



## Critical Analysis of effective Corporate Governance for Unicorn Start-ups in India

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**Abstract:** *The study aims at analysing the issues of corporate governance for the unicorn start-ups in India. It aims at finding out the reasons for smooth functioning of the board that can sustain the unicorn status of the selected status. It analyses different parameters of corporate governance and studies their relative importance in the core mechanism of start-ups. Among external factors, it has been observed that less regulatory compliance plays an important role in fostering the growth of the start-ups. Also, an easy access to finance at a cheaper rate and friendly terms also bolster the start-up growth. A competitive and innovative ecosystem also help the start-up maintain their edge and constantly motivate unicorn start-ups to update their strategy and devise new products to grab the market. Among the internal factors related to the corporate governance, a strong board-approved strategic roadmap is key to the long-term growth and sustainability of the unicorns. Regular restructuring of board and a decent weightage of independent members in the board structure improves the corporate governance structure of the unicorn start-ups. Unicorn Start-ups should be careful on the merger and takeover issues and should conform to the terms that is in the interest of the company. The conflict between the management and owners should be minimized to leverage maximum benefit of the growing state. The start-ups are advised to review the financial statements periodically to figure out any inconsistencies and take proper action to mitigate the same at the very nascent stage. Debt policy should also be carefully reviewed.*

**Key Words:** *Unicorn, Start-up Ecosystem, Competitiveness, Capital Structure, Dividend Policy, Merger & Acquisition, Structure of Board, Corporate Governance*

### 1. INTRODUCTION:

India is the world's 3<sup>rd</sup> largest start-up ecosystem just after USA and China and has produced 107 Unicorn Start-ups till now and so counting. The start-ups are the manifestation of a business idea blended with the technology and innovation to cater to the unserved demand of the market with a rapid growth path. In Indian scenario, the young entrepreneurs and business minds are fuelling the economic growth with the establishment and proliferation of Start-up base to contribute to the 'Make in India' aspiration with a sound value chain setup. The Unicorn tag is assigned to the Start-ups that has acquired \$1 billion valuation on its own without being listed on the Stock Exchange. The well-known Unicorns of India like Ola, Zomato, Paytm, OYO, Flipkart etc. have revolutionized the product and service segment with new technology and customer-oriented strategies. They have proved to be a viable pillar of the economy with the growth and employment opportunities to the skilled labour force. The Unicorn Start-ups are considered to come out from nascent stage and are on the verge of becoming a Public limited Company by listing on the Stock Exchanges. They have emerged as big players and now need to manage a wider operation in an efficient manner. Here the role of Board of Directors come into play and a Proper Corporate Governance Standards should be put in place to execute the policy formulated by the board with the obligation of disclosure and transparency to the internal and external stakeholders. Most of the Star-ups are incorporated under the Companies Act 2013 as Private firms. Some of them are structured as One Person Company or even the Partnership firm. However, the Unicorns whether or not being transformed into a Public Limited Company, needs to follow the statutory and regulatory standards to preserve the interest of their employees, customers, financiers, suppliers and the economy as a whole.



Figure 1: Hundred Unicorn Start-ups in India

## 2. REVIEW OF LITERATURE:

**Kaur, G. (2017)** propounded that the Corporate Governance plays a critical role in managing an organization. Board of Directors help formulate Corporate Governance roadmap to guide the staffs of the organization to execute functions as per the formulated standards. Corporation puts out the standards that define the ethics and work culture within the organization and thereby bind the employees to stick to the set norms.

**Dash, A. K. (2012)** reviewed the impact on Corporate Governance on the company performance. Corporate Governance set disciplinary standards for the companies as well as employees to follow. Corporate ethics and business practices are the flesh and blood of an organization that drives sound operation and outcome on behalf of the company and the industry as a whole.

**Marshall, D.W. (2014)** dissected a revelation score, measure the straightforwardness level and corporate administration exposures made in yearly report of recorded open restricted organizations and distinguished that corporate administration divulgence must be made at least for open constrained organizations in rising economies.

**Kumar, R. (2016)** has depicted in his investigation that Public Sector banks need more noteworthy useful independence in a deregulated domain, notwithstanding, should be joined by more prominent responsibility with respect to their sheets to investors and partners and strategy on corporate administration will be filled in as in compelling way for accomplishing the chose objective.

**Alao O. and Raimi, L. (2011)** recognized in their examination that the job of corporate administration practice in case of worldwide monetary downturn that compelling corporate administration practice had the option to guarantee the investors that in such downturn have a wave impact on economies, the enthusiasm of investors would be secured in a successful way.

**Gayathri, S. (2015)** reflected in her investigation that financial division and administrative bodies are submitted towards exposures and force of investor's interest for straightforwardness, it would establish the strong framework for viable Governance.

## 3. RESEARCH GAP:

- The nature of external and internal challenges of Unicorn Start-ups needs to be discussed.
- The need of Corporate Governance for the smooth functioning of Unicorn Start-ups needs to be focused.
- The compatibility and readiness of those Start-ups to implement CG standards needs to be analysed.
- The importance of Corporate Governance should be examined in lines with the profit motive of the Organization.

## 4. OBJECTIVES OF THE STUDY:

- To identify the internal and external parameters of Corporate Governance and their impact on the Corporate Entity.



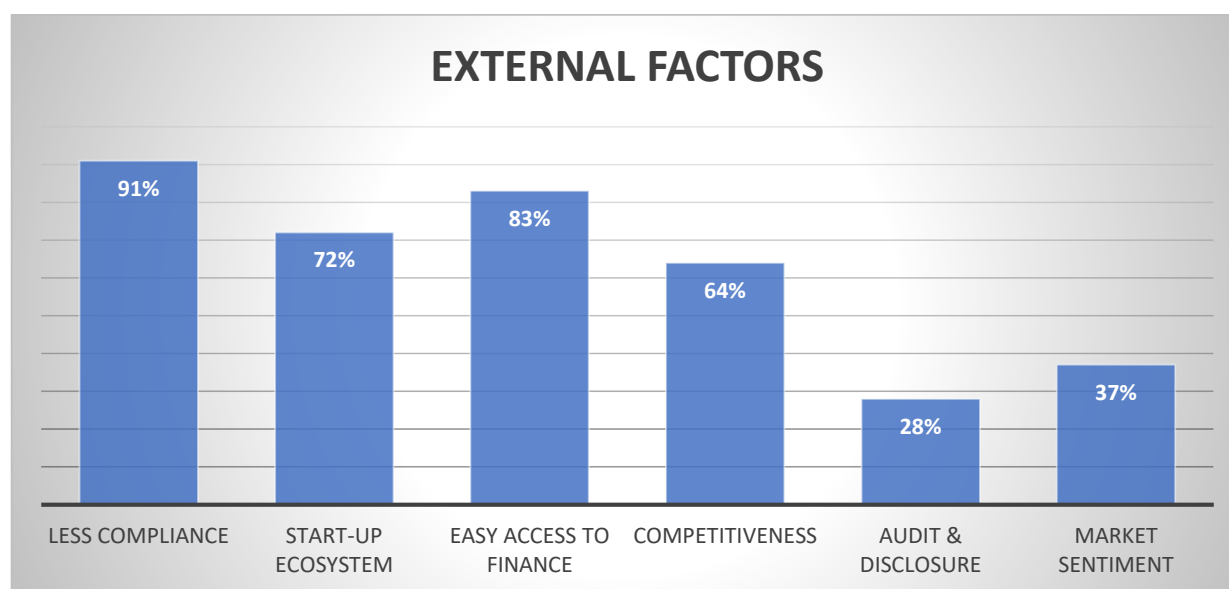
- To analyse the perception of company executives and line managers on the significance of the Corporate Governance parameters,
- To explain the effective way of adoption and implementation of CG standards by the Unicorn Start-ups for their growth and prosperity.

## 5. RESEARCH METHODOLOGY:

The opinions of the executive officers, managers and policymakers of 10 Unicorn Start-ups have been recorded on the various internal and external issues of Corporate Governance aspects. The responses on different parameters are collected on the basis of binary questions, i.e 'Yes' or 'No' as the respective views of the managers. Then the collective average responses on the said parameters are analysed to comprehend the importance of effective Corporate Governance with respect to the growth and sustainability of Unicorn Start-ups.

## 6. DATA ANALYSIS:

### 6.1 External Factors:



**Graph 1: External Factors of Corporate Governance**

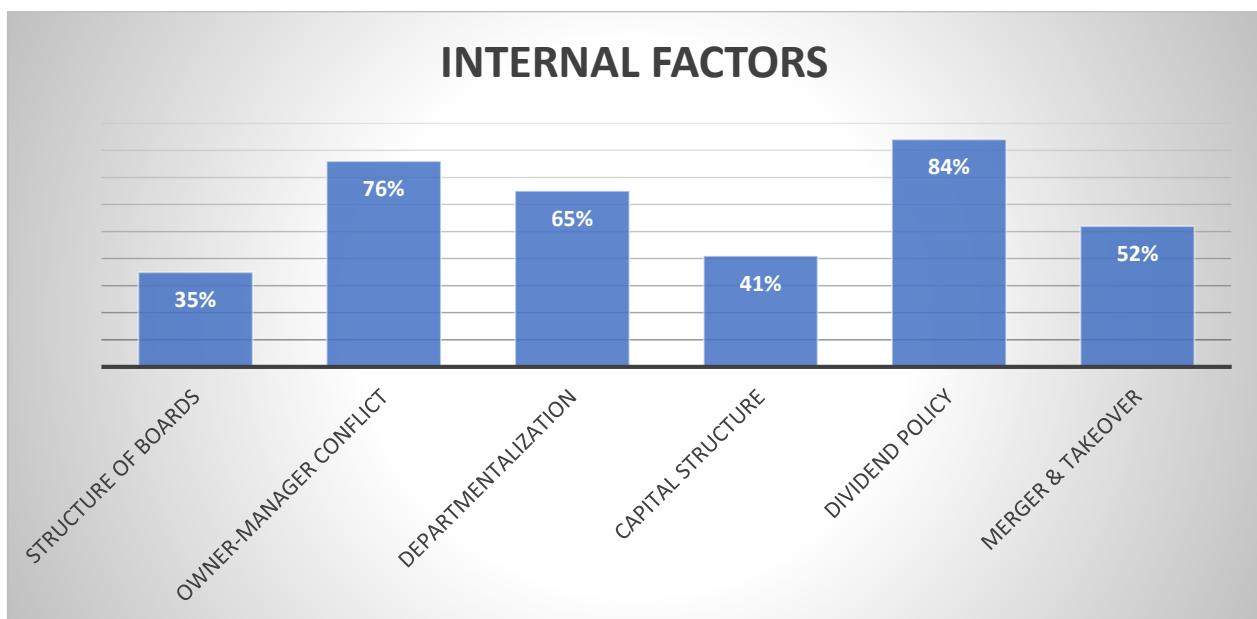
Almost 91% executives of Unicorn start-ups view that the less regulatory compliance is helpful for the smooth functioning of the firm. Lesser the compliance to the norms and standard imposed by the regulators and statutory bodies, higher is the ease of doing business and greater is the freedom enjoyed by the board of directors in formulating policy and strategies. 72% of the managers viewed that a proper start-up ecosystem in terms of Govt. backed incubators, regulatory sandbox, technology demonstrator is needed to help a newly formed start-up to grow and flourish to attain the unicorn status. Almost 83% of the line heads believe that the early-stage finance in the form of Venture Capital, Bank loan and Private equity at a cheaper interest and favourable terms is essential for funding the Research & Development, Marketing and Mass production of the Start-ups to gain pace with their already established competitors. A moderate number of executives (64%) think that to fuel the growth of the Start-ups, certain level of competitiveness is necessary, that could prove beneficial to accelerate product innovation and strategic diversification. However, very less proportion of managers feel that the Audit and disclosure requirement (28%) of the Start-ups has any detrimental effect on its operation and growth. Market sentiment although determines the course of action of the output of the start-ups, is felt to have merely influenced the governance standards (37%).

### 6.2 Internal Factors:

The Board structure is an important aspect of corporate governance for a large-scale public limited company. The higher number of Independent Directors in the board takes care of the objective policy formulation, maintenance of sound business ethics and protecting interests of small shareholders. However, Start-ups in the stage of growth towards the Unicorn status are largely Private owned and puts maximum attention to the rapid growth and market expansion rather than caring much about the shareholder's interest. So, merely 35% executives find the Board



Structure to be that much important in the context of Unicorn Start-ups. 76% managers viewed that the conflict between the Owner and Managers in devising products and policy can be detrimental for the growth of the start-ups. However, this response excludes the cases of owner-managers running the company. Execution should be separated from the governance for proper function and better outcome. A sizable number of executives (65%) perceive that with growing business, diversification of work becomes necessary to enhance the efficiency. Separate departments headed by specialized managers and staffs with proper coordination improves the process efficacy and brings out a better outcome.



**Graph 2: Internal Factors of Corporate Governance**

A lower proportion (41%) of the staffs are in the view that the Capital Structure is that much important for the early-stage growth of the start-ups. Although, a Capital base comprising a lower leverage and higher paid-up capital is advocated, the growth unicorn start-ups are not so affected by whatsoever mix their capital have. However, a thoughtful Capital accumulation with a lower burden of debt is always advisable for the long-term viability of those firms. Almost 84% of the manager thinks that the dividend policy is crucial factor for the growth of the Unicorn Start-ups. The start-ups should focus more on retaining earnings and funding its expansion rather than distributing higher dividends to its owners, financiers and shareholders. Higher extent of funding through retained earnings also builds a good profit motive and creates lesser burden of leverage. Managers are on an average neutral (52%) on the question on whether the Unicorn Start-ups should acquire small players or let them merge with itself to expand the operation and market outreach.

## 7. CONCLUSION:

The analysis on the effective Corporate Governance of the Unicorn Start-ups brings out following conclusions.

- The growth of the Start-ups is driven by the less regulatory compliance, easy and cheaper access to finance and a proper Start-up ecosystem under the patronage of the Govt. and knowledge hubs. The start-ups should be facilitated in every aspect realize their potential to sustain a stable growth path.
- Some sort of competitive environment helps start-ups innovate their products and encourage investments in research and developments. Market sentiments also influence the product-mix and policy orientation of the unicorns.
- The early phase of growth and expansion of the start-ups are somewhat indifferent of the structure of their board and mainly focused on the quantifiable parameters such as the profit generation and retention to fund their future expansion rather than pleasing the financiers with hefty rewards of dividend.
- Although Capital structure is not much of a concern, it is suggested for the Start-ups to put up lesser leverage for their long-term sustainability. Acquiring new firms for expanding product and market segment is welcoming, although the distinction of operation with departmentalization is advisable.



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