
CHALLENGES AND ADAPTATIONS OF CORPORATE MODELS FOR STARTUPS

Rishika Vaishalik, IILM University

ABSTRACT

This abstract looks at the obstacles that new businesses must overcome in order to successfully implement sound corporate governance models. It also looks at the changes that must be made to overcome these obstacles. Startups face particular governance issues because of their dynamic settings, which are marked by rapid growth, scarce resources, uncertainty, and fierce rivalry. Resource limitations, founder domination, regulatory compliance, and investor relations are some of the main challenges. Startups modify governance models in response to these issues by adopting lean, agile, and founder-centric methodologies; utilising technology; and placing a premium on accountability and transparency. Startups may reduce risks, encourage innovation, and improve sustainability by putting adaptive governance ideas into practice. This will eventually help them succeed in the long run in the cutthroat world of entrepreneurship.

Keywords: corporate governance, startups, stakeholders, entrepreneurship, companies and challenges

INTRODUCTION

The set of guidelines that control how an organisation is managed and run is known as corporate governance. Corporate governance is a crucial aspect of any organisation. It preserves the equilibrium of the parties involved. It also helps the organisation reach its objectives. Additionally, it aids in decision-making within organisations for the benefit of all parties involved. In summary, corporate governance is critical from both the organization's and its clients' points of view.¹

The task of developing a corporate governance structure that optimally synchronises company activity with corporate objectives falls to the board of directors or corporate executive board. The establishment of security, transparency, equity, compliance, reliance, and accountability principles is a necessary component of good corporate governance.

Significance of corporate governance

Significant changes in ownership structures have occurred in the business environment, especially in large private-sector corporations. An increasingly diversified ownership base has replaced the conventional paradigm of concentrated ownership by a small number of people or families. A number of variables, including the possibility of hostile takeovers and the rise of institutional investors, have fueled this transformation. Because of this, corporate governance has become even more important in guaranteeing transparency, accountability, and the defence of all shareholders' rights. It is essential for avoiding undue influence, encouraging impartial decision-making, and defending minority shareholder interests.

Corporate governance is a key factor in encouraging social responsibility in businesses. Organisations can make a good impact on society by incorporating ethical practices and taking into account the interests of different stakeholders, including as suppliers, lenders, customers, and the local community. Good corporate governance makes ensuring that directors make choices that are in the best interests of the company while also taking the wider picture into account. It offers a structure for resource distribution and management that is ethical, eventually increasing value for all parties involved and promoting sustainable development.²

¹ <https://ondemandint.com/resources/corporate-governance/>

² <https://www.geeksforgeeks.org/corporate-governance-meaning-concept-significance-and-principles/>

The public's trust has been damaged by instances of corporate fraud, which emphasises the necessity of strong corporate governance procedures. Scandals like the CRB Capital fraud and the Harshad Mehta case have caused small investors to suffer significant losses and have brought attention to the significance of risk management, accountability, and transparency. Businesses can identify and stop fraudulent activity by putting in place efficient governance tools, such as independent audits, internal controls, and board oversight. Robust corporate governance functions as a defence, safeguarding the interests of investors, respecting moral principles, and preserving the public's confidence.

A company's credibility and transparency will be enhanced by having strong corporate governance, which is a prerequisite for listing on an international stock exchange. They would gain a positive reputation both domestically and internationally.³

Introduce the startup ecosystem and its characteristics

With the intention of developing a good or service that they believe there will be a demand for, one or more entrepreneurs found startups. Due to their high initial costs and low earnings, these companies often go to a variety of sources, including venture capitalists, for funding. The setting in which startups and other supporting entities function gives rise to a startup ecosystem. While defining startup ecosystems, there are a number of variables we may consider. In our reports, you will first discover a description of the hub, or specific area, which helps us to rank the growth and creativity of startup ecosystems by limiting their physical location.⁴ Several salient characteristics set this ecosystem apart from conventional commercial environments: Startups are at the vanguard of innovation, creating novel goods, services, and business plans that upend well-established markets and sectors. They flourish when given the opportunity to be creative, adventurous, and eager to question the current quo. Whether they're utilising cutting-edge technologies like biotechnology, blockchain, or artificial intelligence, startups frequently push the envelope of what's feasible, fostering advancement and change across a range of industries. The entrepreneurial spirit, which is typified by people who aren't afraid to take chances, go after big dreams, and never give up in the face of difficulty, is essential to the startup environment. Entrepreneurs frequently forgo short-term security in

³ <https://ondemandint.com/resources/corporate-governance>

⁴ <https://www.startupblink.com/blog/startup-ecosystem-development-a-guide/>

favour of long-term growth and fulfilment because they are motivated by passion, vision, and a desire to have a significant effect.

This kind of thinking encourages creativity and propels the expansion of new businesses. In order to increase their consumer base, revenue streams, and market presence as quickly as possible, startups strive for rapid expansion and scalability. Startups, on the other hand, frequently pursue aggressive growth strategies driven by venture capital, angel investment, or other types of funding, in contrast to traditional enterprises that might prioritise stability and incremental growth. Startups are distinguished by their emphasis on scalability, which calls for flexible, agile organisational structures and procedures.

Importance of effective governance structures for startups.

As disruptive models and technology open up new markets and spur further innovation, the Indian start-up ecosystem is growing to new heights. Less than ten years ago, a substantial number of start-ups have grown to be national players, listed on the major stock exchanges. Over the past ten years, a number of other people have become unicorns. It is crucial for start-ups and founding teams to take initiative in this rapidly changing environment and make sure that insufficient internal systems do not cause them to stumble.

Establishing an ethical startup culture from the bottom up will help companies mould their perspectives and create regulations that align with their governance goals. This will assist the business in preventing fraud and addressing governance concerns in addition to assuring investors that they are investing in a business that respects integrity and abides by the law.

The three pillars of investor attitude, board members, and founder mindset are the foundation of effective governance for start-ups.

Start-ups, which are frequently distinguished by their inventive energy and dynamic attitude, are vulnerable to a wide range of hazards, from threats to their reputation to operational and financial difficulties. It is critical to preserve the confidence of clients, employees, and investors in the unstable world of entrepreneurship.⁵ It is imperative that early-stage companies, particularly those with new ideas and the potential to disrupt markets, take a proactive approach to governance by putting in place a competent board prior to periods of growth and critical

⁵ https://www.ey.com/en_in/start-ups/how-start-ups-can-enhance-governance-for-growth-and-ethical-alignment

turning points. Boards must make sure investors share the same values and social goal. This means that board members who are investors shouldn't just be there to meet their board seat requirement or become overly involved in operations. Strong, effective boards provide value at every stage of a company's growth and development, but their roles will change as the business expands and innovates.

Regular board meetings should take place, and participants should be ready to actively participate by having completed their "homework." The presence of a board to provide "checks and balances" does not always imply a halt to development or innovation. Robust boards push founders, facilitate crucial connections, support expansion, and eventually increase a company's long-term viability.⁶ Growth can come suddenly, so it's critical to make sure the right procedures and controls are in place before it does.

Growth frequently necessitates the acquisition of fresh funding as well as the need to draw in new investors, who could demand the implementation of robust governance practices. During a company's life cycle, governance methods should be consistent with investor expectations. It can be especially difficult for innovative businesses to match investor expectations when they may need to quickly change their business strategies. By determining when specific procedures should be implemented, boards that are either too heavy or too inexperienced for the company's stage can be avoided.

Challenges of Corporate Governance for Startups

Startups find it difficult to follow good corporate governance principles because of their limited resources, inexperience, and need to balance the interests of various stakeholders.

India's startup environment is extremely competitive due to significant capital inflows and the country's rapid growth in startup enterprises across all industries. This may cause some entrepreneurs to ignore governance-related issues.

Moreover, newcomer founders lack the necessary corporate governance knowledge. Founders may object to increased operating costs resulting from a focus on governance. Founders may occasionally act unethically because they lack moral principles or generally disobey the law.

⁶ <https://www.centerforfinancialinclusion.org/>

Adaptable governance frameworks are necessary for startups since they operate in extremely unstable contexts with unpredictable market conditions, technology disruptions,

and regulatory changes. Over \$131 billion in capital was provided to India's startup community between 2014 and 22. Investors had a "fear of missing out" as international venture capital (VC) firms raced to fund potential Indian startups. Due diligence lost significance as a result, while closing a contract gained significance.⁷

Adaptations of Corporate Governance Models for Startups

Lean governance reduces bureaucracy and administrative overhead by emphasising efficiency, simplicity, and agility in the performance of core tasks. Startups, particularly those in their early phases, frequently have little funding, therefore they require flexible and economical governance structures. Lean startup approaches serve as an inspiration for lean governance principles, which promote quick experimentation, feedback loops, and iterative improvement. It facilitates decision-making by giving small teams or people the authority to act quickly on the basis of information and input. By reducing obstacles and quickening the pace of invention, this strategy enables startups to react quickly to shifts in the market and client demands. Founder-centric governance acknowledges the crucial role that founders play in shaping the startup's vision, culture, and strategy.

The unique perspectives, enthusiasm, and experience that founders frequently possess are crucial to the success of the startup. Founder-centric governance necessitates systems that strike a balance between the influence of the founder and the interests of stakeholders, accountability, and openness. The founder often doubles as the CEO of a firm, combining leadership and decision-making responsibilities. Although having a founder-CEO duo raises questions about potential conflicts of interest and power concentration, it can also bring clarity and consistency to early-stage firms. Startups may create independent boards or advisory councils to supervise and advise the founder-CEO in order to reduce these risks. These documents provide expectations by outlining the founders' rights, obligations, and equity ownership.

Agile software development approaches serve as an inspiration for agile governance, which places an emphasis on flexibility, teamwork, and iterative development. Agile governance

⁷ <https://forumias.com/blog/governance-issues-at-indian-startups-causes-and-impacts>

techniques that emphasise responsiveness, customer-centricity, and cross-functional teamwork can be beneficial for startups functioning in fast-paced and risky contexts. It uses sprint-based cycles, which are usually one to four weeks long, for planning, carrying out, and reviewing. Startups create clear objectives, allot resources, and monitor progress via frequent checkpoints and retrospectives throughout each sprint. Startups can quickly adapt to shifting market conditions or client feedback thanks to this iterative methodology.

Case studies

1. Airbnb encountered governance issues with community relations, safety regulations, and regulatory compliance as it quickly expanded from a small startup to a major player in the worldwide hospitality industry. The company needed a strategic approach to governance because it operated in a highly regulated industry with distinct rules and regulations in different regions. In order to address issues and foster trust, Airbnb engaged legislators, regulators, and community stakeholders in a proactive approach to governance. In order to create legislation specific to its platform, the business worked with local governments and formed specialised government relations teams. In order to increase trust and reduce risks, Airbnb has also made investments in safety measures like identity verification, host requirements, and insurance coverage.

According to its governance techniques, Airbnb was able to grow internationally while staying compliant with regulations and upholding its good name. Airbnb established ties with governments and industry organisations and won the trust of stakeholders by promoting openness, collaboration, and compliance.

2. Direct-to-consumer eyewear retailer Warby Parker, which was established in 2010, is a prime example of a startup that raised money while upending an established market. The company's goal was to improve society while producing fashionable, reasonably priced eyewear. Through a crowdfunding effort, Warby Parker first raised \$2,500, demonstrating the value of involving the community and confirming the idea. The founders were able to start the business and create their first line of frames thanks to this early finance. The most important takeaway from Warby Parker's fundraising experience is the value of having a clear vision, standing out in a competitive market, and interacting with the local community. Warby Parker was successful in drawing in

investors and clients by integrating their company's values with social causes and developing a strong brand.

3. The fintech company Stripe, which offers solutions for online payment processing, had to deal with governance issues pertaining to financial risk management, fraud prevention, and regulatory compliance. Stripe had to manage intricate regulatory obligations while preserving operational innovation and efficiency because it was a player in the heavily regulated financial services sector. Stripe's governance practices allowed the business to expand quickly and become a major force in the online payments sector. Stripe acquired the trust of partners, customers, and regulators by putting compliance, risk management, and innovation first. This allowed Stripe to expand into new markets and sectors.⁸

Stripe's experience emphasises the value of adopting cutting-edge technologies, working with authorities, and making ongoing investments in risk management and compliance. Startups in regulated sectors can lessen governance issues by investing in strong compliance frameworks, proactively addressing regulatory regulations, and utilising technology to improve security and fraud protection measures.

NOTABLE FAILURES

1. Uber, a ride-hailing company, had governance issues because of regulatory disputes, claims of workplace misconduct, and a toxic culture. Numerous controversies and legal disputes were caused by the company's ambitious expansion strategies, disdain for compliance, and lack of accountability. Travis Kalanick, the founder and former CEO of Uber, was compelled to step down due to growing criticism from stakeholders and investors regarding his unethical behaviour and leadership style. The Uber case made clear how crucial moral leadership, a company's culture, and adherence to laws and regulations are in determining corporate governance procedures. It emphasised that in order to create a positive workplace culture and preserve public trust, startups must place a high priority on values-driven leadership, diversity, inclusiveness, and ethical behaviour. Calls for increased monitoring, accountability, and governance changes in

⁸ <https://www.chargebee.com/blog/crossing-chasm-challenges-stripe-mainstream/>

the digital sector were also sparked by the Uber affair.

2. Byju's, one of India's unicorn firms, came under fire after reports of unethical business practices and financial irregularities surfaced. Byju's was formerly regarded as the crown jewel of Indian startups. Due to inadequate oversight procedures, internal complaints were either mostly disregarded or improperly escalated. Stronger governance procedures, according to experts, may have reduced these dangers. These mistakes show that a well-designed governance structure could have given board members, auditors, and whistleblowers a way to get involved before things got out of hand.⁹

The instances don't stop with Byju's. Companies such as Housing.com have also experienced severe financial and reputational losses due to unethical behaviour and a lack of internal controls. Investor caution and investment has decreased as a result of the recent revelation of multiple corporate governance lapses at Indian startups, including Trelle, Zilingo, BharatPe, GoMechanic, and most recently, Mojocare. These lapses have drawn criticism from stakeholders. There are other instances as well, such as Theranos in the United States, when a company's collapse or closure was caused by ethical or governance failings.

Conclusion

Because the entrepreneurial ecosystem is dynamic and distinct, new businesses have obstacles in implementing corporate governance models, which require adjustments. Agile and customised governance strategies are necessary in startup contexts because of their fast growth, uncertainty, resource limits, and fierce rivalry. Startups can develop innovative solutions, reduce risks, and improve sustainability by tackling important issues and putting adaptive governance techniques into place.

Startups face various types of challenges such as rapid growth, limited resources, investor relations etc which could diminish the value of the startups in the early stage.

By reading above case studies, we learnt various lessons that we should keep in the mind before doing startup with the help of corporate governance are To solve governance issues, establish

⁹ <https://www.linkedin.com/pulse/imperative-strong-corporate-governance-young-indian-startups-dayal/>

confidence, and promote cooperation, startups should actively interact with regulators, investors, and stakeholders. For startups to keep the trust of stakeholders and reduce the risks of misconduct, conflicts of interest, and non-compliance with regulations, they must be accountable and transparent. To encourage responsible governance practices and preserve public trust, startups must prioritise diversity, an ethical leadership culture, and a values-driven workplace culture. It is recommended that startups adopt a culture of continuous development, whereby they learn from their mistakes and modify their governance procedures to align with changing market conditions, stakeholder expectations, and demands.

Suggestion

Future research could explore the impact of governance adaptations on startup performance, investor confidence, and regulatory compliance. Practical implications for entrepreneurs include the importance of implementing transparent governance practices from inception to foster trust and attract investment. Investors should consider governance frameworks as a critical factor in evaluating startup opportunities. Policymakers can develop tailored regulations and support programs to facilitate responsible governance in the startup ecosystem. Other stakeholders should prioritize collaboration and knowledge-sharing to promote best practices and mitigate governance risks in startups.