Corporate Governance for startups: A Road Less Travelled

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Abstract

A report by NASSCOM forecasted that the number of startups in India will almost double by the year 2020 accruing to which, this study will try to explore the elements of Corporate Governance which are relevant in the growth of a startup or as such any company in its initial phase using ISM (Interpretive Structural Modelling). Using MICMAC analysis, the driving and dependence power of all the variables was established. This paper suggests the first such framework for startups in the Indian context.

Keywords: Corporate Governance, Startups, Interpretive Structural Modelling, OECD Principles

Introduction

We, as humans tend to focus on the factors we assume carry more weightage in the context of a particular outcome we seek for, and when any deviations occur in our expectations; we would try to convince ourselves that maybe we didn't put in enough efforts in respect to those factors. What most of us don't realize is there could be some innate and integral factor we missed altogether which may have led to those deviations. Over the years and especially in the recent ones, the entrepreneurial spirit has grown exponentially throughout the globe not leaving India from its bounds. We are able to confidently state this because of the fact that India is now home to more than 4200 startups with 600 of them opening up in 2015 itself, as per NASSCOM. (NASSCOM) However, another fact that comes to our attention is that almost 90% of startups in India fail within the first five years of inception as per studies by IBM and Oxford. (Aggarwal) Most research done on ascertaining the factors responsible for this has been concerned with

i. Lack of proper execution of operations

ii. Lack of Technology and skilled workforce

iii. Lack of proper Business Models. (D'Cunha)

One aspect which gets missed out in the conversation is corporate governance. Corporate Governance continues to be a significance element in successful businesses with recent examples of Tata's and Infosys; What could
happen to companies if it is not given the care and attention it requires. Corporate governance describes “the framework of rules, relationships, systems and processes within and by which authority is exercised and controlled within corporations. It encompasses the mechanisms by which companies, and those in control, are held to account. (ASX Corporate Governance Council). With the increasing number of cases of large Multi-National Corporations facing problems with the aspect of corporate governance and how to deal with it when a problem arises, it would be interesting to know that whether startups, companies which are in their first five years of operations, take it seriously and consider it as a factor to a healthy organization or see it as a burden that they have to carry for the sake of it. (Abraham)

Literature Review

Systematic literature review was undertaken for this study. Fink has defined it as “..a systematic, explicit, and reproducible method for identifying, evaluating and synthesizing the existing body of completed and recorded work produced by researchers, scholars and practitioners” (Fink) Multiple works deal with suggesting the right approach to performing a thorough and system review of literature (Blaxter, Hughes, & Tight, 2001; Punch, 2014) Due to the novelty of the topic, a large number of articles were used from online written in websites dedicated to supporting entrepreneurs. The information was compiled and then used to identify the appropriate framework and variables to study the issue with.

Startups

Most people understand a startup as some organization which is going through the initial stage of sustaining itself and evaluating its potential for the future at the same time. They are mostly recognised as small companies which are self-funded and operated by 20 to 30-year-olds. In actual scenario, however, Startups are made for larger markets because they have something to offer for the large markets. (Landau) They tend to grow fast, way faster than any small restaurant that open in city, which could be classified as a small business. Another very common misconception is that only tech or online companies can be classified as startups, which is understandable because people only come across those in daily life, but it is not true. The government of India has especially clarified this in their definition of startups. (Kably and Ayyar) So, one has to understand that the definition of a startup is ever expanding but if one needs to refer to something, one could frame startups as ” an entrepreneurial venture taken up by an individual or a group looking at potential success in the future owing to innovation which caters to a wide market.”
A more traditional definition would also include that a company remains a 'Startup' only till the first five years of its incorporation which might not fit in with the actual sense of the term completely. Flipkart and Ola are still considered as 'startups' even though they have been incorporated for more than five years now.

The following chart shows the different features of startups which make it unique and thus define it:

![Figure 2.1 Differences between Startups and Traditional companies](image)

**Differences between Startups and Traditional companies**

Now, considering the above elements which define Startups, it is now easier to draw a parallel between them and traditional companies; companies who have crossed the development stage and who focus on maintenance and further growth, steadied their revenues and profits over the years and now look to expand their business.

Startups need to take more risk in every aspect than a traditional company would, and with heavier expenses and lower profits, it becomes all the more difficult. (Zhuo). Most surveys and researches show massive difference in mindsets of Startup owners and CEOs of larger companies with regard to the decisions they take, stakeholders they consider while taking these decisions and how they deal with the impact of these decisions.

Another way to look at it would be saying that every established company was once a startup, and hence it knows where it went wrong and now it is just trying to rectify that. It is also important to note that there aren't any two separate principles or rules for startups and traditional companies.

The major points that differentiate startups from mature corporations with respect to corporate governance are:

1. Sources of funds i.e the type of investors
2. Hierarchy of board or management
3. Rules and regulations to be followed
4. The entrepreneurial model

**Corporate Governance**

Corporate Governance can be defined as the rules, practices and processes by which a company is directed and controlled. The concept itself could be traced back to 1930s but it emerged only in the 1970s. (Subramanian) It
is quite evident that its importance has grown many folds over the years, and it is unlawful today for a company to not follow its guiding principles. The international organisation, Global Network Of Director Institutes, Toronto has elaborated these guiding principles. These principles are formed from general experiences and are not prescriptive in any way. They don't force any legal compliance on any organization to follow them but act as starting points or guidelines for these organizations to act upon. They are as follows: (GNDI)

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Responsibility</strong></td>
<td>Every organisation should be headed by an effective board that is collectively responsible for overseeing the long-term success of the organisation and is charged with its direction.</td>
</tr>
<tr>
<td></td>
<td>The board sets the cultural and ethical tone for the organisation.</td>
</tr>
<tr>
<td></td>
<td>Governance structures should be designed to encourage an appropriate organisational culture of integrity, ethics and corporate social responsibility and be tailored to the needs of the organisation.</td>
</tr>
<tr>
<td><strong>2. Organisational structure</strong></td>
<td>The governance structures and practices that have been adopted by the board should be disclosed (for example, in a member communication document or on the organisation’s website) together with an explanation of why the board considers them to be appropriate for the organisation, with particular focus on any aspects that are unusual or contrary to commonly accepted governance practices.</td>
</tr>
<tr>
<td><strong>3. Disclosure of practices</strong></td>
<td>All directors should exercise independent judgment. They must also provide independent oversight of management. Governance structures should be designed so that the board can provide independent leadership distinct from management and major shareholders or other influential stakeholders. Without limitation, this would include the use of regular meetings of the non-executive board.</td>
</tr>
</tbody>
</table>
Taking into consideration the scale and nature of the organisation’s activities, the board should comprise an appropriate number of directors who have a relevant and diverse range of skills, expertise, experience and background and who are able to effectively understand the issues arising in the organisation’s business, provide insight and add value. Directors must be able to allocate sufficient time to their roles, both collectively and individually, to discharge their duties effectively.

<table>
<thead>
<tr>
<th>4. Independence</th>
<th>directors without members of the executive being present.</th>
</tr>
</thead>
</table>

| 5. Composition and Leadership |

Table 2.1

Elements of Corporate Governance

Corporate governance works like a mesh with many elements working together to trap unethical elements. Many countries have their own framework to deal with corporate governance. Take for instance corporate
governance codes in the United Kingdom. The Financial Reporting Council (2012) has laid out four principles to be followed by companies operating in the U.K. which involve:

i. The leadership of those who take key decisions in the company e.g. shareholders, chairman etc. The decisions must be taken in the best interests of the company.

ii. The board should be effective and must possess the relevant skills and expertise to guide the company.

iii. The board must be kept accountable for the decisions they make by being transparent about the same.

iv. The board should be remunerated such that they look at the long-term success of the company.

v. The shareholders must interact with one another to ensure that they collectively contribute

Other corporate governance frameworks follow similar lines, though they might differ due to the nuances in each country, for e.g. differing court structures might impact corporate governance legal frameworks in different countries (Hopt). Written in 1999 and revised most recently in 2015, the OECD guidelines were formed about deliberations by both member and non-member nations (Jesover and Kirkpatrick). It is noteworthy that the Securities and Exchange Board of India (SEBI) has also participated and actively tried to adhere to the same principles (SEBI). The principles are simply meant to provide a comprehensive set of guidelines which a nation must look at when developing their corporate governance principles. There are six such principle, namely:

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Constituent elements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ensuring the basis for an effective corporate governance framework</td>
<td>Clear legal requirements that the company needs to follow, Clarity in terms of which government authority is responsible for regulating which business function</td>
</tr>
<tr>
<td>The rights and equitable treatment of shareholders and key ownership functions</td>
<td>All stakeholders are informed about all company activities, Stakeholders participate in decision making process of the firm, Stakeholders consult one another when firm is making decisions which involve them, Stakeholders with less power are able to voice their concerns</td>
</tr>
<tr>
<td>Institutional investors, stock markets,</td>
<td>Third parties help investors make decisions, investors are open about how and why they are investing, Unethical behaviour by</td>
</tr>
</tbody>
</table>
Table 2.2

The role of stakeholders in corporate governance
- Rights of stakeholders are respected, Framework available for insolvency, Stakeholders can voice their concerns

Disclosure and transparency
- Disclosure of financial information to all stakeholders, Disclosure of nonfinancial information to all stakeholders, Disclosure of future risks to stakeholders, Disclosure of transactions to stakeholders, informing about issues with respect to other stakeholders, Getting independent auditors to assess firm’s claims

The responsibilities of the board
- Key Stakeholders are fully informed, Key Stakeholders are equally informed, Key stakeholders perform the necessary tasks of being a watchdog for the company’s functions, Key stakeholders are not influenced by anyone, Key stakeholders evaluate their own effectiveness, Key stakeholders make use of external sources to improve their own decision-making process

A wealth of research has come up to show the unique ways in which the principles have been interpreted for the individual unique conditions of different countries (Abu-Tapanjeh, 2009; Walter, 2008) and even in post-crisis Asia (Iu and Batten).

Corporate governance requirements in India

Corporate governance in India has had a curious relationship. The three notable committees set up in the 2000 (headed by Kumar Mangalam Birla), 2003 (headed by Narayan Murthy) and most recently in 2017 (headed by Uday Kotak) (Srivats) have all tried to update corporate governance in the country based on the revised needs of the time and age. This has resulted in Clause 49 in the listing agreement, revised after the Narayan Murthy commission. This deals with all the corporate governance requirements which companies need to follow. These includes guidelines regarding the board of directors (with distinction between independent and dependant
directors), provisions regarding institutional investors, risk management, redressing the stakeholder concerns, risk management, remuneration of executives among others (Deloitte)

While these provisions have tried to equip the businesses in the country with regulations which aid compliance, there has been a dearth to address the corporate governance needs for start-ups in the country. While the number of days to start a business in India has gone down from 123 days in 2003 to only close to 26 days in 2016 (The World bank), it is important to note that making it easier to start a business without helping them create effective structures to stay afloat is equivalent to building jails without jailers, there is no system for the companies to regulate themselves effectively. This may put them at odds with the government and one may find a system which dooms start-ups to being branded as criminal enterprises for not being able to decode the cryptic and unrealistic laws which have been set for the same.

Start-ups and Corporate Governance

As per the popular business professional Fahim Al Qasimi, startups need corporate governance mainly for three reasons (Qasimi)-

1. Managing complex decision making
2. Saving time
3. Promoting investor confidence

It is quite understandable that startups don't actually look forward towards incorporating corporate governance as an element from the initiation itself as it may seem to be a cumbersome and redundant matter to look into. Its guidelines are not as clear as one would expect and end up acting as hindrances more than they serve to be the framework the business runs upon. A scan of startup boot camps previously completed in Singapore reveals none include it in their agendas (Yen). However, while it may sound difficult to cope with it, it is impossible to run a business ignoring the elements of Corporate Governance. (Tague)

This study tries to study this notion and tries to figure out what owners of startups make of the term, what and how do they find utility from the practice.
Methodology

A survey was created using a combination of quantitative and qualitative questions to capture the different facets of what start up owners perceived corporate governance. A total of 21 questions were asked, with four of these questions having multiple items within it. The survey was sent to founders of 26 entrepreneurs in Pune and Mumbai area. Given the exclusivity of entrepreneurs, convenience sampling was employed to identify respondents. Out of the 26 responses, only 12 responses were fully filled and deemed to be useable. This study used interpretive structural modelling (ISM) and MICMAC to interpret the data.

ISM (Interpretive Structural Modelling)

Interpretive Structural Modelling is a technique that helps structure qualitative data into models. It helps “…transforms unclear, poorly articulated mental models into visible and well defined models” (Attri, Dev and Sharma). It is a popular tools in management, being applied in fields as diverse as studying higher education in the Indian context (Sohani and Sohani), knowledge management in engineering industries (Singh, Shankar and Narain) and to find the relationship between youth and sustainable rural development (Panakal and Singh) among others. The steps involved in ISM are:

1. Identification of variables: The variables are identified through extensive literature review.
2. Creating a SSIM (Structural Self-Interaction Matrix): Using expert opinions, the contextual relation between the different variables are constructed. These relationships are created through symbols which help establish relationships between the different variables.
3. Creating a reachability matrix: The next step is to create a reachability matrix. The relationships are converted to binary digits using Boolean logic. After the first reachability matrix, the rest of the gaps are filled using transitivity principle. The sum of the horizontal Boolean values for each variable is taken as the driving variables while the sum of the vertical values for each variable is taken as the dependant variables. This ends up in a final reachability matrix.
4. Level partitioning: From the final reachability matrix, an anticident set (with all the variables which might affect it) and a reachability set (with all the variables which might be affected by it) is created. The intersection for these sets is found and the levels of the variables is found through that. The factors for which the reachability set and the intersection are the same occupy the top position, the rest are adjusted across the different levels accordingly.
5. Creating an ISM model: Though conical matrixes are formed by clustering the variables based on the levels where they reside (to calculate the power of the driving and dependant variables), leading to a
diagraph (which contains the relationships of the different variables) which is simplified to a ISM model, this paper will jump right in and directly create an ISM model without creating a diagraph.

3.2 MICMAC: MICMAC is an acronym for Matrice d’Impacts croises-multiplication appliqué an classment (cross-impact matrix multiplication applied to classification). It helps study the drive power and the dependence of the different variables. It is done by plotting the values of the driving variables with those of the dependant variables. The variables are split into

1. Autonomous factors: Relatively disconnected from the system, these factors have weak driving and dependence power.
2. Linkage factors: With a strong dependence and driving power, these are unstable factors which strongly impact other variables but are impacted themselves
3. Dependence factors: These factors have strong dependence power but a weak driving power.
4. Independent factors: These are factors which have strong driving power but have weak dependence power.

(Attri, Dev and Sharma)

Analysis

Demographics:

Figure 4.1
All respondents were below the age of forty, with a clear majority being between 20 to 30 years old.
Figure 4.2

Over 90% of the respondents were male.

Figure 4.3

Many of the responding organisations were started in 2016 (42%) followed by 2017 (25%)
Most firms chose to identify themselves in categories not covered by the survey, of those who chose to identify themselves, most saw themselves in the consultancy sector followed by education and real estate.

ISM (Interpretive Structural Modelling)

The guiding principles of the OECD principles were taken as the variables:

<table>
<thead>
<tr>
<th>Principle</th>
<th>Code for the variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ensuring the basis for an effective corporate governance framework</td>
<td>K1</td>
</tr>
<tr>
<td>The rights and equitable treatment of shareholders and key ownership functions</td>
<td>K2</td>
</tr>
<tr>
<td>Institutional investors, stock markets, and other intermediaries</td>
<td>K3</td>
</tr>
<tr>
<td>The role of stakeholders in corporate governance</td>
<td>K4</td>
</tr>
<tr>
<td>Disclosure and transparency</td>
<td>K5</td>
</tr>
<tr>
<td>The responsibilities of the board</td>
<td>K6</td>
</tr>
</tbody>
</table>

Based on the responses obtained, a self structured interaction matrix was formed using the following set of symbols to denote the relationship between the different variables:

- V if i → j but j → i (i leads to j but not vice versa)
- A if j → i but i → j (j leads to i but not vice versa)
X if i → j and vice versa
O if i → j but j → i (I does not lead to j and vice versa)

The following matrix was formed:

<table>
<thead>
<tr>
<th></th>
<th>K1</th>
<th>K2</th>
<th>K3</th>
<th>K4</th>
<th>K5</th>
<th>K6</th>
</tr>
</thead>
<tbody>
<tr>
<td>K1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>K2</td>
<td>O</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>K3</td>
<td>A</td>
<td>O</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>K4</td>
<td>O</td>
<td>X</td>
<td>V</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>K5</td>
<td>A</td>
<td>V</td>
<td>V</td>
<td>V</td>
<td></td>
<td></td>
</tr>
<tr>
<td>K6</td>
<td>O</td>
<td>X</td>
<td>A</td>
<td>X</td>
<td>A</td>
<td></td>
</tr>
</tbody>
</table>

Table 4.2

From the following matrix, a reachability matrix was created with the following Boolean logic for the different entries as:

V: (i,j) entry is replaced by 1, while (j,i) entry is replaced with 0
A: (i,j) entry is replaced by 0, while (j,i) entry is replaced with 1
X: (i,j) entry is replaced by 1, while (j,i) entry is replaced with 1
O: (i,j) entry is replaced by 0, while (j,i) entry is replaced with 0

The driving and dependant value were found for the model:

<table>
<thead>
<tr>
<th></th>
<th>K1</th>
<th>K2</th>
<th>K3</th>
<th>K4</th>
<th>K5</th>
<th>K6</th>
<th>Driving variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>K1</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>K2</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>K3</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>K4</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>K5</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>K6</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Dependant variable</td>
<td>1</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>2</td>
<td>5</td>
<td></td>
</tr>
</tbody>
</table>
Table 4.3
The reachability set, and the antecedent set were created. The intersections were found, and levels were appropriately assigned after four iterations. The next is set as the second level and so forth:

<table>
<thead>
<tr>
<th>Level</th>
<th>Reachability set</th>
<th>Antecedent set</th>
<th>RS u AS</th>
<th>Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>K1</td>
<td>K1, K3, K5</td>
<td>K1</td>
<td>K1</td>
<td></td>
</tr>
<tr>
<td>K2</td>
<td>K2, K4, K6</td>
<td>K2, K4, K5, K6</td>
<td>K2, K4, K6</td>
<td></td>
</tr>
<tr>
<td>K3</td>
<td>K3, K6</td>
<td>K1, K3, K4, K5</td>
<td>K3</td>
<td></td>
</tr>
<tr>
<td>K4</td>
<td>K2, K3, K4, K6</td>
<td>2, 4, 5, 6</td>
<td>K2, K4, K6</td>
<td></td>
</tr>
<tr>
<td>K5</td>
<td>K2, K3, K4, K5, K6</td>
<td>K1, K5</td>
<td>K5</td>
<td></td>
</tr>
<tr>
<td>K6</td>
<td>K2, K4, K6</td>
<td>2, 3, 4, 5, 6</td>
<td>K2, K4, K6</td>
<td></td>
</tr>
</tbody>
</table>

Table 4.4
First iteration:

<table>
<thead>
<tr>
<th>Level</th>
<th>Reachability set</th>
<th>Antecedent set</th>
<th>RS u AS</th>
<th>Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>K1</td>
<td>K1, K3, K5</td>
<td>K1</td>
<td>K1</td>
<td></td>
</tr>
<tr>
<td>K2</td>
<td>K2, K4, K6</td>
<td>K2, K4, K5, K6</td>
<td>K2, K4, K6</td>
<td></td>
</tr>
<tr>
<td>K3</td>
<td>K3, K6</td>
<td>K1, K3, K4, K5</td>
<td>K3</td>
<td></td>
</tr>
<tr>
<td>K4</td>
<td>K2, K3, K4, K6</td>
<td>2, 4, 5, 6</td>
<td>K2, K4, K6</td>
<td></td>
</tr>
<tr>
<td>K5</td>
<td>K2, K3, K4, K5, K6</td>
<td>K1, K5</td>
<td>K5</td>
<td></td>
</tr>
<tr>
<td>K6</td>
<td>K2, K4, K6</td>
<td>2, 3, 4, 5, 6</td>
<td>K2, K4, K6</td>
<td></td>
</tr>
</tbody>
</table>

Table 4.5
K2, K4 and K6 take the first level.

Second iteration:

<table>
<thead>
<tr>
<th>Level</th>
<th>Reachability set</th>
<th>Antecedent set</th>
<th>RS u AS</th>
<th>Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>K1</td>
<td>K1, K3, K5</td>
<td>K1</td>
<td>K1</td>
<td></td>
</tr>
<tr>
<td>K2</td>
<td>K2, K4, K6</td>
<td>K2, K4, K5, K6</td>
<td>K2, K4, K6</td>
<td></td>
</tr>
<tr>
<td>K3</td>
<td>K3, K6</td>
<td>K1, K3, K4, K5</td>
<td>K3</td>
<td></td>
</tr>
<tr>
<td>K4</td>
<td>K2, K3, K4, K6</td>
<td>2, 4, 5, 6</td>
<td>K2, K4, K6</td>
<td></td>
</tr>
<tr>
<td>K5</td>
<td>K2, K3, K4, K5, K6</td>
<td>K1, K5</td>
<td>K5</td>
<td></td>
</tr>
<tr>
<td>K6</td>
<td>K2, K4, K6</td>
<td>2, 3, 4, 5, 6</td>
<td>K2, K4, K6</td>
<td></td>
</tr>
</tbody>
</table>
Table 4.6
K3 takes the second level
Third iteration:

<table>
<thead>
<tr>
<th>Level</th>
<th>Reachability set</th>
<th>Antecedent set</th>
<th>RS u AS</th>
<th>Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>K1</td>
<td>K1, K5</td>
<td>K1</td>
<td>K1</td>
<td>3</td>
</tr>
<tr>
<td>K5</td>
<td>K5</td>
<td>K1, K5</td>
<td>K5</td>
<td>3</td>
</tr>
</tbody>
</table>

Table 4.7
K1 and K5 take the third level.
In effect, the ISM model is as follows:

Figure 4.5

By using the values of the driving variables and the dependant variables and plotting them on a scatter plot, the Figure 4.6 is obtained:
From this analysis, it can be found that:

K5 is a driving variable. It drives the rest of the system but does not get overtly impacted by any other variable.

K4 is a linkage variable which impacts other elements but being affected itself, it is unstable.

K3 is a dependence variable, which is impacted by other variables, but it has a weak influencing power.

The driving power of K1, K2 and K6 is the same. However, the dependence power is in the order of K6>K2>K1
Analysis:

Using thematic analysis of the responses, the OECD principles were contextualised as follows:

<table>
<thead>
<tr>
<th>OECD Principle</th>
<th>Thematic analysis of Start-up owner’s answers</th>
<th>Start-up equivalent</th>
<th>Revised terminology</th>
</tr>
</thead>
<tbody>
<tr>
<td>K1</td>
<td>Start-up owners feel that compliance with law is important and that the viability of the provisions depends on the type of the business they have. However, unclear legal provisions e.g. confusion over GST returns hurt start-up owners since these cause confusions. Clear legal provisions are required.</td>
<td>Legal compliances must be simple and clear. They must be set keeping in mind the unique setting of different businesses</td>
<td>Clarity in legal provisions and reasonable compliances.</td>
</tr>
<tr>
<td>K2</td>
<td>Shareholders is a narrow term for start-ups, thus the term is replaced with stakeholders. Start-up owners identify customers as their primary stakeholders followed by employees and directors. At the start-up stage customer satisfaction is the most important part. Customer trumps community.</td>
<td>Shareholders need to be replaced with stakeholders. Corporate governance needs to be cognizant of provisions which ensure startups can service their customers, employees and directors.</td>
<td>Primary responsibility towards customers, employees and directors.</td>
</tr>
<tr>
<td>K3</td>
<td>The sources of fund for start-ups tend to be internal since external source bring in added risk. Third parties tend to support start-ups legally but are a hinderance.</td>
<td>Internal stakeholders need to be recognised. Governance regulations need to aid companies in using third parties in ways that add value rather than simply comply with</td>
<td>Internal stakeholders and value adding third parties</td>
</tr>
<tr>
<td>K4</td>
<td>Interests of customers and employees are placed above others. Stakeholders are important for adding value through inputs, operations and strategy.</td>
<td>Customers and employees should be prioritised, with them being involved in the process of corporate governance. Stakeholders must be supportive, and their role should be to add value in the running of the business.</td>
<td>Prioritizing the rights and responsibilities of the stakeholders.</td>
</tr>
<tr>
<td>---</td>
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<td>---</td>
<td>---</td>
</tr>
<tr>
<td>K5</td>
<td>Start-ups recognise the importance of transparency, which lead to positive effect on investor relations. Firms disclose information such as financial data and other data but only above and beyond that.</td>
<td>Disclosure of financial information to the stakeholders. It is interesting to note that startups feel the need to disclose. Therefore, provisions for proper disclosure of financial information must be provided.</td>
<td>Creating a 'see through' organisation</td>
</tr>
<tr>
<td>K6</td>
<td>The board is responsible for carrying out company operations and functions.</td>
<td>The board must be rebranded as investors. These investors must aid in development of the firm in its operations and functions.</td>
<td>Consideration and sharing of responsibility with investors in decision making</td>
</tr>
</tbody>
</table>

Table 4.9
Findings

From the MICMAC analysis, the following was found:

Creating a “see-through” organisation is a driving variable in the framework, impacting other variables while not being impacted by them in turn. Startup owners believed that this was the fundamental element that motivated their stakeholders. Prior research confirms that transparency in traditional organisations, especially financial reporting (Armstrong, Guay and Mehran) helps improve relations with institutional investors (El-Diftar, Jones and Ragheb) and stakeholders (Schnackenberg and Tomlinson). For startups, this takes the form of financial and operational disclosure, which enables stakeholders to provide feedback.

Clarity in legal provisions and Analysis show that the variable has quite some impact on the framework; enough to unbalance an organization if not applied properly. It does tend to get affected by other elements which is understandable because it itself is the basis of the organisation. Startup owners' concerns were about the clarity of the element and the compliances related to it.

Prioritizing the rights and responsibilities of the stakeholders is established as a linkage variable. Startups need their stakeholders more than traditional companies since they look to them to improve their business models. It is interesting to note that firms which involve their stakeholders in their business decisions are also more receptive to their needs and concerns. (Ayuso, Rodríguez and García-Castro) Due to the informal nature of their functioning, these startups tend to involve their stakeholders in all business functions.

Internal stakeholders and value adding third parties forms the variable which gets impacted the most by other variables in comparison to it impacting them. Startups believe that these intermediaries turn out to be hindrances rather than supporting or helping them run the business. Thus, while other elements impact how organisations interact their internal stakeholders and third parties.

It is worth noting that the other variables have equal driving power with different degrees of dependency power. The highest dependence power is that of ‘Consideration and sharing of responsibility with investors in decision making’. This is

The framework with the revised OECD framework:
Discussion:
Owing to the unique nature of startups, it is necessary to first establish the needs of these type of organisations. This paper bridges this gap in understanding by using the OECD framework as the basis to formulate the corporate governance principle which are sensitive to the needs of founders. This study opens the discussion over what is corporate governance among start-ups. Confirmatory studies can see whether the model proposed in the paper holds up, by using SEM (Sequential Equation Modelling), CFA (Confirmatory Factor Analysis) etc. Further studies can also explore if corporate governance needs change as start-ups become established companies and how that transition happens. Though this study proposes a framework to understand corporate governance among start-ups, it has not answered a more fundamental question of whether start-ups need corporate governance or not.

Conclusion
The number of startups in India is only poised to grow in number and having a fair share of founders come from a non-management background, it is important for corporate governance to adapt to the new needs of these firms. Considering that, this paper helps bridge the gap by looking at what startup owners need. The need to redefine the elements of corporate governance for startups was a major first step. It is interesting to note that the revised elements of corporate governance are more intimate, understandably so since startups run with
fewer formal structures with greater number of informal networks contributing to their success. (Guerrini) Of the elements, transparency seems to be the key element which drives all other elements. By sharing information, startups enable their stakeholders to add value to their business. Prioritizing the right of stakeholders is another key element. Since startups cannot please everyone (or don’t have the resources to please everyone), they tend to put customers and employees on top. Being cognizant of these needs of startups helps form better corporate governance practices to unlock greater effectiveness for startups. India is a big market which will need to be serviced. If one understands the customer’s needs as a ‘consumerist infection’, startups are the penicillin to cure that infection. However, without the proper nutrients, it is impossible for us to grow the culture. In this regard, the right corporate governance structure is the need of the hour in solving this issue.

**Implications**

The implications of this study are:

1. Corporate governance regulation needs to enable companies to involve their customers and employees in the process of governing their companies. This can be done through things as simple as having speedy redressal mechanisms for employees. Providing ready-made structures can help startups institute ways to improve their functioning in areas which may not be in their domain of expertise (HR)

2. For start-ups, corporate governance needs to change the relationship between the board and the start-up from that of a watch-dog to an incubator, which helps them grow through strategic improvements. Startup owners often do not understand or appreciate corporate governance measures, however they see legal compliance as necessary for smooth business functioning. Regulation designed to maximise the benefits which firms can draw from

3. The legal environment must be simple and conducive to enable organisations to benefit from compliance rather than see it as a burden. There must be mechanisms made to improve the transmission of policies to application. One example is the confusion regarding the GST change. This has forced startups to add the change in taxation regime to their list of worries.

4. All corporate governance provisions tend to improve stakeholder’s ability to provide value inputs to the startup. This unique relationship between corporate governance and startups is something worth considering, providing effective corporate governance provisions for startups creates a virtuous cycle which improves firm’s productivity.

**Limitations**

1. The study had participants only from Pune and Mumbai.
2. The sample size for this study is small.
3. ISM is an interpretive method; thus, it is possible for the biases or gap in understanding of the researcher making the interpretive.

References


   <https://hbr.org/2015/03/corporate-governance-2-0>.


The World bank. Time required to start a business (days). 19 June 2017.

