

Yes, Governance Matters.

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FINANCIAL MISCONDUCT AND GOVERNANCE LAPSES: WHY IT'S A WAKE-UP CALL FOR INDIAN STARTUPS

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SUMMARY

Accurate reporting of financial statements is a pivotal responsibility of a startup and its founders. But the low tide of funding has exposed the dark underbelly of the startup ecosystem in India and often promoter greed and investor appetite for higher valuation are leading to governance failures and bringing companies down.

Some adjectives go well with startups – dynamic, innovative, etc. But startups also face unique challenges. Financial mismanagement and unexpected market shifts can shake up a startup's stability and growth potential. With proactive measures and strategic decision-making, their founders and stakeholders can prevent this well ahead of time.

In recent times, multiple instances have come to light wherein a company inaccurately reported and filed financial statements with the concerned authorities. The low tide of funding has exposed the dark underbelly of the startup ecosystem in India — financial irregularities, glaring absence of corporate governance, and acts of omission and commission. Some companies typically report their financial figures inaccurately to deceive investors, leading them to believe that their performance and profitability exceed actual levels.

Since 2022, India Inc has thrown up quite a few cases of corporate governance lapses in startups, such as BharatPe, Broker Network, Trell, and Zilingo, wherein the companies were accused of inaccurately reporting the financials. Another illustration of financial fraud was seen in the beginning of 2023, when the founders of GoMechanic admitted to committing financial fraud by inaccurately reporting their financial statements. The surprising, yet common, thread that was emanating across each instance was the fact that each of these companies was at an advanced stage of their growth journey and had every opportunity to have significantly better internal controls in place.

Please click [here](#) for our detailed article.

– Sapna Kataria, Maulin Salvi & Sahil Kanuga

You can direct your queries or comments to the authors

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