Confederation of Indian Industry

CORPORATE GOVERNANCE CHARTER FOR START-UPs

April 2024

Message

As India marches towards becoming the third largest economy of the world, Indian Startups need to gear up to become stable, sustainable and globally competitive in the long run and grow to become global corporations. Startups have undoubtedly emerged as important contributors to the Indian economy. Adopting sound governance practices will help these entities in laying a strong foundation for their continued success. Early adoption of good governance practices helps - Startups gain tangible and intangible benefits including long-term value creation, stakeholders' trust, better access to finance from investors and banks, reduced reliance on promoters, effective organisational structures and improved chances of long-term survival of the business.

Corporate governance is a value-based approach wherein an entity's objectives, actions, communication and conduct are aligned to the basic tenets of accountability, transparency, fairness and responsibility. Corporate governance measures can be viewed as an anchor which keeps a business entity on continued path to success and growth amidst ever evolving and challenging business scenarios. In order for entities to build trust amongst all its stakeholders, businesses need to adopt the best in class Corporate Codes. These Codes set a benchmark for monitoring, evaluating and improvising the prevailing governance practices.

CII has been a proponent of good governance practices and continues to focus on driving various initiatives with an aim to promote good corporate governance practices. CII considers compliance with applicable laws and regulations in practice and in spirit is a matter of hygiene and imperative for all business entities. CII encourages its members to not only focus on long-term value creation by adopting sound governance practices but also believes that the cost of compliance will go down by adopting these Corporate Governance Practices. In this background, CII engages continuously with the government and regulatory authorities in streamlining the regulatory framework for businesses and promotes facilitative and harmonized regulatory environment.

I hope that the Governance Charter for Startups will enable early adoption of good governance practices amongst Startups and help them evolve into Leaders of Tomorrow.

R Dinesh
President,
CII (2023-24) and
Chairman, TVS Supply Chain Solutions Ltd

A Note

In broader parlance, corporate governance is way beyond compliance with statutory and regulatory requirements stipulated in the applicable laws and regulations. Corporate governance reflects the deep-rooted values and principles embedded in day-to-day business practices and policies of an organisation such as promoting fairness, transparency, accountability, commitment to values, ethical business conduct, disclosure, trusteeship and considering all stakeholders' interest while conducting business. These values and principles should be reinforced at all levels in an organisation.

Corporate governance is an evolving concept with ever-expanding facets to include accuracy of ESG Reports, sustainability, diversity, equity and inclusion (DE&I), board management dynamics and AI oversight. Corporate governance is often viewed by stakeholders especially investors to gauge the quality of management and effectiveness of Board of the companies.

I take this opportunity to congratulate CII for the Charter on Corporate Governance in Startups which will lead them on the path to adopting sound governance practices in their businesses. I am sure this Charter will immensely facilitate not only good governance practices in Startups but will also accelerate their competitiveness, scalability, success and long-term value creation.

Companies needs to be proactive in compliance with applicable laws and adopting good governance principles. Startups being an important constituent of the Indian business ecosystem, will gain immensely from the Governance Charter which will help Startups build stakeholders' trust and especially investors' trust in their businesses.

The Startups must leverage their resources and energies into increasing value for all stakeholders which is a macro level, far-sighted approach to sustained success rather than profitability which is an instant approach to short-term success. In this era of stakeholder activism, the former approach will lead Startups to a variety of positive outcomes including but not limited to increased valuations and better access to finance. Startups need to complement business priorities with responsible governance and ethical conduct with accountability, responsibility and integrity through self-regulation.

Sanjiv Bajaj
Immediate Past President, CII (2022-23),
Chairman, CII Corporate Governance Council (2023-24) &
Chairman & Managing Director,
Bajaj Finserv Limited

Foreword

In 1998, the Confederation of Indian Industry (CII) took a special initiative to come out with the "Desirable Corporate Governance: A Code" – the first institutional initiative for Indian industry. This initiative by CII flowed from public concerns regarding the protection of investor interest, especially the small investor; the promotion of transparency within business and industry; the need to move towards international standards in terms of disclosure of information by the corporate sector, and through all of this, to develop a high level of public confidence in business and industry.

The CII Code was subsequently incorporated in SEBI's Kumar Mangalam Birla Committee Report and thereafter in Clause 49 of the Equity Listing Agreement. CII also set up a Task Force under Ambassador Naresh Chandra in February 2009 to recommend ways of further improving corporate governance standards and practices both in true letter and spirit. The Task Force Report enumerated a set of voluntary recommendations "CII Corporate Governance Recommendations for Voluntary Adoption" with an objective to establish higher standards of probity and corporate governance in the country.

Since then, and keeping pace with the global governance standards, the regulatory landscape in the country has evolved. The Ministry of Corporate Affairs (MCA) also came out with the "Corporate Governance Voluntary Guidelines" in 2009. In March 2012, MCA constituted an expert committee under the Chairmanship of the then CII President Mr. Adi Godrej, and its report formed the base for enhancing governance standards in the country.

The Report of the Committee on Corporate Governance (under the leadership of Mr. Uday Kotak) was released in October 2017 by SEBI and proposed a slew of suggestions to help Indian Industry adhere to better corporate governance, compliance and disclosures practices.

Since the global practices, business and corporate actions and behaviour are constantly evolving, therefore, CII reviewed the earlier Desirable Corporate Governance Code 1998 and recommended updated CII Guidelines on Integrity and Transparency in Governance and Responsible Code of Conduct to serve as the base for corporates (large and small; listed and unlisted) to redesign their governance strategies in the face of ever-changing business and regulatory environment.

With the advent of Startups which have become an integral part of Indian economy and which have propelled the Indian industry in terms of innovation, technology, markets and business strategy, we feel this is the right time for CII to curate a Charter on Corporate Governance Practices for Startups to support Startups in their Governance journey ahead.

The Charter comprises of good governance practices; principles of corporate governance; focus areas for Startups in terms of governance and forward-looking concepts – aimed at enhancing the overall governance standards of Startups in India by encouraging voluntary adherence to the Charter, in letter and in spirit.

Chandrajit Banerjee
Director General, CII

Introduction

Startups are helping lay the foundation of a new and vibrant India that is moving ahead with great determination and confidence to reclaim its rightful place as one of the leading economies and one of the greatest nations of the world. Given their crucial role in shaping our collective tomorrow, it is essential that India's Startup sector is built on a robust foundation of good corporate governance.

Start-ups tend to thrive on innovation, disruption, and the fast-paced pursuit of growth opportunities. A well-conceived, high-quality corporate governance framework can support these and guide a Startup through both favourable and challenging phases.

Corporate governance enables Startups to have clear and rule-bound decision-making processes based on ethical and legal considerations. It helps improve the quality of decisions, reduce conflicts of interest, and promote long-term strategic thinking. Good governance practices help maintain transparency and enhance disclosures relating to predictability in revenue, growth, and business planning important parameters for Startups and investors to work together with mutual trust.

Good governance also includes creating a risk matrix, succession planning, diversity, equity and inclusion, ESG and sustainability, commitments associated with equity, and proper board functioning, to name a few.

The Governance practices that a Startup needs to follow vary depending on its life cycle stage. This CII Charter is designed to support Startups in understanding the governance requirements they may need to follow in different stages from inception to becoming a public company. Besides, there are certain quintessential governance norms which Startups may follow irrespective of the stage at which they are. The Charter also identifies such governance principles and practices which a Startup may adhere to at all times.

It is important to embed the tenets of good corporate governance from the earliest days of a Startup. Over time, they become part of the DNA of the organisation, helping guide and steer the Startup and all its stakeholders through various stages of its growth and evolution.

Kunal Bahl
Chairman, CII National Startup Council (2023-24)
Co-founder - Titan Capital & Snapdeal

Content

Background

Startups have undoubtedly emerged as important contributors to the Indian economy in terms of employment generation, share in GDP, raising capital, foreign direct investment, innovation, social integration etc. However, to reach the next level i.e. become stable, sustainable and globally competitive in the long run and grow to become global corporations, these businesses may adopt sound governance practices which will lay a strong foundation for the continued success of these entities. This is more so in the wake of certain instances of governance failures amongst these entities, coming to light. Implementation of good governance practices has multiple advantages for Startups, such as better access to finance from investors and banks, reduced reliance on promoters, effective organisational structures, attracting top talent, and improved chances of long-term survival of the business. The essence of good governance lies in the basic principles of trust, integrity, transparency, fairness, accountability, disclosures, social responsibility and equitable treatment of all shareholders, which may be imbibed in the culture of every kind of organisation. The Startups may gain immensely by the insights provided in this Charter and they may like to adopt good governance practices (even if not required to adhere statutorily) according to the structure, size, form and scale of business of their respective entities. While focussing on growth, profitability and other business metrics, board of directors ("Board") and managements of Startups may also focus on good governance – which is an important ingredient for the success of Startups, and its early adoption leads to benefits (both tangible and intangible) for the organisation.

> A much-discussed topic in the Startup space is corporate governance based on the basic principles of a) accountability b) transparency c) fairness and d) responsibility.

A much-discussed topic in the Startup space is corporate governance based on the basic principles of a) accountability b) transparency c) fairness and d) responsibility. Startups invariably need supervision and guidance from seasoned professionals in the field, to minimize their business miscalculations.

Purpose of the Charter

India has emerged as the 3rd largest[1] ecosystem for Startups globally with over 1,12,718 DPIIT-recognized Startups across 763 districts of the country until October 2023.[2,3] In the recent past there has been concern about significant erosion in shareholders' value in listings of Indian Startups which are mainly attributable to governance failure in many high-profile Startups. Therefore, it is important to understand how good governance practices may play an important role in helping these high growth ventures navigate their journey from being a Startup to a scaleup. The requirements of corporate governance for any organisation depends on the size of the organisation, scale of operations, stage at which business is (nascent/ growth/ mature), form (whether it is company/ limited liability partnership/ partnership/ sole proprietorship), capital requirements (whether there is a need to access capital markets), sector, regulatory framework applicable, etc.

This Charter is designed for entities incorporated under the Companies Act, 2013, and therefore the term 'Startup', herein forward shall be understood to mean entities incorporated under Companies Act, 2013 only. Entities which are in the nature of sole proprietorship, limited liability partnership, partnerships may adopt similar structures / guidelines for corporate governance within their organisation.

This Charter attempts to list:

(i) voluntary recommendations on corporate governance of a Startup keeping in view unique nuances to govern Startups, irrespective of its stage and the balance required to be maintained in their short term and long-term goals.

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[1] https://pib.gov.in/PressReleasePage.aspx?PRID=1913106

[2] https://www.investindia.gov.in/indian-unicorn-landscape#:~:text=Startup%20Ecosystem%20in%20India,as%20of%2003rd%20October%202023.

[3] https://www.livemint.com/companies/start-ups/national-startup-day-visionaries-reflect-on-role-of-new-ventures-in-driving-growth-11705309637800.html

(ii) prescribe guidelines appropriate for Startups keeping in view the life cycle and which are segregated based on the specific stages at which corporate governance is crucial for them:

- Inception Stage
- Progression Stage
- Growth Stage
- Going Public Stage

These guidelines can be used by Startups as a Ready Reckoner as they glide along the path of good governance.

The Charter may serve as a self-governing code for Startups in their compliance journey which they may follow on best endeavor basis. The purpose of this Charter is to help Startups become responsible corporate citizens and also enable them to share it with their stakeholders to establish themselves as being well-governed.

Online Self-evaluative Governance Scorecard ***(Click here to see online scorecard)***

The Charter is followed by an online self-evaluative governance scorecard which a Startup may undertake internally to understand the current level of governance and its progression. Startups may use it as a benchmark to measure the progress made by it in its governance journey, which will be reflected in the changing score as the governance practices are evaluated against the scorecard from time to time.

Key tenets of corporate governance

that may be followed by all Startups irrespective of their stage

KEY GOVERNANCE PARAMETERS

1	Organisational Corporate Governance Framework
2	Formation, Incorporation & Registration
3	Structure & Functioning of Board/Governing Body
4	Internal Control Environment
5	Commitment to ESG, DE&I, CSR and Sustainability
6	Disclosure & Transparency
7	Governance of Stakeholder Engagement
8	Treatment of Minority Shareholders
9	Auditor Independence and Transparency
10	Raising Finances, Restructuring and Regulator Investigations

1. Corporate governance goes much beyond mere compliance. It is essential that value-driven corporate governance based on principles of accountability, transparency, fairness, ethics, integrity, disclosures and responsibility, is treated as strategically vital to business.

2. It is important to set the tone at the top, wherein those at the topmost level in the organisation i.e. promoters, founders, board and top management, display conduct which upholds these values. In this way, the culture of value based corporate governance will eventually trickle down to all levels in the organisation and will get firmly entrenched in the organisation.

3. The perception that good corporate governance involves excessive cost and makes the Startups less agile may be misplaced. It is important that corporate governance measures are not viewed as a cost-centre for business since cost of non-compliance and misgovernance can be fatal to the business.

4. Startups may strive for long term value creation rather than short term valuations. The valuations of businesses may be kept as realistic as possible. The needs of the business entity may be separated from the personal needs of its founder(s) but at the same time the goals and needs of the founders/ promoters/ initial investors may be aligned with the long-term goals of the business.

5. It is important to keep the Startup a separate legal entity with organisation's assets, separate from the founders' personal assets.

   Trust based coherent working may be promoted between the founder, executive management and the Board. Information asymmetry between promoters and other stakeholders may be prevented by timely and relevant disclosures and equitable and fair treatment of all stakeholders.

6. It is important to define means of contribution, financial capacity and expectations of each founder / investor and design the capital / equity structure and management involvement / Board seat and roles / responsibilities. This may be revisited periodically as the Start-up starts to scale up. These may be documented along with conditions for joining and withdrawal of founders and investor while also noting the ownership and protection of intellectual property / trade secrets in the initial Startup agreement.

7. As soon as non-founder equity infusion happens, however small, the spirit of custodianship and fiduciary responsibility (as in a listed company) must be cultivated. These two concepts are implicit in a joint stock enterprise.

8. It is critical to identify and draft the vision, mission, code of conduct, ethics, values and culture of the entity. It is mandatory to ensure compliance with laws and regulations by forming and integrating policies and procedures for ethical conduct and compliance by organisation.

9. An advisory board may be beneficial to businesses and a well-constituted Board which has sufficient directors based on the scale and size of business, appropriate balance of executive, non-executive and independent directors with necessary skills, competency, knowledge and diversity (in terms of gender, experience, thought and background) enhances the quality of decision making and strategizing business operations. It is crucial to identify the right profile of directors on the Board with complimentary of skills. Appointment of key managerial personnel and senior management as statutorily or contractually required may be ensured. It is also important to have a robust process of appointment, succession planning and filling of Board vacancies.

It is equally important to clearly define the role of the chair, role and responsibilities (including those under law) of individual members of the Board, integrity of directors and difference between roles of director and manager.

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11. Committees are critical to creating delegation, playing to strengths and for decentralised governance processes to take root. Early implementation will be crucially valuable. As such, at appropriate stages, it is imperative to form Board committees to oversee and review internal risk management systems and aspects such as audit, nomination and succession, risk and crisis management, remuneration structure, investor grievance and cyber security and data protection. It is crucial to devise mechanisms to report, investigate and address grievances, fraud, and harassment within organisation.

12. For the Board members to discharge their duties, it is important to give access to the Board of accurate, relevant and timely information. The Board can then devote sufficient time to conduct Board meetings, oversee the progress and take proper decisions required. At the same time, it is also important to focus on adequate Board compensation, adequacy of Board skills and carry out Board effectiveness evaluation.

13. It is important to maintain adequate internal controls and accountability to third parties.

14. Robust internal control systems, frequent process reviews to mitigate potential operational, financial, and business risks and internal audits are vital for all businesses. Risk management processes commensurate with scale of business may be adopted.

15. It is important to ensure maintenance of proper books of accounts, establish transparent policies and procedures to ensure independence and effectiveness of audit functions, and integrity of reporting. Audit of annual financial statements by an external independent auditor and prevention of conflict of interests from external auditors is crucial.

16. It is vital to focus on conflict management to address issues related to conflict of interests, related party transactions, insider trading and ensure timely disclosures by Board members, key managerial personnel and entities, which have a material effect on price or value of securities.

17. Compliance with environmental, social and governance ("ESG"), diversity, equity and inclusion ("DE&I"), corporate social responsibility ("CSR") and Sustainability attracts positive investor attention. As responsible players in the society, integrating these practices into the organisation culture and reporting any malpractices as may be required is a step towards good governance.

18. It is crucial that the Board carries out effective engagement and communication with stakeholders. Stakeholders must be treated fairly, informed fully and equally about the organisation's activities and involved in decision making. It is essential that channels of communication are kept open with all stakeholders. It is also essential that businesses/ corporates co-operate with the regulators and work towards closing and settling any issues. It is a good practice that minority shareholders can voice their opinions and there is no differential treatment in voting right amongst the same class of shareholders.

19. It is vital to ensure relevant compliances involved in various methods of raising finances and restructuring. Besides, preparing and following a checklist of compliances and disclosures is beneficial.

20. It is crucial to design and document employees codes like employee handbook, definition of key roles and performance metrics, employee reward and benefit schemes, zero tolerance policy towards ethics and integrity failures among others.

21. It is important to recognize the importance of shareholders'/ owners' rights, including right to vote, participation in general meetings, and access to relevant corporate records.

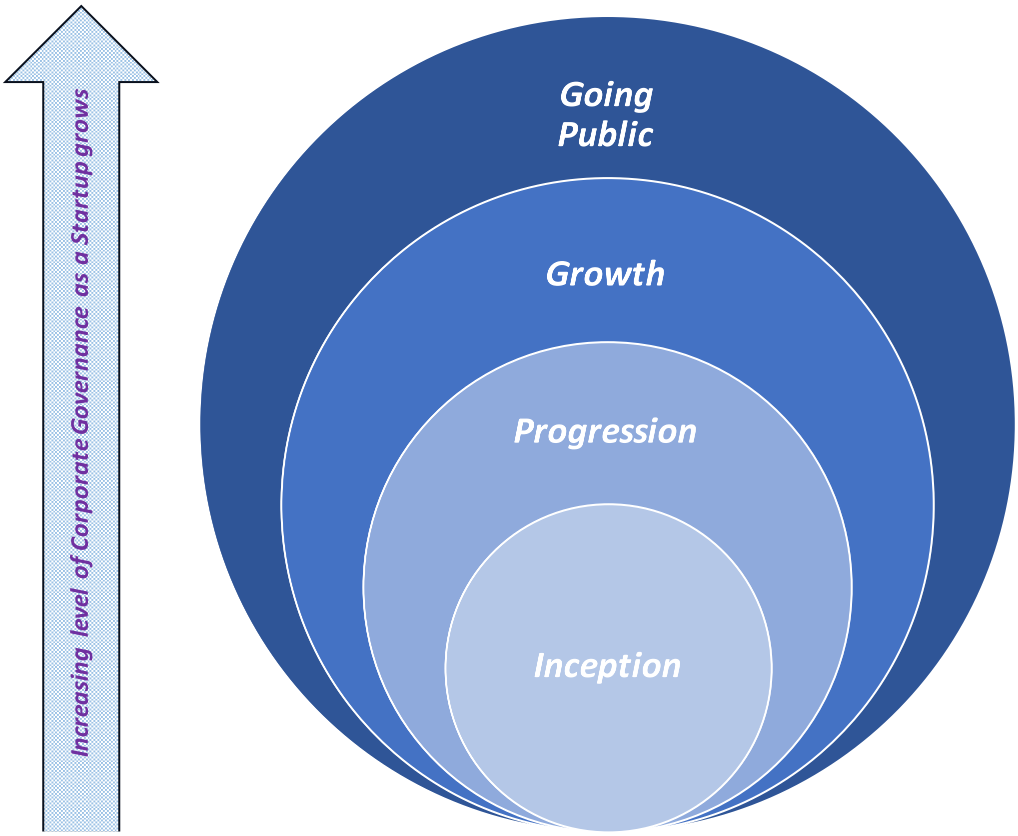
22. Vendor management and formalized contracts with vendors and customers is of utmost importance.

23. A performance evaluation, feedback and continuous improvement mechanism may also be triggered and set in motion early. This will enable objective evaluation.

Guidelines on

Governance measures during different stages of evolution[4]

There is no single model of good corporate governance or set number of parameters of corporate governance. It is dependent on the form and structure of entity, nature of business, size and scale of operations, stage of evolution or maturity, listed or unlisted, governing law and others.[5,6,7]



[4] Please see: International Finance Corporation, World Bank Group, SME Governance Guidebook (2020), available at: https://www.ifc.org/content/dam/ifc/doc/mgrt/ifc-sme-guide-2020-web.pdf

[5] Refer to: https://www2.deloitte.com/in/en/pages/finance/articles/start-up-governance-playbook.html

[6] Also refer to: https://assets.kpmg.com/content/dam/kpmg/in/pdf/2021/08/startup-entrepreneurship-success-guide.pdf

[7] Please see: CII Research Report on Corporate Governance in Startups and SMEs (December 2022)

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Attributes to measure the stage of Startup

Stage / Parameters	Inception	Progression	Growth	Going Public
Investor	Primarily founder(s)	Private investors, Angel investors, Venture capitalists	Banks, other financial institutions	Multiple number and types of investors and the business is accountable to a larger set of investors
Product market fit/ Alignment between Product/ service with market needs	At nascent level	Product evolving to align with changing market needs	Expansion of Products/ services offered	Multiple Product/ service lines
Portfolios/ Departments/ Functions	Very limited eg. Finance, Product and Marketing	Expanding number of portfolio/ functions eg. internal control, audit, HR, etc.	Multiple Portfolios (Finance, Product, Marketing, Compliance, Investor Relations, etc.)	As the business expands, it will need a more streamlined, clearly defined and distinct portfolios, roles and responsibilities to address various concerns and issues that often plague larger businesses
Personnel	A few personnel handling multi-portfolios/ multi-tasking	Increasing number of Personnel in accordance with expanding functions/ departments, key roles are defined	It will not be possible to run the business with limited number of personnel and will need to be supplemented by personnel with specialized knowledge and competency for various portfolios. Personnel will be assigned to key roles.	Numerous personnel possessing specialized knowledge, skills and experience in requisite fields, will handle various functions with clearly defined roles, responsibilities and delegation of authority within the formal organisation structure

Centralized decision-making by promoters/ founders

INCEPTION STAGE

1. Board formation
2. Setting the tone at the top
3. Compliance Monitoring
4. Accounting, Finance, External Audit, RPT Policies
5. Conflict Resolution Mechanism

PROGRESSION STAGE

1. Expansion of Board oversight 2. Monitoring Key Business Metrics
3. Maintaining Internal Controls 4. Define Hierarchy of Decision Making
5. Focussed Overview of Finance, Accounts and External Audit
6. Setting Up Audit Committee 7. Risk & Crisis Management

GROWTH STAGE

1. Build stakeholder awareness towards Vision, Mission, CoC, Culture, Ethics of Organization
2. Functional Policies & Procedures
3. Formation of Board Committees
4. DE&I on Board
5. Statutory requirements as per Companies Act 2013 and all other applicable Laws and Regulations
6. Fund Utilization, Monitoring and Review
7. Comply with CSR & ESG Norms
8. Corporate scorecard to monitor strategic progress
9. Focus on human resources related aspects.

'GOING PUBLIC' STAGE

1. Monitoring of Functioning of Various Committees
2. Focus on Fraud Prevention & Detection
3. Grievance Redressal Mechanism
4. Minimize Information Asymmetry
5. Effective Stakeholder Management
6. Succession Planning
7. Board Performance Evaluation
8. Review of Governance Policies
9. Internal Controls
10. Social Media Policy
11. Compliance Program to ensure Compliance with Companies Act 2013, SEBI LODR and Stock Exchange Regulations
12. Ensure Timely Statutory Filings and Disclosures

Decentralized decision making by Board of Directors

Corporate governance guidelines in following paras are bifurcated according to stage in the lifecycle of a Startup. These guidelines may be followed by Startups at each stage of its life cycle incrementally i.e. measures at previous stage along with measures at present stage may be undertaken by entity:

I. Inception Stage

- Organisations may adopt a proactive approach by focusing on self-governance and voluntary compliances and demonstrate their commitment in action by complying with requirements of formation, incorporation, and registration of business entity, obtaining licenses to conduct business, duly adopting and executing agreements to define responsibilities amongst founder(s) / promoter(s) and complying with relevant and applicable laws and bye-laws.
- Putting in place relevant professionals for monitoring, guiding, and providing timely strategic guidance to enable timely and correct decision making.
- Putting in place basic policies, processes and practices related to key areas of governance like – accounting and finance especially cash management, external audit.
- Ensure a simple yet well-defined framework for related party transactions duly approved by the Board. Devise a simple conflict resolution mechanism for promoter(s)/ founder(s) with active involvement of the Board.
- Keep track of key indicators of performance of entity regularly and share the same with key stakeholders like investors, employees, etc.
- Ensure that statutory and regulatory compliances are met in timely manner by monitoring compliance.

II. Progression Stage

- As the organisation evolves, the matters relating to governance and investor relationships may be documented in detail. This may also include power of control; decision-making and quorums, voting rights, conflict resolution and management. It is important to define hierarchical levels for decision-making.
- Expansion of Board's role in terms of its oversight (on financial, operational and governance related matters) as well as number of Board members to include subject matter experts and nominees of investors. It may be important to define the role of nominee directors (typically from investors) and independent directors clearly.
- Periodically planned "executive sessions" between members of the Board and related leaders ensure there's a consistent forum for dialogue, problem-solving and operational decision-making for enhanced accountability

- Adopting consistent accounting policies, ensuring maintenance of proper books of accounts, implementing robust internal controls.
- Finance accounts and external audit function may be overseen and regularly reviewed by a dedicated official for instance the Finance Head.
- Ensure formal interaction between statutory auditors and Board along with nominees of major investors.
- Assess, review and revise governance policies and processes and devise policies for vendors, customers, employees and third parties.
- To the extent legally or contractually required, set up requisite Board committees to monitor specific areas as per their respective terms of reference.
- Include key business metrics in the management information system ("MIS") and regular monitoring of each metric. The Board may be provided periodic reports on key metrics.
- Related party transactions may be reviewed by the Board and disclosed as required statutorily or contractually. There may be a separate committee of the board to review related party transactions in detail (just like an audit committee does in listed companies).
- Delegation of authority and responsibility with Board approval.
- Focus on business continuity planning, depending on size, scale and requirements.
- To assess specific sectoral and business risks and putting in place systems to address the same.

III. Growth Stage

- Composition of an experienced and diverse Board comprising of executive, non-executive, independent directors and women directors on the Board.
- To enable the Board to monitor progress of strategy and business plan, a corporate scorecard that covers both financial and non-financial aspects, may be devised.
- Devise additional policies and procedures for various functions within organisation like – purchase, sales, production, marketing, human resources, secretarial, quality and training, compensation management, legal, etc. Strengthening management depth and bandwidth to address each of these matters and related risks in line with growth.
- Assess requirements concerning conduct of internal audits/ process reviews in key areas such as accounting, sales, purchases, marketing, vendor management, etc.
- Building internal awareness amongst its employees, vendors and other stakeholders of organisation's vision, mission, code of conduct, ethics, values, culture which are based on tenets of corporate governance.

- DE&I may be imbibed as an integral part of company culture.
- Prepare and gear up to comply with various statutory compliance requirements of the Companies Act, 2013 and various regulations issued by the Securities and Exchange Board of India (SEBI) taking a cue from listed entities so that as the organisation scales-up and once the entity is listed, the Startup is ready to make all relevant compliances and disclosures. Company Secretary and other officers may be appointed (including where statutorily required) to ensure timely regulatory compliances and filings.
- Formation of Board committees such as audit committee, nomination and remuneration committee, and other mandatory or voluntary committees (as the case may be), depending on the business model to oversee CSR, investor grievance, cyber security and data protection, and other areas..
- Organisation may focus on human resources related aspects such as leadership development, training and development of employees, well defined organisation structures, performance appraisal and compensation reviews.
- Comply with norms related to CSR and ESG, to the extent statutorily or contractually applicable or otherwise desired. CSR may be undertaken by formulating a policy on CSR, standard operating procedures ("SOPs") to undertake CSR projects, funds allocation in line with statutory requirements and supervision of projects/ initiatives undertaken.
- The importance of fund utilization, monitoring and review also increases at this stage.

IV. Going Public Stage

- Given how alternative capital markets may be considered very early for investments, by the time the time to list arrives, the start-up must be ready and mature in its governance framework.
- Focused management transition towards a more decentralized and collaborative decision making.
- Formulate a compliance program ensure compliance with SEBI regulations and Companies Act 2013, stock exchange regulations, related to filings and make disclosures in a timely manner.
- Continuous review of effectiveness of governance policies, procedures and internal controls, re-engineering these to make them more effective and robust.
- Immediate and prompt response to notices or any other communication from the regulators or any statutory authorities and work towards minimizing, settling and closing any issues with the regulators.
- Review and evaluation of Board performance.

- Succession planning for chief executive officer ("CEO") and senior management level officers may be undertaken by the nomination and remuneration committee while also reviewing their performance and overseeing their compensation.
- CSR and ESG compliance (and voluntary steps, as desired) and related disclosure requirements to receive additional attention.
- Effective stakeholder management by constituting stakeholder relationship committee as per law.
- Minimizing information asymmetry by timely disclosure of information required to be disclosed statutorily. i.e. board report, annual report, regulatory filings, etc.
- Robust grievance redressal mechanism to address grievances of investors, vendors, business partners and other third parties.
- Risk assessment and management may be upscaled using technological tools, employing Chief Risk Officer ("CRO") where considered necessary, formulating business continuity plan.
- Organisation may focus on fraud prevention and detection in alignment with risk management program, whistleblower mechanism and internal controls.
- Effective monitoring of the functioning and workings of various committees formed.
- Establish a media / social media policy to manage reputation.

Conclusion

Corporate governance is a dynamic set of value driven principles and measures which steers an organisation's development in the right direction. Corporate governance is quintessential for all Startups as it not only adds value to the entity but also helps it achieve stability, growth, resilience, competitiveness and long-term success. It is important to review the corporate governance practices and processes regularly to ensure that they continue to be appropriate and relevant at any given point in time and, most particularly, during times of significant change. For sustained success, governance systems need to be flexible enough to allow managers to pursue new activities within the system. Businesses, whether struggling or successful, are not alike and hence corporate governance practices may be flexibly incorporated into businesses at different stages.

A well-functioning corporate governance structure in Startups will focus on:

1. Sense of purpose and identity of the Startup
2. Value driven functioning and creating a culture of trust and value transparency
3. Financial prudence
4. An early start to strong internal controls to prevent revenue leakages
5. Risk management to safeguard the entity from potential risks and losses
6. Leadership team that engages directly with an independent Board and harnesses their expertise in effective decision making
7. Stability in business through business continuity planning and succession planning
8. Effective management of stakeholder relationships
9. Enabling a Startup to become a good corporate citizen by abiding with all applicable laws and regulations
10. Streamline all functions within an organisation so that synergies within organisation can be pooled towards achievement of organisation's success.

Governance Scorecard[8] (online)

(Click here to see online scorecard)

How to fill:

Please mark (√) in case followed by your organisation, mark (X) in case not followed by your organisation and (NA) in case not applicable to your organisation.

Scoring Methodology:

Each (√) will carry a score of 1 and each (X) will carry a score of 0. Each (NA) will be excluded from the numerator as well as the denominator and hence will be completely excluded from scoring. The sum of score as a percentage of total points answered (except NA) will be the governance percentage of your organisation and maximum percentage achievable is 100%

Formula for calculating Governance score:

$$\frac{\text{Numerator (Questions answered in Yes)}}{\text{Denominator (Total questions answered – Questions answered in NA)}} * 100 = \text{Governance \%}$$

Remarks:

It is suggested that questions marked with an asterisk (*) may be answered in Yes/ No and 'NA' as an answer may be avoided to such questions to calculate a realistic corporate governance score.

What does your governance percentage score indicate:

More than 50%	More than 75%	More than 90%
Emerging Governance	Expanding Governance	Mature Governance

[8] https://www.ifc.org/en/what-we-do/sector-expertise/corporate-governance/cg-methodology-tools#cg-tools

1. Defined organisation vision and mission (___)

2. Code of conduct, ethics and culture of the organisation developed on the basis of principles of corporate governance* (___)

3. Registration, licenses and approvals taken as per applicable laws and regulations.* (___)

4. Composition & structure of Board in compliance with applicable laws* (___)

5. Board members possess diverse and complementary skill sets and experience (in terms of gender, education, area of expertise, experience, technical background, etc.) (___)

6. Board consists of requisite number of executive, non-executive, independent and woman directors (___)

7. Provision for rotation of directors as per applicable law (___)

8. Defined organisation structure with clearly laid out roles, responsibilities and delegation of authority for decision making. (___)

9. The values of integrity, transparency, disclosure, accountability, fairness, responsibility, ethical behavior are reflected in the conduct of promoters/ founders and top management* (___)

10. Startup is kept as a separate legal entity with organisation's assets, separate from the founders' personal assets (___)

11. Regular Board meetings conducted as per applicable laws (___)

12. Proper procedure regarding Board meetings – notice, quorum, minutes, etc. are complied with. (___)

13. Comprehensive MIS comprising data from various business functions including finance which can be analyzed and updated dynamically.* (___)

14. Board is given access to accurate, relevant and timely information to enable sound decision making. (___)

15. Boardroom culture

    i. Right to be heard (___)

    ii. Ability to raise right questions (___)

iii. Freedom to disagree (___)

iv. Ability to make informed and well thought out decisions (___)

16. Key officers appointed:

i. Chief Executive Officer (CEO) (___)

ii. Chief Financial Officer (CFO) (___)

iii. Company Secretary (CS) (___)

17. Committees formed:

i. Audit committee (___)

ii. Nomination and remuneration committee (___)

iii. Investor grievance committee (___)

iv. Cyber security and data protection committee (___)

v. Risk management (___)

vi. Stakeholder relationship committee (___)

vii. CSR committee (___)

18. Compliance with:

i. Applicable laws and regulations* (___)

ii. Statutory filings done on time* (___)

iii. Disclosure requirements by company fulfilled on time (___)

iv. Annual Report is prepared and submitted to the regulator (___)

19. Various Environment, Social, And Governance parameters are well-defined, policies laid out, actions taken and adequately reported to statutory authorities especially on the environmental and social factors:

i. Environment (e.g. pollution, biodiversity impacts, energy consumption, waste management, water usage, carbon emissions, climate change, natural resource use, biodiversity preservation, impact on physical or natural environment) (___)

ii. Social (e.g. health and safety, supply chain, diversity, equity and inclusion, fair labour practices, employee wellbeing, community engagement, impact on surrounding community and workers) (___)

20. Corporate social responsibility norms complied with (___)

21. Policies and procedures formulated and reviewed from time to time for:

i. Accounting & maintenance of proper books of accounts* (___)

ii. Raising finances* (___)

iii. Monitoring the fund utilization* (___)

iv. Realistic valuations by external valuation agency (___)

v. Internal controls (___)

vi. Internal audit (___)

vii. External audit* (___)

viii. Purchase (___)

ix. Sales (___)

x. Production (___)

xi. Marketing (___)

xii. Vendor management (___)

xiii. Media management, especially social media (___)

xiv. Human resources (___)

xv. Executive compensation (___)

xvi. Quality and training (___)

xvii. Compensation management for employees (___)

xviii. Succession planning for key roles (___)

xix. Risk and crisis management and prepare a risk matrix (___)

xx. Business continuity plan (___)

xxi. Data privacy and cyber security (___)

xxii. Fraud prevention and detection (___)

xxiii. Statutory disclosures including transactions with related parties (___)

xxiv. Organisation structure and matrix on delegation of authority (___)

xxv. Loans to directors in accordance with Companies Act, 2013 (___)

xxvi. Deposits in accordance with Companies Act, 2013 (___)

xxvii. Restructuring (___)

xxviii. Board effectiveness evaluation (___)

xxix. Conflict management* (___)

xxx. Compliance management and statutory filings/ disclosures* (___)

xxxi. Secretarial (___)

xxxii. Legal (___)

xxxiii. Stakeholder management and engagement (___)

xxxiv. Grievance redressal mechanism for various stakeholders (___)

xxxv. Whistleblower mechanism (___)

xxxvi. Prevention of insider trading (___)

22. Applicable aspects covered by Point 21 above are regularly monitored and corrective actions taken in case gaps are found (___)

23. Framework for related party transactions and their disclosure is in place and regularly reviewed* (___)

24. Following potential red flags indicating governance lapses (few indicators below) are identified and corrective measures taken:

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i. Composition of Board – lack of independence, tenure, diversity (___)

ii. Auditor quality, compensation and comments (___)

iii. Inconsistent/ rapid (or smooth) revenue/ profit growth in relation to industry (___)

iv. Erratic stock price movement (___)

v. High employee turnover (___)

vi. Short leadership tenure & how errant leaders are handled (___)

vii. Customer grievances (___)

viii. Suppliers' grievances (___)

ix. Increasing legal cases (___)

x. Frequency/ adequacy of communications/ disclosures (___)

xi. Skewed compensation (___)

25. Internal audit conducted and results reviewed by audit committee (___)

26. External audit carried out* (___)

27. Proper functioning of various committees is duly monitored (___)

28. Independence of auditors and transparency in their appointment is ensured (___)

29. Provision for rotation of auditors as per applicable law (___)

30. Formal interaction between statutory auditors and Board is ensured (___)

31. Executive sessions with independent directors and management (___)

32. For listed companies, SEBI regulations, specifically obligations under the SEBI (Listing Obligations and Disclosure Requirement) Regulations, 2015 have been fulfilled (___)

33. Requisite statutory requirements related to prospectus and allotment of securities is followed in case of public offer and private placement (___)

34. Shareholders' rights e.g. right to vote, participate in general meetings, access relevant corporate records, are ensured (___)

35. There is no differential treatment of shareholders (___)

36. Minority shareholders' rights are protected and they are not mistreated (___)

37. Information asymmetry between promoters and other stakeholders is prevented (___)

38. Timely response to notices and other communication received from regulatory/ statutory authorities (___)

39. Employee code/ handbook which defines inter alia key roles and performance metrics, employee reward and benefit schemes, zero tolerance policy towards ethics and integrity failures (___)

40. Data of stakeholders' e.g. customers/ users/ employees, etc. is protected and transparency is maintained regarding data practices (___)

41. Focus on keeping reputation and brand value of organisation intact despite business challenges (___)

42. Tenets of corporate governance are adhered in various aspects of business by the organisation:

    i. Timely and relevant disclosures (___)

    ii. Transparency (___)

    iii. Accountability (___)

    iv. Integrity (___)

    v. Ethics and responsibility (___)

    vi. Building and maintaining trust of stakeholders (___)

    vii. Focus on long-term value creation (___)

    viii. Maintain agility and creativity while devising structure and process for governance (___)

    ix. Articulating predictability in revenue, growth and business plan to investors (___)

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Confederation of Indian Industry

The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the development of India, partnering Industry, Government and civil society, through advisory and consultative processes.

CII is a non-government, not-for-profit, industry-led and industry-managed organisation, with around 9,000 members from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 300,000 enterprises from 286 national and regional sectoral industry bodies.

For more than 125 years, CII has been engaged in shaping India's development journey and works proactively on transforming Indian Industry's engagement in national development. CII charts change by working closely with Government on policy issues, interfacing with thought leaders, and enhancing efficiency, competitiveness and business opportunities for industry through a range of specialized services and strategic global linkages. It also provides a platform for consensus-building and networking on key issues.

Extending its agenda beyond business, CII assists industry to identify and execute corporate citizenship programmes. Partnerships with civil society organisations carry forward corporate initiatives for integrated and inclusive development across diverse domains including affirmative action, livelihoods, diversity management, skill development, empowerment of women, and sustainable development, to name a few.

As India strategizes for the next 25 years to India@100, Indian industry must scale the competitiveness ladder to drive growth. It must also internalize the tenets of sustainability and climate action and accelerate its globalisation journey for leadership in a changing world. The role played by Indian industry will be central to the country's progress and success as a nation. CII, with the Theme for 2023-24 as 'Towards a Competitive and Sustainable India@100: Growth, Livelihood, Globalisation, Building Trust' has prioritized 6 action themes that will catalyze the journey of the country towards the vision of India@100.

With 65 offices, including 10 Centres of Excellence, in India, and 8 overseas offices in Australia, Egypt, Germany, Indonesia, Singapore, UAE, UK, and USA, as well as institutional partnerships with 350 counterpart organisations in 133 countries, CII serves as a reference point for Indian industry and the international business community.

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