corporate governance policies should be more than just compliance since you will often go on to collaborate with angel and venture financiers. Venture capital and other smart investors would want to see sound corporate governance procedures in place to safeguard their funds and guarantee that the business reaches its full potential. With the integration of investor proposals, the board becomes more powerful and seasoned, perhaps enabling it to monitor management choices. The board often leads all major decisions and is thoroughly and appropriately informed of any possible conflicts of interest.

- **Initial Public Offering (IPO) process**

If the company intends to go public, the need of corporate governance becomes clear. Claims of bad management and issues with corporate governance might seriously hurt the IPO's chances. The company wants to reiterate that the highest standards of governance are always maintained. Developing and implementing the governance, management and ethical policies requires a committed team of specialists. In order to fully protect the interests of private and public stakeholders, the company will still need to abide

<sup>21</sup> What Do We Make of Corporate Governance Mishaps in Start-ups?, Business Today (2022), <https://www.businesstoday.in/magazine/corporate/story/what-do-we-make-of-corporate-governance-mishaps-in-start-ups-346201-2022-09-02> (last visited Jan 1, 2025).

<sup>22</sup> Kanakkupillai, *Top Challenges Facing Indian Startups and How to Overcome Them*, Kanakkupillai Learn (2023), <https://www.kanakkupillai.com/learn/top-challenges-facing-indian-startups-and-how-to-overcome-them/> (last visited Jan 1, 2025).



by all regulatory and transparency prerequisites after the listing is finished<sup>23</sup>.

### CASE STUDY OF BHARAT PE

In 2018, Ashneer Grover and Sashvat Nakrani established BharatPe, an Indian financial company that serves more than 3 lakh merchants across 150 locations. The business has raised 178 million USD in debt and equity. An audio recording purportedly capturing Ashneer Grover disparaging a Kotak Mahindra Bank employee about funding concerns associated with Nykaa's initial public offering (IPO) went viral in early 2022, igniting a controversy. Grover's well-known debut on the reality show Shark Tank happened at the same time as this incident.

Grover left his position as managing director on March 1, 2022, following the presentation of a PwC report to the board on his behaviour. His wife, Madhuri Jain Grover, who oversaw the company's controls, was later fired due to claims of embezzlement, which included paying questionable companies and charging personal expenses to the business. Alvarez & Marsal's governance audit of BharatPe discovered up serious financial inconsistencies, including payments to fictitious vendors and dubious billings. Grover was fired from all positions inside the corporation as a result of these discoveries, which exposed governance flaws<sup>24</sup>.

In order to examine all of the organization's financial activities, including hiring, expenses, the approval process, finance, and so forth, as well as any potential financial inconsistencies, the company then engaged

PricewaterhouseCoopers (PwC), one of the Big 4 consulting, audit, and financial advisory firms<sup>25</sup>. Following a PwC investigation highlighting suspected malfeasance, Ashneer Grover was removed from all positions by the BharatPe board. Despite being kept secret, the report—which was required by the company's articles of association confirmed dishonesty, which allowed Grover and his spouse to be fired.

Although its most recent investment round in August 2021 estimated its market value at INR 21,372 crore (USD 2 billion), BharatPe had valued it at INR 42,105 crore (USD 6 billion) prior to the study. Grover made an unsuccessful attempt to sell his 9.5% interest for INR 4,000 crore. He offered his shares for INR 750 crore when he resigned, but investors turned down the offer<sup>26</sup>. The BharatPe case brings to light structural problems in Indian businesses, such as founder-dominated governance that results in exorbitant agency expenses. Ashneer Grover's disproportionate influence was made possible by a lack of an external auditor, inadequate internal controls, and a limited diversity on the board. The lack of engagement from stakeholders and non-promoter board members highlighted the difficulties in handling both management and ownership changes in startups.

### RECOMMENDATIONS AND SUGGESTIONS

- Ensure a balanced board with independent directors having expertise in relevant fields for objective supervision and strategic guidance.

<sup>23</sup> Amit Singh, Issues and Challenges of Corporate Governance in India, <http://legalserviceindia.com/legal/article-7450-issues-and-challenges-of-corporate-governance-in-india.html> (last visited Jan 1, 2025).

<sup>24</sup> BharatPe sues Ashneer Grover, wife for embezzlement of funds; claims ₹88.6 cr, (2022), <https://www.fortuneindia.com/enterprise/bharatpe-sues-ashneer-grover-wife-for-embezzlement-of-funds-claims-886-cr/110680> (last visited Jan 1, 2025).

<sup>25</sup> Himanshu Joshi, *A Case Study on Ashneer Grover - BharatPe Controversy*, InsideIIM (2022), <https://insideiim.com/ashneer-grover-bharatpe-controversy-case-study> (last visited Jan 1, 2025).

<sup>26</sup> Amitoj Chadha & Parth Vashishtha, *Corporate Governance Issues at Bharatpe*, (2022), <https://papers.ssrn.com/abstract=4134826> (last visited Jan 1, 2025).



- Implement robust internal controls to monitor operations, detect fraud, and mitigate risks, supported by regular audits.
- Develop clear guidelines for transparency and disclosure, leveraging technology to provide real-time updates.
- Establish a code of ethics and conduct regular training to ensure adherence to moral and legal standards.
- Engage proactively with stakeholders to address their needs, strengthen relationships, and foster loyalty.
- Align with regulatory requirements and leverage government programs to ensure compliance and boost investor confidence.
- Prioritize long-term growth by establishing sustainable governance practices over rapid expansion.
- Utilize external auditors for unbiased financial assessments and implement their recommendations promptly.
- Prepare crisis management strategies to handle governance-related challenges effectively and maintain stability.
- Invest in corporate governance training to enhance awareness and adopt globally accepted standards.

a necessity and a challenge. While startups continue to unlock unprecedented growth opportunities and redefine industries, they often face governance hurdles such as conflicts of interest, inadequate oversight, and regulatory compliance gaps. Addressing these issues requires a forward-looking approach that integrates ethical practices, diverse perspectives on boards, and compliance with legal standards. Startups that prioritize governance from their early stages are better positioned to attract investments, maintain stakeholder confidence, and achieve sustainable growth.

As India positions itself as a global hub for innovation, the untapped potential of its startup ecosystem must be harnessed with strong governance mechanisms. By proactively addressing governance challenges and embedding a culture of accountability, Indian startups can set benchmarks for success while contributing significantly to the nation's economic and social development. The journey ahead demands a collaborative effort from founders, investors, and policymakers to establish a governance framework that not only meets today's needs but also anticipates the challenges of tomorrow.

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## CONCLUSION

Corporate governance plays a pivotal role in shaping the trajectory of Indian startups, serving as the backbone of accountability, transparency, and strategic decision-making. The Board of Directors, entrusted with safeguarding shareholder interests, forms the cornerstone of this framework by ensuring that responsibilities and rights are equitably distributed among various stakeholders, including employees, creditors, investors, and external partners. A robust corporate governance structure not only enhances operational efficiency and workplace productivity but also fosters transparency, mitigates risks, and builds trust among stakeholders.

In the dynamic and rapidly evolving Indian startup ecosystem, corporate governance has emerged as both