



# Role of NRC in standardising board practices in private and start-up organisations

Board Leadership Center (India)



India witnessed a strong emergence of entrepreneurial culture in the last decade. According to reports\*, India has emerged as the world's third largest start-up ecosystem, with over 77,000 DPIIT-recognised start-ups spread throughout 656 districts.

Availability of funds and easy access to technological advancements helped in mushrooming of start-ups and expanding the small and medium-sized enterprise (SME) ecosystem in the country. While this helped in an enormous drive for employment and providing opportunity to the young talent, it also led to an ever-increasing demand for good quality of talent.

In the post Covid world, the functioning of organisations changed drastically. While employers explore every possible way to hire and retain best talent in the firm, employees vouch for higher compensation and work life balance.



## The war for 'talent'

The continuous blooming of start-ups in the Indian market, has resulted in a war for talent. Organisations are doing whatever it takes to get the right people, retain them, and enhance productivity, which has created further imbalances in availability of quality talent across the industry.

In addition, there continues to be a drain of talent who are in pursuit for higher compensation, better structured careers, and fancier designations. Organisations are thus exploring innovative ways to match expectations of its employees while they continue to struggle with high levels of attrition.



## Striking the right balance

While start-ups and SMEs lie in different phases of their maturity cycle with their unique DNAs, both continue to predominantly prioritise innovation and agility which may result in a sub-optimal organisation structure and an absence of a focused succession pipeline. It thus becomes crucial for

these organisations to strike the right balance when it comes to governance and leadership at the top.

While investors continue to focus primarily on business valuation, appointing a Nomination and Remuneration Committee (NRC) can ensure that young organisations have right leadership, robust succession pipeline and appropriate executive compensation norms in place to drive growth and success. This becomes even more relevant as it is crucial to effectively utilise the limited available resources in start-ups and SMEs.

## Importance of standardised practices and guidelines



Many successful start-ups, which are in the unicorn club, just scratch the surface, when it comes to the robustness of their governance processes. This puts the organisation further at risk as it continues to grow or decides to go public. While public organisations are obligated to establish and monitor standardised board practices through various statutory committees such as the NRC, this can be a good practice for young organisations as well.

Start-ups and SMEs should look to institutionalise certain foundational behavioural norms and business hygiene guidelines to ensure, discipline in processes, stability, and culture which would substantially reduce business risk and build confidence among investors. There is a need to develop adequate bench strength, competency, and a robust succession pipeline for critical roles to ensure business continuity.

Globally, there are many start-ups that adapt the practices of listed companies from the very beginning with clear vision, mission, and values as a strong foundation for their business. The start-up and SME ecosystem needs to learn from success stories of booming start-ups which are built on strong foundation of governance and sustainability of business.

\* Source: Role of start-ups in the growth of the economy of in India | Times of India



## Role of mentors in the start-up and SME ecosystem

Mentorship can be an important resource for start-ups and SMEs as they navigate the challenges and opportunities of the business world. In the start-up and SME ecosystem, mentorship can play several important roles, including:

1. Providing guidance and direction to the promoters to clarify their vision and goals and how to achieve them.
2. Offering practical advice and insights on foreseeable challenges and opportunities faced by the start-up or SME.
3. Network building through introduction to their own professional network, providing valuable connections and opportunities for collaboration or funding.
4. Personal and professional development through support and encouragement for personal and professional growth, helping the start-up or SME leader to develop new skills and capabilities.

Investors are a key influencer to decision making in the start-up and SME ecosystem. Investors need to step in as mentors and facilitate budding businesses to establish themselves as robust organisations with strong foundations. Young organisations are more in the need for mentorship councils which could guide promoters on the right talent required, succession planning, business de-risking strategies and the philosophy of business as a going concern.

While committees like the NRC may not have a very active and a direct role in the start-up & SME ecosystem, it is about time that influencer groups, particularly investors, increase their skin in the game and guide young organisations towards a more sustainable, socially responsible and an aspirational place to work.

### Questions for consideration for the NRC



1. What role does the NRC have in building a mentorship culture for top talent in the start-up and SME ecosystem? How can the promoters be made more receptive to leading practices in governance?
2. How can business hygiene guidelines around executive nomination and remuneration be established for the start-up and SME ecosystem? How can the NRC support in driving adoption among new entrepreneurs?
3. How different is the role of the NRC in the start-up and SME ecosystem in comparison to larger public organisations?
4. How can the NRC help the start-up and SME ecosystem de-risk their businesses and build robust succession strategies?
5. How does the NRC create a culture of open and honest conversation on pay and performance among start-up and SME promoters?
6. How can success stories on good governance be spread in the start-up and SME ecosystem? What forums would have the highest levels of impact?

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