

# Governing Better

## The business case for improved corporate governance in startups and VC

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VentureESG is a non-profit organisation driving forward the integration of ESG in the Venture Capital industry globally. Founded by a team of two London-based VCs and a Cambridge academic in 2021, we have grown to a VC community of 500+ funds across early and growth stages, sectors and geographies. In parallel, we have developed a community of 110+ institutional Limited Partners (pension funds, state funds, fund of funds, foundations, endowments) to harmonise ESG across the ecosystem. In our decision-making, we are supported by a very active VC Steering Committee and LP Working Group and publish research and tools specific to responsible investing in VC.



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# The Business Case for Corporate Governance in Startup-Land

Corporate governance is not solely a compliance exercise but a set of value-add processes, policies, and systems. This is true for big corporates and startups - and their VC fund investors - as good governance supports business resilience, integrity and good organisational culture. Business ethics, including anti-bribery, corruption management and guarding against potential financial misconduct, are central to corporate governance practices<sup>1</sup>. Robust governance building blocks implemented at the early stage produce long-term value for all stakeholders by mitigating compliance, reputational, and operational risks on the scaling journey toward a successful IPO<sup>2</sup>. Studies have demonstrated that stakeholder-oriented corporate governance structures<sup>3</sup> and board independence are associated with higher IPOs and post-IPO medium-term performances<sup>4</sup>.

In contrast, corporate misconduct comes at a heavy price tag for firms, with regulatory fines, criminal penalties, and class-action settlements costing US corporations alone over \$1 trillion since 2000<sup>5</sup>. Further research suggests that regulatory authorities or courts do not impose the largest penalties, but those come from the market itself; firms can lose up to 38% of their market value when serious misconduct is revealed<sup>6</sup>. Governance breakdowns have ripple effects beyond the company or startup itself, including a slowdown of capital inflow and deal flow across the industry and can harm consumers and

<sup>1</sup> Velte, P. (2023). [The link between corporate governance and corporate financial misconduct. A review of archival studies and implications for future research. \*Manag Rev Q\* 73, 353–411.](#)

<sup>2</sup> Reber et al (2022). [ESG Disclosure and Idiosyncratic Risk in Initial Public Offerings. \*J Bus Ethics\* 179, 867–886.](#)

<sup>3</sup> Hartzell et al(2008). [The Role of Corporate Governance in Initial Public Offerings: Evidence from Real Estate Investment Trusts. \*The Journal of Law & Economics\*, 51\(3\), 539–562.](#)

<sup>4</sup> Brogi et al. (2020). [Can governance help in making an IPO “successful”? New evidence from Europe. \*Journal of International Financial Management & Accounting\*, 31\(3\), 239–269.](#)

<sup>5</sup> [The Trillion-Dollar Mark: Corporate Misconduct Cases Reach a Dubious Milestone - Good Jobs First](#)

<sup>6</sup> Karpoff et al (2008). [The Cost to Firms of Cooking the Books \(2008\). \*Journal of Financial and Quantitative Analysis\*, 43, 581-612.](#)

employees<sup>7</sup>. A focus on good governance can help prevent or at least mitigate these negative effects.

As a baseline, focusing on good governance neither leads to lower returns mid-term despite the need for additional resources nor should distract founders and investors from other, high-priority issues. Governance is a thread throughout effective boards, data privacy, environmental management, supply chain management, and employee satisfaction; if these are ‘material issues’ for the company, good governance will help improve mid-term value. This is especially true if good governance—like any other ESG issues—is implemented proportionally; an early early with good governance (rather than a ‘fake it til you make it culture’) can be scaled into processes, practices, and policies, in line with the company’s growth and enhanced capacity.

This white paper details our learnings from 20+ conversations with founders, VC investors, and lawyers on integrating good governance, with a specific focus on the Indian VC ecosystem.

<sup>7</sup> See for instance the cases of FTX (savings theft / fraud by large crypto exchange), or 23andMe (gene data surveillance by D2C gene decryptor company).

## 1.

# The context for the whitepaper / recent governance scandals

India is characterized as an expanding capital market with well-developed governance practices, yet similarly high levels of bureaucratic red tape. In the 2020s, India experienced a rapid injection of venture capital, with 67 of the country’s 111 unicorns born in 2021 and 2022. VC funding peaked in 2022 at USD 26 billion and dropped to USD 10 billion in 2023 as the country entered a prolonged fundraising winter.<sup>8</sup> In its meteoric rise, India attracted the interest of US-based VC giants such as Accel, Lightspeed, Sequoia, who all opened regional offices and raised sub-funds. Large venture capital funds concentrated on later-stage deals and expansion, while local funds specialized in early-stage deals.

In 2022, corporate governance scandals emerged around fraud, egregious misconduct, inflated performance figures, and misappropriation of company funds by founders or top executives. In high-profile cases involving Series D startups (including Byju), investors issued strict proceedings for removing company directors, terminating the CEOs’ employment contracts, and other legal measures to salvage funds in the face of plummeting valuations. Some of the highest profile cases in India included:

- BluSmart: The EV ride-hailing startup, an Uber rival, suspended its services in April 2025 after the Securities and Exchange Board of India alleged its cofounders of gross financial mismanagement. The cofounders were charged with diverting funds from an affiliate company to purchase luxury homes instead of leasing vehicles for which the money was allocated.
- BharatPe: The unicorn fintech made headlines in 2022 when the VC-dominated board accused Ashneer Grover, the co-founder and MD, of misappropriating company funds. The board instituted an independent internal inquiry, uncovering vendor malpractice, and Grover resigned.
- Byju: The unicorn ed-tech founder, Byju Raveendran, was accused of money laundering and violations of the Foreign Exchange Management Act. He was eventually forced to resign after thousands of job cuts, and the company’s valuation nosedived from 22 billion to 3 billion in 2022.

<sup>8</sup> This fundraising winter is roughly in line with global venture capital flows slowing down in 2022 and continuing in 2023, just slightly delayed.



- Mojocare: The health tech startup's founders confessed to misreporting company revenues by creating fake invoices and round-tripping funds via inventory sold to relatives to meet investors' expectations.
- GoMechanic: The car repair startup unicorn's founder admitted to financial misreporting when the company tried to raise its Series D round, and an audit by the accounting firm EY revealed fake garages, selective payment to certain garage units and discrepancies in revenue and user metrics.

Cries for better corporate governance have been a wake-up call for the Indian VC ecosystem. Two years after the scandals and the loss of significant investment, investors in India remain cautious as deal activity marginally increased from 9.6 billion USD in 2023 to 10.9 billion USD in 2024. Global giants like Tiger Global and Softbank have taken a step back, allowing smaller, regional funds to take precedence in early-stage investments.

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This shaken VC landscape provides the background to our study. Venture ESG, in partnership with BTG Adavaya, sought to identify what behavioural and other gaps might be contributing to governance 'patterns of failure' within the ecosystem. We conducted 15 anonymous interviews with GPs and LPs working in India to identify current governance practices among venture capital funds. The VCs selected were a mix of local and international firms, and fund sizes varied from medium to large, with most having raised successive funds.

Our interviews quickly revealed an **industry on high alert**. Local and international funds across series stages have implemented proactive measures to prevent future governance breakdowns. They have turned to external auditors to conduct founder background checks and investigate non-financial governance requirements, introduced stricter term sheets, delayed timelines for closing investments, and demanded quarterly financials rather than relying on figures from the last fiscal year. As one South Asia VC stated, "Conversations around CFOs are now happening at series B, before you would only start asking around series D."

However, due diligence is just one aspect of maintaining healthy corporate governance. **Question marks elsewhere remain**. Beyond financial disclosures, board dynamics, whistleblowing policies, company culture around transparency, and internal and external financial controls reviews, among others, are part of *ongoing* processes. Such processes must be verified throughout a company's lifecycle, not simply before funding rounds. As mentioned by one LP, **"because**

**they've only cared about fundraising, governance is the least important of the most important things to tackle".**

Though the Indian VC and startup ecosystem has awakened to the importance of governance, early-stage founders still tend to view it as a cost rather than a tangible asset. As disclosed by one international VC, **"Governance needs to move beyond a punishment piece to a commercial conversation."**

## Voices from the Inside:

### Insights on good governance from VCs on the ground

#### 2.1

#### Founders and investors slowly maturing - from a low starting point

While the Indian private equity market has a decades-old history, venture capital is a more recent industry. Interviewees cited the influx of capital in 2021 as giving first-time founders and fund managers extra confidence in securing quick turn-around deals; **“as investors in 2021, it was euphoria, you could raise a 20 million round [...] deals were happening in 15 to 45 days.”** The availability of funds spawned with under-experienced ‘cowboy’ founders and ‘cowboy VCs’ whose bandwidth was devoted to securing growth. Due diligence was not necessarily the investors’ forte; neither was good governance the founders’. Certain LPs voiced how first-time fund managers were simply not used to scrutinising financial statements and verifying cash flows.

VC interviewees, in turn, described founders as fresh university graduates with prestigious technical degrees but with more limited business experience and knowledge of e.g. accounting practices:

*“Some of these guys didn’t know how to operate a bank account [...]. We had one case where the founder was moving money from his corporate account to his personal account, [these young] founders don’t have that discipline.”*

The homogeneity of founders’ backgrounds, who also ran in similar social circles, contributed to a groupthink effect around governance; short-term growth was always the top priority. Founders, propped up as industry heroes by the media, were expected to be aggressive in meeting the standards of investment committees, and reported actuals too close or well above forecasts:

*“In three months, when the business conditions change, you are put to the test; can you stand by the [financial] values you spoke about three*

*months earlier? These dynamics drive the behaviour of people and sometimes people get greedy.”*

However, in the last two years, interviewees observed an industry shift towards mid-career founders, who bring a more cautious and conservative approach to governance practices: **“With young founders, the question is always why, why do we need to be doing this, but older founders focus on the how.”**

The industry’s growing maturity was also reflected in the shifting profile of VC fund managers. Many of the VCs who were first-time managers funding the imploding startups before 2022 have now gone on to raise successive funds and have a more long-term view of the industry. Those more tenured fund managers also expect greater internal financial controls and regular audits from their entrepreneurs. Good governance on the rise?

#### 2.2

#### Form over substance in reporting

Our interviews revealed the need for greater diligence in funds’ tracking of ventures’ cash flows. Some of 2022’s implosions included ‘money disappearing’. However, the mere existence of such increased scrutiny and attention does not necessarily lead to better governance results.

LPs pointed to GPs’ tendency to emphasize form over substance in examining audited statements. For example, certain VCs mentioned how clear data dashboards signal a founder’s commitment to transparency and good financial hygiene. GPs tend to overly rely on audited metrics, principally tax payments, as indicative of solid business integrity; **“auditors focus on things like the receipts for tax credits, monthly GSD fillings, that EPF payments are made on time, but you need to investigate where those numbers are coming from”**. As emphasized by a fund CFO, “You need to ask: am I having the right accounting in place, otherwise it’s garbage in and garbage out”.

Inconsistencies in financial reporting, missing pieces and acute delays are telltale signs of possible financial mismanagement. However, VCs should equally reflect on which business metrics to scrutinize beyond the standard financial reporting requirements.<sup>9</sup> As stated by one international LP:

*“From a VC point of view, what should be my KPI? If it has to be sales or marketing rather than customer retention, that might indicate a certain governance on the company’s side, if the company is able to keep first-time adopters or not”.*

<sup>9</sup> With regards to ESG more broadly, certain local, impact-based funds have mentioned an annual commitment to an internal fund-level audit to assess ESG performance.

LPs also pressed on funds' need to 'clean their own house', specifying how some VC funds are only expected to disclose true and fair financials to their investors.

One LP explained a problem with how startup valuations are treated this way: **“there is nothing on the GPs and their functionaries to disclose in terms of valuation.”** As related by one large DFI investor:

*“Some funds have done [retrospective] due diligence on their [original] due diligence on their portfolio. We have a GP who did this across their entire portfolio and discovered some instances of fraud. It is a short-term hit [for them], but as an LP, my respect for them has grown a lot. It is [this] long-term view that people should be taking”.*

## 2.3

### From external audits to internal controls for the startup

Interviews revealed discrepancies among funds in their insistence on internal financial controls for ventures, and the stages at which requirements such as the establishment of internal accounting departments and the hiring of CFOs ought to take place. There was broad consensus among Series A to B investors on the importance of governance protocols and audit quality, but earlier-stage investors - from pre-seed to seed - tended to have a laxer approach to financial controls. Some funds expected startups to hire independent CFOs by Series A, whereas others were satisfied with an internally appointed “strong finance person.”

General Partners (GPs) from smaller funds noted that entrepreneurs were often reluctant to bring in external CFOs, with existing C-suite members opting to take on additional responsibilities. In contrast, larger VCs enforced stricter hiring standards for financial roles within their portfolio companies—for example, requiring at least three interviews for any CFO appointment. Basic governance practices, such as whistleblower policies, were also typically absent in seed-stage companies.

Thoughtful governance, however, extends beyond simply filling roles. It involves active oversight of decision-making structures—such as enforcing segregation of duties and ensuring financial controllers operate independently. One local VC remarked that in many founder-led organizations, “everything stops with him,” emphasizing that even when chiefs of staff are appointed, they often lack the authority to make independent decisions.

A more holistic governance approach would include practices like

benchmarking executive compensation, assessing employee satisfaction, and promoting diversity in leadership. As one impact-focused VC observed, **“The governance standard goes up when you have both women and men reviewing audits.”** Furthermore, high employee turnover in finance departments was repeatedly cited as a red flag indicating weak governance.

## 2.4

### Changing treatment of auditors

Investors across fund sizes required audits conducted by external accountancy firms, predominantly the ‘big four’, as part of their term sheet and standard pre-investment due diligence process. While early-stage investors were more lenient with selecting auditors, allowing for the selection of reputable domestic firms, given the budgetary restrictions of potential investee companies. Auditors have also become more liable to penalization and the suspension of licenses if found negligent in fraudulent reporting. In addition, larger funds have also hired auditors to conduct background checks on founders, investigating founders’ referees, academic reports and outstanding legal cases.

Despite these measures, investors have also spoken of the limitations of relying on outsourced auditors to verify accounts and evaluate founders’ commitment to transparency. As one investor disclosed: **“fraud reporting auditors don’t want to make it their headache and want it to be dealt with by the management [of the startup]”**; another VC added: **“standard auditors are not looking at things like a forensic audits; they trust in the numbers and cash positions.”** Auditors were taking figures at face value, which is exactly one of the contributing factors in previous high-profile cases of fraud:

*“Until very recently, most auditors won’t do [forensic checks], that’s how cash positions were misrepresented to investors. They rely on the cash positions; they want to be business friendly.”*

LPs also expressed reservations with GPs trusting ‘big four’ accountancy firms with governance practices:

*“If it is a core component or something that makes or breaks your governance, it will sit with a junior analyst [at the accountancy], sometimes for weeks, until their senior signs it off [...] closing the loop is not always in the interest of a consulting company.”*

With another LP adding, **“if I were a big four, I will give 46 recommendations [on governance action items] and the company will keep it in the drawers [make it a low priority issue] and not do any of that. From our investment team, we ask them to pick the battle, to pick where to focus on”.**



LPs have turned to digital tools to assist with forensic checks of a venture's customer base, such as AI-based software that conducts random client calls and identifies potential fake suppliers. However, they reiterated the need for VCs to perform their own checks as part of their fiduciary duties beyond the tickbox exercise that accountancies might perform:

*"You need to be comfortable that the capital exists, that revenue got physically in the banks, and the receipts match out. This goes for tech diligence as well; you've got to make sure that the data quality is the right quality".*

## 2.5

### In-house capacities of funds vary - small funds are lacking expertise

There was a sizable variability in funds' in-house capacities to conduct deep dives in screening potential investees and providing legal and fiscal portfolio support. Certain funds had dedicated ESG officers to oversee compliance. They would reject potential investees for failing to meet ESG requirements, while others were still developing ESG action plans to upgrade their in-house capacity. As one financial advisor mentioned: **"Most of the funds I work with are pretty lean, they have two or three partners, they are just in fight or flight mode"**. A small number of large funds (70 employees plus and often dedicated forensic / finance departments) had the resources to do random audits among their portfolio companies.

In smaller funds, CFOs took on all aspects of corporate governance: **"that person [the CFO] is in charge of governance, legal, everything. They aren't experts as such, but it's on the finance guy to make decisions."** Legal counsels within VC funds spoke of the commonly overlooked policies by smaller investors, such as staff grievance mechanisms and founders' and shop clearance agreements. This goes beyond simple 'economics', however, in-house legal counsel mentioned a reluctance among GPs to bring in legal expertise: **"commercial guys feel like lawyers complicate things."** LPs further noted that VC funds could be quick to set up the requested committees, but integration of the 'tickbox committee' might be more limited:

*"VC funds, they really want to work with you, they want to please you upfront. The structures will come up pretty fast, but the implementation is the lacking part."*

## 2.6

### Board governance stifled

With India being a particularly litigious market, investors and legal counsels mentioned the reluctance of individuals to take on a formal board position, preferring the title of an observational role. Formal seats were taken primarily at the Series C and Series D stages, where boards were also expected to be fully independent of the founder. Nonetheless, both VCs and LPs pointed to the need to stress governance as a board priority. Investors described boards as primarily composed of individuals with a commercial background, with more limited legal know-how, further enabling the 'growth at all cost' agenda.

*"Most boards are about business, it's rarely about processes that people have to put in place unless there is an incident [...] what's the maximum amount of damage that can happen, that's the mindset, maybe a few rupees of fines."*

Early-stage investors especially highlighted founders' lack of familiarity with running a board and documentation; **"we have to expose them to what is a board meeting, how do you come up with red, amber, green guidance in your company"**. Yet even later-stage investors mentioned their portfolio companies were still establishing audit and risk committees and nominating a chief risk officer.

LPs further reported that VCs tended to sit on too many boards: **"They look at the picture from a 3000 feet high-level view... some VCs sit on seven boards of directors, that's way too much!"**. LPs emphasized the need to reconsider board composition and nomination process: **"If it's all top-notch names, even if they have all the diplomas and profiles, what happens is you don't dig deep into the documents [...] The creation of the board of directors following representation parameters is not healthy. Governance is about practice."** tfr DFIs, in particular, mentioned how governing bodies must counterbalance the founders' decision-making and create an environment where a healthy degree of skepticism towards figures could be voiced. Such a view was corroborated by larger VCs, who encouraged the implementation of other mechanisms to raise concerns directly to the board; **"even if you have a board seat, the company already presents the information, we are relying on the data that is in front of us. That's why we feel a whistleblowing policy is important"**.

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## 2.7

### International versus local investors: missing nuance?

International VC investors can bring value to a local market through greater liquidity and risk-bearing capacities. Yet, the capacity to sign off bigger cheque sizes can also disturb local dynamics. Foreign investors tended to dominate later investment stages and check sizes in the early 2020s, diluting the influence of more local funds on the board; **“if General Atlantic or SoftBank come into play, they are putting in the bigger check, they run the show their way. The reality of the day is Indian [investors] haven’t put down serious money of their own”**. Larger foreign investors with substantial portfolios often introduced standardized reporting requirements that failed to consider the particularities of India’s anti-bribery acts and anti-money laundering laws.

India-based VC funds are often made of large family offices, with GPs navigating the same circles as their investees, thus creating in-built accountability; **“Indian fund managers, don’t have portfolios in 10 different countries, their entire ecosystem is dependent on making or breaking it here, they have more skin in the game”**. In contrast, the US and Europe-based funds have more distant knowledge of local market dynamics and cultural intricacies: **“You’ve got these guys living in Zurich taking on board seats from Indian companies.”**<sup>10</sup>, resulting in higher monitoring costs.

LPs also pointed to differences in how GPs responded to yellow and red flags related to financial misreporting. From the perspective of LPs, local GPs were said to prioritize value conservation when uncovering potential fraudulent practices by founders. In contrast, international investors were quicker to press criminal charges to set an industry example. LPs and GPs differed on the degree of corruption that should be signalled and tracked. As stated by one GP, **“If petty corruption should be reported, how should I as an investor know if someone has done it, some of it is unrealistic.”**

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<sup>10</sup> These findings corroborate other studies on international VCPE firms in India, which underscore foreign firms’ difficulties in grasping complex regulatory systems and sociocultural norms ([Gogineni, S., & Upadhyay, A. 2023](#)), leading at times to high monitoring costs ([Chemmanur, T. J., Hull, T. J., & Krishnan, K. 2016](#)).

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## 2.8

### Regulatory environment: a weighty load

From a governance standpoint, General Partners (GPs) noted that India’s regulatory framework is largely aligned with global standards, citing that “the law governs 95% of the IFC standards.” The IFC’s Environmental, Social, and Governance (ESG) benchmarks remain a reference point for global capital markets. However, despite this alignment on paper, India’s regulatory framework is often subject to sudden policy changes, inconsistent enforcement, and overlapping jurisdictional mandates. These uncertainties create challenges in assessing long-term investment risk, structuring exits, and ensuring regulatory compliance. For example, the abrupt imposition of the ‘angel tax’ on share premiums received by start-ups caused significant disruption in early-stage investing, until recent relaxations were brought in following industry backlash.

A key concern for investors is the frequent lack of clarity in sector-specific regulations. Start-ups operating in fintech, edtech, and health-tech often find themselves navigating a fragmented and evolving regulatory landscape. The fintech industry has often faced challenges due to shifting policies by the Reserve Bank of India (RBI) on digital lending norms and the use of prepaid instruments. The 2022 RBI guidelines that restricted non-bank digital lenders from loading credit lines onto prepaid cards disrupted the business models of several VC-backed start-ups. Similarly, the edtech sector has witnessed increased scrutiny over foreign investment rules in entities offering regulated educational services, leaving investors cautious. For startup founders, cross-sectoral compliance obligations—especially around labour and supply chains—are seen as ill-suited for the IT and digital economy. Requirements like maintaining employee attendance records are rooted in India’s Factory Act. As one VC put it, **“The regulatory cholesterol is not relevant; it puts a lot of cognitive load on the founder.”**

Moreover, India’s enforcement and adjudication mechanisms can be slow, subjective and unpredictable, adding further friction to the investor experience. Disputes over FDI compliance, taxation, and data privacy can take years to resolve, eroding investor confidence. The retrospective tax demands in high-profile cases such as Vodafone and Cairn, and more recently, Volkswagen, create a perception of regulatory risk that has lingered despite subsequent legal and legislative reversals. Even though such retrospective measures have been officially rolled back, the incident underscores the vulnerability investors face when policies are altered without sufficient stakeholder consultation or transition mechanisms.



Finally, ESG as a holistic set of processes is still viewed as a set of requirements to be checked instead of tools for ensuring sustainable company growth. Local GPs, particularly those managing impact funds, emphasized the need for a cultural shift in how governance is approached. **“Indian law is the basic benchmark. Regulation-wise, we are there as a country. The Indian Venture Capital Association talks about ESG and impact. The issue is with the intention,”** one GP stated. ESG is often treated as a checklist rather than a strategic tool for sustainable growth. Smaller funds stressed that ESG compliance is still driven more by Limited Partners (LPs) than by domestic regulators; **“drafting these policies, there is nothing holding the startups down from a regulatory standpoint. Having that in place would make it a lot easier, like countries in Europe who need to report ESG metrics, whether they are private or public”.**

## Conclusion/ Going Forward:

The rapid influx of capital in India's startup ecosystem in the early 2020s brought unprecedented growth, yet revealed the systematic weaknesses in corporate governance practices across its venture capital landscape. Investors and founders paid heavy financial, reputational and operational costs for weak frameworks. Change is in sight as our interviews underscored an evolution in investor behaviour. VCs are increasingly attentive to internal controls, board functionality, audit quality, and the strategic value of good governance.

While steady progress has been made, this whitepaper has highlighted the need to prioritize substance over form in financial reporting, increase board oversight, review internal controls and avoid overreliance on external audits as sole guarantees of solid business integrity. As simply put by one LP, “you trust, but you always verify”. Ultimately, steady corporate governance must be built on oversight mechanisms that are transparent and dynamically responsive, and proportionate to a venture's stage; governance must remain governable so it is treated as a strategic asset rather than a compliance burden.

# Further reading and resources

International Finance Corporation (IFC), 2018, [CG Development Framework](#)

International Finance Corporation (IFC), 2019, [Governance Progression Matrix for Funds](#)

British International Investment and FMO Ventures, 2023, [Governance red flags in venture capital startups - interpreting and acting on warning signs](#)

British International Investment and FMO Ventures, 2024, [The monitoring challenge - how to maintain good governance and oversight post-dilution](#)

Drake, Piskadlo, Veel & Mannix, Center for Financial Inclusion and FMO Ventures, 2019, [Corporate governance resource guide early stage companies](#)

Center for Board Effectiveness, Deloitte, 2024, [Framing the future of corporate governance](#)

KPMG Advisory, 2022, [The Director's Toolkit](#)

# Appendix

## Summary of Interview Insights

### 1. Founders and investors are slowly maturing

Interviewees revealed how the surge in venture capital funding from 2020 to 2021 was marked by fast-paced deals conducted by underexperienced founders and fund managers. The industry, however, is shifting toward more mature, mid-career founders and seasoned VCs with a vigilant approach to governance.

“As investors in 2021, it was euphoria. You could raise a 20 million round. Now you have entrepreneurs in their 30s who have done well for themselves and want to be entrepreneurs rather than college dropouts. They start bringing in people with 10 to 20 years of experience in a good global company, and they start to put these processes in place” - General Partner of a Local Impact Fund

“Founders don’t understand finance that well, some are just out of college. Some of these guys didn’t know how to operate a bank account. We had one case where the founder was moving money from his corporate account to his personal account, these founders don’t have that discipline. You need to educate people on what corporate governance is all about”. - Indian General Partner for Global VC

“Founders are driven by their aspiration to make it big, but some of these things don’t come up in the diligence. In 3 months, when the business conditions change, you are put to the test, can you stand by the values you spoke about 3 months earlier? So it is a function of these dynamic that drive the behaviour of people, and sometimes people get greedy. You need to ask yourself what happened here, who is at fault. People are wired to think that if things hit the fan, you will never own up.” - Managing Partner for an Indian Fund

“Now you see founders that have quit their jobs and are in their 50s, you see the poise, and they are more receptive to building blocks. With young founders, the question is always why, why do we need to be doing this, but the older founders focus on the how. They have been a CTO in a tech company for the past five years, they have seen the evolution of tech.” - Limited Partner for a Development Finance Institute

“With young founders, the question is always why, why do we need to be doing this, but older founders focus on the how.”

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## 2. Moving away from form over substance in reporting

Interviewees have stressed the need for fund managers to conduct thorough verifications on cash flows, as standard audits and financial metrics can fail to detect underlying issues such as fraud or mismanagement. LPs emphasized that startups and fund managers must focus on internal accountability.

“The particular thing about Indian transactions is you need to pay a tax credit. Auditors focus on things like the receipts for tax credits, monthly GSD fillings, seeing that EPF payments are made on time. Auditors are getting smarter around those areas, but as a GP, you need to investigate where those numbers are coming from. You need to look under the hood, ask customers. You need to have that curiosity”. - Limited Partner for a Development Finance Institute

“When they are in the phase of rapid growth, the investor reporting metrics have to evolve. You need to wonder whether there is number crunching or if the cash burn makes sense. You need to ask: am I having the right accounting in place, otherwise it's garbage in and garbage out. You need to make sure the right people are doing accounting.” - CFO of an early-stage Indian Fund

“Founders, they are driven by short-termism, they want to sustain growth even if it means burning cash. From a VC point of view, what should be my KPI? If it has to be sales or marketing rather than customer retention, that might indicate a certain governance on the company's side, if the company is able to keep first-time adopters or not”. - Limited Partner for a Development Finance Institute

“In the context of governance and VC, there are hardly any disclosure requirements, apart from presenting financials on the management of the company; there is nothing on the GPs and their functionaries to disclose in terms of valuation”. - Legal counsel for India fund

“Some funds have done [retrospective] due diligence on their [original] due diligence on their portfolio. We have a GP who did this across their entire portfolio and discovered some instances of fraud. It is a short-term hit [for them], but as an LP, my respect for them has grown a lot. It is [this] long-term view that people should be taking”. - Limited Partner for a Development Finance Institute

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## 3. A transition from external audits to internal controls

Interviews across fund sizes revealed discrepancies in fund managers' expectations for financial controls. Later-stage investors and LPs emphasized how governance must go beyond a role-filling approach to ensure long-term

organizational health and diversity in leadership.

“The governance standard goes up when you have both women and men reviewing audits. Women are more diligent in audits than male members of the team, but compliance-wise they tend to take a backseat. If you have an equal approach it will work out well ” - General Partner of an early-stage local impact fund

“A startup company is a very founder-driven organization. Everything stops with him. If one of the co-founders is a CTO, they don't have a full view of other things. Someone who gets appointed as chief of staff may not be empowered to make authoritative calls; they are not the ones bringing the tech”. - Limited Partner for a Development Finance Institute

“By Series B, we are expecting the promoter to build a full finance team and have an independent CFO in the company that is not part of the original group of founders”. - Indian CFO for a later-stage international fund

“In our precheck, where companies are very new, we just push them towards having a key finance person involved, we ask if we can connect you with someone”. - General Partner for an early-stage South Asian fund

“When they start to get to the growth stage, that's when we ask if they have a strong finance person or a finance function, or we would insist that they get one, and have an auditor that is somebody of repute if they can't afford Big 4 or Big 8”. - General Partner for an early-stage India fund

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## 4. A changing treatment of auditors

Interviewees increasingly questioned the efficacy of traditional audits, even among the 'Big Four', as being reliant on venture-provided data. Internal diligence and digital tools were recommended to address gaps in fraud detection.

“Fraud reporting auditors don't want to make it their headache and want it to be dealt with by the management [of the startup]. They do the reporting offline in the conversations. The assumption and expectation here is that it is your business.” - Legal counsel for an India fund

“Until very recently, most auditors would not do independent checks, that's how cash positions were misrepresented to investors. We rely on the financial positions that come to us. [Auditors] don't check with the banks; they want to



be business-friendly. Standard auditors are not looking at things like a forensic audits; they trust in the numbers and cash positions. [Fraud] very rarely comes out unless an employee is telling auditors to search for something.” - Legal counsel for an India fund

“If it is a core component or something that makes or breaks your governance, it will sit with a junior analyst [at the accountancy], sometimes for weeks, until their senior signs it off [...] closing the loop is not always in the interest of a consulting company. [As an LP] we put our skin in the game, we bring the fund and founder from that company and within an hour you can sort out a lot of things.” - Limited Partner for a Development Finance Institute

“We developed guidelines on what would be the best governance scenario for each of the company stages; baby steps on how it should be done. If I were a big four, I will give 46 recommendations [on governance action items] and the company will keep it in the drawers [make it a low priority issue] and not do any of that. From our investment team, we ask them to pick the battle, to pick where to focus on”. - Limited Partner for a Development Finance Institute

“With E-commerce, for example, you have to check that it is not the same parties selling and buying on the platform. You need to be comfortable that that capital exists, that revenue got physically in the banks, and the receipts match out. This goes for tech diligence as well; you’ve got to make sure that the data quality is the right quality”. - General Partner for global VC

“Even if you have a board seat, the company already presents the information, we are relying on the data that is in front of us. That’s why we feel a whistleblowing policy is important”. - General Partner for an early-stage South Asia fund

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## 5. Varying in-house capacities of funds

Interviewees pointed to significant variation in investors’ internal capacities to screen potential investees, provide portfolio companies with ESG support and offer legal counsel, with smaller funds relying on overstretched CFOs.

“Most of the funds I work with are pretty lean, how they are operating, they have two or three partners, they are just in fight or flight mode. They’re having [governance] meetings, but it is not always formalized”. -Limited Partner for a Development Finance Institute

“Funds are also starting as startups, they are in the business of making money.

With funds, the first hire is usually a CFO, and that person is in charge of governance, legal, and everything. They aren’t experts as such, but it’s on the finance guy to make decisions. It’s not until they reach their third or fourth fund that managing partners will hire someone very fresh out of law school. Commercial guys feel like lawyers complicate things. The other issue is the price; they don’t want to expend that amount.” - Legal counsel for an India fund

“With VC funds, they fall in line, they really want to work with you, and they want to please you upfront. The structures will come up pretty fast, but the implementation is the lacking part.” -Limited Partner for a Development Finance Institute

“It can be difficult for us to balance all of this, governance policies with our fund capabilities. That is the most common pushback that we hear [from our portfolio companies]. We want to have all these policies, but we don’t have all these resources.” - General Partner for an early-stage South Asia fund

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## 6. Board governance is stifled

Interviewees cited several constraints affecting board members’ ability to institute effective governance, including members’ prioritization of business growth over risk management, VCs’ oversubscription to boards, a lack of legal expertise and a reluctance to formally appoint members until Series C and D.

“Most boards are about business, it’s rarely about processes that people have to put in place unless there is an incident [...] Indian promoters need to change their attitude a bit. What’s the maximum amount of damage that can happen? That’s the mindset, maybe a few rupees of fines.” - Legal counsel for an India fund

“We have the CEO [of one of our portfolio companies] sit through our board meeting so they understand how to do the documentation. We have to expose them to what is a board meeting, how do you come up with red, amber, green guidance in your company. For example, not more than 200 to 5000 in cash should be available in the office, then you put amber or red, etc. How to prepare a compliance certificate, how to understand board insurance, most of this is not known”- General Partner for an India Fund

“They look at the picture from a 3000 feet high-level view... some VCs sit

on seven boards of directors, that's way too much!" - Limited Partner for a Development Finance Institute

"If it's all top-notch names, even if they have all the diplomas and profiles, what happens is you don't dig deep into the documents [...] Sometimes we assume that this only happens in emerging markets but the challenges are quite similar globally, there's a lack of attention that we put on the practice of governance. The creation of the board of directors following representation parameters is not healthy. Governance is about practice." - Limited Partner for a Development Finance Institute

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## 7. International investors' distant knowledge

Interviewees underscored how the tendency for international VCs to dominate later-stage deals resulted in an imposition of standardized reporting ill-suited to India's regulatory nuances. Local funds' deeper embeddedness in the startup ecosystem led to in-built financial accountability, yet international investors are adopting a tougher stance on misconduct.

"Every round has a new gang leader, and my level of engagement with the company is different. If General Atlantic or Softbank comes into play, they are putting in the bigger check, they try to run the show their way. The reality of the day is Indian [investors] haven't put serious money on their own. The big money is all foreign, top VCs." - CFO of an early-stage India Fund

"Indian fund managers, don't have portfolios in 10 different countries, their entire ecosystem is dependent on making or breaking it here, they have more skin in the game. They have many playbooks for different areas, rather than just seeking an exit in the second round. Some of these Indian funds stick until the pre-IPO or IPO stages. It is when guys like Sequoia, when the company is going upwards, where you see corners being cut". - Limited Partner for a Development Finance Institute

"You've got these guys living in Zurich taking on board seats from Indian companies, not knowing the ecosystem in India. You need that extra pair of eyes [on the ground]" - Limited Partner for a Development Finance Institute

"If petty corruption should be reported, how should I as an investor know if someone has done it, some of it is unrealistic. We look into the systematic risks" - General Partner for an India fund

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## 8. A weighty regulatory environment


While India's regulatory framework is broadly aligned with international ESG and governance standards, inconsistent enforcement, abrupt policy shifts, and overlapping jurisdictional mandates create significant uncertainty for investors. Challenging sector-specific regulations, legacy compliance burdens, and a lack of local regulatory push for ESG further hamper on funds' and founders' ability to enforce good governance.

"Compliance in India is quite high. The BII and the IFC come with their additional requirements. It is an incremental 5%. The law governs 95% of the IFC standards. Some of these funds have requirements to track environmental impact, we don't have laws to enforce that yet." - Legal counsel for an India fund

"The regulatory regime came in the first few decades after independence, where a lot of those rules were around preventing exploitation from large industries and some [of these labour laws] haven't been updated. It becomes a heavy mental bandwidth for the founder [...] the regulatory cholesterol is not relevant, it puts a lot of cognitive load on the founder" - General Partner for an early-stage India fund

"Indian law is the basic benchmark. Regulation wise, we are there as a country. The Indian Venture Capital Association talks about ESG and impact. The government talks about it. Indian entrepreneurs are now well-versed in this, so it doesn't come as a surprise. The issue is with the intention". - General Partner of a Local Impact Fund

"Drafting these policies, there is nothing holding the startups down from a regulatory standpoint. Having that in place would make it a lot easier, like countries in Europe who need to report ESG metrics, whether they are private or public". - General Partner for an early-stage South Asia fund

An abstract composition featuring a large sphere with a grid-like texture in the upper left, a smaller similar sphere in the lower right, and a series of parallel, slightly curved lines in the center. The background is a dark, textured surface with a grid pattern. The overall color palette is dark and monochromatic, with shades of grey and black.

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