

### Introduction

GIZ has launched a Strategic Alliance for corporate engagement in to start-up incubation and work related to Social Enterprises and Impact Investing. Under the initiative GIZ collaborated with Ennovent and InGovern on conducting the workshop on Startup Governance on June 9, 2015 in New Delhi. The workshop was held at GIZ office in New Delhi and about 30 stakeholders varying from startups, funding organisations, advisory service providers, investors and mentors participated in the discussion. The workshop was held to highlight the need for startups to move away from conventional governance practices, to more transparent, equitable and evolving governance models that are conducive to present day impact-focused entrepreneurship. The workshop strived to enhance knowledge of the startups and foster collaboration to accelerate the good governance practices for startups in India.

### Discussion

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| <b>Opening</b>                         | <p>The workshop was opened by Vipul Kumar, Global Director, Ennovent in which he included:</p> <ul style="list-style-type: none"> <li>▪ A round of Introductions</li> <li>▪ An introduction to Ennovent</li> <li>▪ The Purpose behind the workshop</li> <li>▪ The Startup Governance Accelerator</li> </ul> <p>Katharina Keuhn, Advisor, Private Sector Development GIZ gave an introduction to GIZ and the work they do,</p> <p>A presentation on Startup Governance Position Paper was given by Deepak Shandilya, Manager, Ennovent.</p>  |
| <b>Speakers</b>                        | <ul style="list-style-type: none"> <li>▪ Mr Shriram Subramanian, Founder and Managing Director, InGovern</li> <li>▪ Mr Karan Gupta, India Investment Manager, Insitor Management</li> <li>▪ Mr Sahil Dharia, CEO, Soothe healthcare</li> </ul>  |
| <b>Moderator</b>                       | <p>Mr Pravin Ujjain, CEO, AR Insight</p>  |
| <b>Key Points: Shriram Subramanian</b> | <p><b>Governance is an evolving process:</b> It has to grow as the company grows and as the times change. There is always one pioneer that sets standards and others follow suite. For example Infosys set a benchmark by disclosing operating metrics that created transparency of reporting systems in the market.</p> <p><b>Pressure from Investors:</b> Even the largest companies face the dilemma of pressure from investors. The moment one takes capital from outside they must make sure to have governance structures in place. One of the main aspects of Governance is being fair to shareholders.</p> <p><b>Related Party Risk:</b> The legal entity should be created as a different persona from the founders or promoters. In the case of startups, since there is a dearth of resources there is a tendency to merge company and personal resources. There has to be a clear demarcation of the cost of resources and how it is used. If this mindset comes in from Day 0, scaling becomes much easier.</p> <p><b>Onerous Systems and Processes:</b> Entrepreneurs have to find a fine balance between putting the systems and processes, as they require a lot of their time and resources in ensuring they are not neglecting them.</p> <p><b>Window Dressing:</b> Entrepreneurs tend to incorporate systems and processes only when they need investment (Window Dressing). But investors always do their research and speak to stakeholders like suppliers, customers and employees. They value things like being compliant with regulations, valuing talent and being fair to stakeholders. It is important to adopt good governance practices from Day 1.</p> <p><b>Mindset:</b> Entrepreneurs think that just being compliant with the law is good governance, but it is all about the mindset. It is completely natural to not have anything in place on Day 1 - but having it as a part of the plan is important.</p> |
| <b>Key Points: Karan Gupta</b>         | <p><b>Value Creation:</b> Investors look at how they can create value on a long-term and short-term basis to a particular idea or company. This value can be in the form of operational or strategic inputs they can offer from the complementary experience they have gained in the main stream.</p> <p><b>Fundraising and ESG:</b> They also consider if companies are complying with environmental, social and governance (ESG) requirements</p> <p><b>Strategies:</b> Majority of the time, while looking at the long-term strategies of the company, investors also look at how the short term ones are executed.</p> <p><b>Boards:</b> Entrepreneurs should look at boards as an experienced group of people that they have picked and get the most out of what they can offer. In most cases, promoters have difficulty in</p>   |

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|                                 | figuring out how they can utilise this resource on an on-going basis.  |
| <b>Key Points: Sahil Dharia</b> | <p>Today we have access to large markets where scale and speed and diversity is required.</p> <p><b>Investors trust companies that have set governance structures.</b><br/>If you need investment and need to scale you need to be able to vouch that you are complying with all the regulations.</p> <p><b>The market and the outlook of people are changing.</b> For example companies are now looking to hire skilled professionals to run their operations, with a view to scale effectively.</p> <p><b>Governance is not just a board driven mandate.</b> Structures need to be well thought out. For example if HR reports into the unit head, that is a conflict of interest. HR must have a direct line where issues can be escalated. This is not a board matter; it is a day-to-day matter.</p> <p><b>Healthy conflict is good for businesses</b> - Contrary point of views gives more perspective and saves a company from extinction.</p> <p><b>Mindset:</b> Are startups evolved enough to accommodate all these structures? Large conglomerates in India do not follow Corporate Governance. So it is more about the mindset.</p> <p><b>Strong Boards</b> sometimes do not have enough time to give inputs so it is important to put in structures that govern the company from the beginning.</p> <p><b>Entrepreneurs should look at governance as a culture:</b></p> <p>Value + Behaviour = Culture</p> <p>Set of behaviours that determine what your organisational culture is and has to be set by the founder. The organisation is at the right size for people to mimic the leader. Startup companies can leverage culture as an important driver of how the business is run.</p> <p>The effect of structures ripples out when you go top down but the effect of culture is exponential as it goes down. E.g.: Google, Facebook</p> <p>It is important to define the tone and communicate it to the company on regular basis. Ethical culture should be separated from operational culture</p> |

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| <b>Summary of the discussion</b> | <p><b>Main points covered in the Round Table Discussion:</b></p> <p><b>What an investor looks at pre-investment:</b></p> <p>After looking at the business case, at the due diligence stage, investors gain a lot of confidence when they see the following things:</p> <ul style="list-style-type: none"> <li>• A company is legally compliant with regulations,</li> <li>• If they have a board of advisors who are documented</li> <li>• HR setup Operations/Hiring Manual</li> <li>• Certifications For example: ISO Standardisation</li> <li>• Quality Control (especially in product based companies)</li> <li>• Other investors backing the company</li> </ul> <p>Even if these things are informal at this stage, it gives an idea of the thought process and execution path of making sure that the things are being put into place.</p> <p><b>What an investor looks at post investment:</b></p> <p>Investors put strict monetary requirements into place after making the investment. For example: cash flow statements, P/L statements on a monthly basis, minimum cash balances.</p> <p>They introduce time lines — both for financial and operational goals, HR, ESG requirements.</p> <p><b>Eliminating Critical Roles:</b></p> <p>At the startup stage the company is driven by the passion of the founder/promoter but it is important to eliminate critical roles especially at the scaling stage. Companies should be able to run even after the founder steps down.</p> <p>Investors lean towards pragmatic promoters who are flexible with making changes or choosing different path to achieve their goals. Entrepreneurs who's are passionate about the growth and outcome and not about being the sole owner or driver of the company.</p> <p><b>Choosing the right Investors and Board Members:</b></p> <p>Different investors have different requirements and bring different perspectives.</p> |
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|  | <p>It is important for Startups to choose the right investors, who work with the passion of the Entrepreneur. It is important to analyse how much you need them and how much they need you.</p> <p>Maybe it is a good idea to document guidelines on how to choose the right investor or the right board member.</p> <p>Board members tend to neutralise the passion of the promoter as an investor and help make sound decisions to fulfil the passion For example: Other ways of achieving the goals, getting external professionals to get the job done better.</p> <p>It is important to allow a clean conduit to get feedback from the ground - Structures should aid getting information from the bottom up to the board. This helps eliminate scepticism about what is going on in the company.</p> <p><b>Challenges for startups:</b></p> <p>Access to networks and possible board members</p> <p>Choosing the right fund/Investor or Board members: Value and cultural alignment is as important as business alignment</p> <p>Social enterprises working in rural areas have to work with government agencies, which are bureaucratic in nature. Issues like delayed payments leading to discrepancies in the books are unavoidable.</p> <p>Founders/Promoters who find it hard to give up control</p> <p><b>Investors and the Social Sector:</b></p> <p>Investors need to balance control and accountability.</p> <p>Investors are looking at commercial gains, but Startups in the social sector can benefit from their practices, systems, knowledge and processes they have to offer to maximise impact.</p> |
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## NextSteps:

1. **Online Discussion:** E-group will be formed on LinkedIn and topics related to governance will be discussed. The start-ups can float the specific query and solicit guidance from the network on the topic.
2. **Position Paper:** The Startup Governance position paper will be shared post-incorporating points discussed in the workshop. This position paper highlights the need for startups to move away from conventional governance practices, to more transparent, equitable and evolving governance models that are conducive to present day impact-focused entrepreneurship.
3. **Startup Governance Accelerator:** Ennovent in partnership with InGovern will develop a Startup Governance Accelerator for early-stage enterprises focused on low-income markets in South Asia. This Accelerator aims to improve governance systems that guide interactions between enterprises, their boards, investors and other stakeholders. To achieve this objective, the Accelerator will identify best governance systems globally; pilot them through handpicked early-stage enterprises, and disseminate successful tested systems throughout the South Asian startup ecosystem.

## The Partners

Ennovent is a global innovation company that helps clients accelerates innovations for sustainability in low-income markets in developing countries. We build solutions, deliver services and operate communities to discover, start up, finance and scale the best innovations to generate profits and impact. Since 2008, Ennovent has worked with around 60 clients to accelerate over 250 innovations in 15 countries.

InGovern Research Services ('InGovern') is India's first independent corporate governance research and advisory firm which assists investors that have financial or reputation exposure to companies. InGovern assist companies in enhancing their corporate governance practices.

Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH is a federal enterprise, supporting the German Government and its partners in achieving its objectives in the field of international cooperation for sustainable development. Together with its partners, GIZ aims to strengthen the service environment for MSMEs, by supporting scalable models for service delivery and supporting pilot initiatives that create systemic impacts.

## Contacts

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