

# Corporate Governance in Indian Startups: Navigating Organizational Structures and Growth Transitions in the Startup Lifecycle

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## ABSTRACT

This study examines corporate governance in Indian startups with a focus on how governance structures evolve across organizational forms and growth stages within the startup lifecycle. In India, startups may be constituted as sole proprietorships, partnership firms, limited liability partnerships, or companies, each governed by distinct legal frameworks that shape their governance obligations, accountability standards, and transparency requirements.

As startups expand, they frequently transition from one organizational form to another to attract investment, manage risk, and enhance credibility. Such transitions create governance challenges relating to compliance, disclosure, decision-making authority, stakeholder protection, and investor confidence. The research, therefore, investigates the suitability of governance mechanisms for each business structure and identifies principles that should guide structural transformations to ensure sustainability and long-term value creation.

The study adopts a doctrinal research methodology, relying on statutory provisions, regulatory frameworks, governance codes, committee reports, and academic literature to analyze the legal foundations and theoretical principles governing startup organizations in India. Through doctrinal analysis, it evaluates how governance norms differ across organizational forms and how these norms influence funding access, risk management, leadership accountability, and organizational resilience.

The findings indicate that governance is not merely a compliance requirement but a strategic tool that supports innovation, investor trust, and sustainable growth. Early adoption of structured governance practices, even in small startups, enhances transparency and reduces operational and legal risks. The study concludes that differentiated governance frameworks tailored to organizational form and growth stage are essential for startups, and that carefully managed transitions between business structures are critical to maintaining stakeholder confidence and ensuring long-term institutional stability within India's evolving startup ecosystem.

**Keywords:** Corporate Governance, startup, Organizational Structures, legal frameworks, Startup Lifecycle

## Background of the Study

A descriptive startup or business refers to an entity that completely changes the existing system or improves the usual way of doing things, often using new ideas and technologies that can transform industries. The Government of India, through notifications issued in 2018 and updated in 2019, defines a startup as a business entity that is less than ten years old from the date of its incorporation and is registered as a Private Limited Company (including a One-Person Company), a Partnership Firm, or a Limited Liability Partnership (LLP).

Further, the entity's annual turnover should not have exceeded ₹100 crore in any financial year since its establishment. The primary objective of a startup must be the innovation, development, or improvement of products, services, or processes, or it should operate on a scalable business model with significant potential for employment generation and wealth creation. However, an entity formed by splitting up or restructuring an

existing business cannot be considered a startup. An entity also ceases to be recognized as a startup once it completes ten years from incorporation or if its turnover crosses ₹100 crore in any financial year<sup>1</sup>.

Additionally, a company may lose its startup status if it is traded in the securities market, gets listed through an IPO, undergoes a merger or acquisition, or is unable to function effectively despite developing a complete product.<sup>2</sup> For official recognition, the entity must apply to the Department for Promotion of Industry and Internal Trade (DPIIT).

## Startup Ecosystem in India

India is the third-largest startup ecosystem in the world, after the United States and China. The growth rate of the startup ecosystem in India has increased by 15% since 2018, and the number of incubators and accelerators has grown by 12–15%.<sup>3</sup> My ideology regarding startups and sustainable development is that the core purpose of startups should be sustainable economic development, which in turn creates a positive impact on society. Achieving this requires a supportive ecosystem where startups can remain sustainable through both adequate funding and strong corporate governance, ensuring their long-term growth. Startups that achieve sustainability can generate profit and eventually graduate beyond the startup stage. Therefore, building a conducive environment for startups is crucial for their survival, and factors such as effective corporate governance and funding availability play a vital role in strengthening this ecosystem.

## Corporate Governance and Fund flow in Startups

The corporate governance and fund flow systems in startups can draw valuable lessons from successful enterprises that have demonstrated strong governance and efficient capital management. The history and evolution of corporate governance in India can be traced back to the early 1990s. In 1991, significant changes took place in the way companies were directed, controlled, and held accountable. Both private and public sector companies began adopting corporate governance reforms.

After the Satyam scandal in 2009, these efforts were further strengthened, leading to major changes such as mandatory compliance for listed companies under Clause 49 of the Listing Agreement, and voluntary compliance for other companies as per the Companies Act, 2013. Over the past 15 years, corporate governance in India has developed significantly due to several factors such as the need for foreign investment in a growing economy, the demand for transparency by institutional investors who contribute major funds during IPOs, and the increasing aspiration of Indian companies to list on international stock exchanges and access global capital markets. Therefore, corporate governance has become an important area of focus for regulators like the Registrar of Companies (RoC), the Ministry of Corporate Affairs (MCA), and the Securities and Exchange Board of India (SEBI). It is essential to ensure that all companies follow strong, transparent, and ethical governance practices for sustainable growth.<sup>4</sup>

Good corporate governance is essential for startups to prevent insolvency or winding up. Effective corporate governance also plays a crucial role in ensuring proper fund flow into the business, especially for startups. The Confederation of Indian Industry (CII) has developed a Governance Charter for Startups, emphasizing that building trust among investors is crucial for the long-term growth of a company.

According to the Charter, such trust can only be established through the adoption of good corporate governance practices from the early stages of a startup's life cycle. Startups play a significant role in economic growth by

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<sup>1</sup> G.S.R. 127(E), Ministry of Commerce & Industry, Dep't for Promotion of Industry & Internal Trade, Notification (Feb. 19, 2019), superseding G.S.R. 364(E) (Apr. 11, 2018), as amended by G.S.R. 34(E) (Jan. 16, 2019)

<sup>2</sup> The Institute of Company Secretaries of India, *Setting Up Business Entity and Closure and Labour and Industrial Law: Chapter 4 – Startup and Registration* 76 (4th ed. 2023).

<sup>3</sup> Startup India, Startupindia.gov.in (2025), <https://www.startupindia.gov.in>

<sup>4</sup> Afra Afsharipour, A Brief Overview of Corporate Governance Reforms in India, UC Davis Legal Studies Research Paper No. 258 (Apr. 2011), <https://ssrn.com/abstract=1729422>

contributing to GDP, creating employment opportunities, attracting foreign investment, and promoting technological innovation. Corporate governance refers to the practice of managing and leading a company in a fair, honest, transparent, and responsible manner, which not only builds investor confidence but also supports the long-term success and sustainability of startups.<sup>5</sup>

## LITERATURE REVIEW

### Challenges and Governance Frameworks in Startup Development

Aidin Salamzadeh and Hiroko Kawamorita Kesim (2015) explained that startups face several common challenges that influence their growth and chances of survival. Financial problems are one of the biggest concerns at different stages of a startup's development. During the bootstrapping stage, founders usually depend on their personal savings and financial help from family and friends. In the seed stage, they try to attract angel investors, and in the creation stage, they often rely on venture capital funding. The authors also pointed out that managing human resources is another major challenge. Many startups begin with a single founder or a small team, but as the business grows, it requires skilled employees and effective management. When founders lack experience in managing people or building teams, the company may struggle to expand. Another issue discussed by the authors is the lack of external support systems such as business incubators, accelerators, science and technology parks, and venture capital networks. The absence of these support mechanisms increases the risk of failure for many startups.<sup>6</sup>

P. B. Banudevi and G. Shiva (2019) observed that the Indian education system does not adequately prepare students for entrepreneurship. Most colleges still emphasize theoretical learning rather than developing practical skills such as marketing, operations management, and leadership. As a result, many graduates lack the hands-on experience needed to start and manage new ventures. The authors also pointed out that conservative family attitudes often discourage young people from pursuing entrepreneurship. Families tend to prefer that graduates choose stable, salaried jobs instead of taking business risks. In addition, India's entrepreneurial ecosystem lacks strong support structures like incubators, accelerators, and startup competitions, which are important for providing mentorship, funding, and networking opportunities. There is also a shortage of angel investors willing to fund early-stage startups. Although government initiatives such as Startup India and mentorship programs led by experienced entrepreneurs have been introduced to address these gaps, their impact has been limited. Furthermore, small startups often struggle to attract talented employees because they cannot match the higher salaries or career advancement opportunities offered by large companies. Overall, the authors concluded that entrepreneurs in India face multiple challenges, including limited financial support, social barriers, and skill gaps. Overcoming these difficulties requires persistence, creativity, and strong problem-solving abilities to sustain and grow new ventures in a competitive environment.<sup>7</sup>

Urtado and Machado Filho (2025) examined corporate governance practices in agricultural technology (AgTech) startups at different stages of development, ranging from the initial idea phase to maturity. Their study introduced a new corporate governance model that fits the Brazilian business context. The authors found that having a well-defined governance structure helps startups improve organizational efficiency, product development, risk management, and sustainability. It also strengthens trust and transparency within the organization, while helping to attract and retain skilled employees. The study emphasized that effective corporate governance combined with sustainability practices reduces business risks and creates a stable and competitive environment for growth. The authors also highlighted that incorporating Artificial Intelligence (AI) into governance processes can enhance data analysis and decision-making, ultimately contributing to overall business performance and long-term development. Their research was based on Agency Theory, which describes the relationship between managers and stakeholders who often have different goals. For example, managers may focus on short-term financial

<sup>5</sup> The Confederation of Indian Industry (CII) has recommended that startups adopt appropriate corporate governance practices throughout their life cycle.

<sup>6</sup> Aidin Salamzadeh & Hiroko Kawamorita Kesim, *Startup Companies: Life Cycle and Challenges*, SSRN (2015), <https://ssrn.com/abstract=2628861>

<sup>7</sup> P.B. Banudevi & G. Shiva, *Understanding the Financing Challenges Faced by Startups in India*, *J. Mgmt. & Sci. Res.* 284 (2019).

targets, while stakeholders tend to value long-term outcomes. Corporate governance helps minimize these conflicts by establishing clear rules and aligning the objectives of both parties, which leads to better decision-making in competitive and uncertain business environments. The study proposed a corporate governance model built on four main pillars: organizational structure, product development, risk governance, and strategic planning. This model supports sustainable and scalable growth by reducing risks, improving transparency, encouraging innovation, and attracting investors. The authors concluded that Agency Theory and Corporate Governance Theory complement each other, as both aim to align interests and promote effective management in startups.<sup>8</sup>

Poonam Sethi and Supriya Kamna (2023) explained that companies adopt corporate governance practices mainly to build investor confidence, as transparency plays a crucial role in ensuring long-term growth and stability. They emphasized that corporate governance should not be limited to large or well-established enterprises but should also be adopted by start-ups to strengthen their credibility and attract potential investors. However, the authors noted that setting up corporate governance frameworks can be expensive, which poses a challenge for new ventures with limited financial resources. They also raised an important question about whether Corporate Social Responsibility (CSR) obligations should apply to start-ups in the same way they apply to larger corporations. The study further observed that while large companies are closely monitored through regulatory oversight to maintain transparency, start-ups often function as self-governed entities. This flexibility, though beneficial for innovation, may also create opportunities for misuse of exemptions and short-term profit-seeking behavior. Additionally, the authors identified several key challenges that Indian start-ups face in implementing effective corporate governance. These include family-dominated ownership, shortage of professional management skills, financial constraints, and the perception that governance requirements add unnecessary regulatory burdens instead of contributing to business value. The authors concluded that improving governance awareness among start-ups can help them achieve sustainable growth and build stronger relationships with investors and stakeholders.<sup>9</sup>

Anamika Baid (2025) highlighted that as startups grow, they face increasing challenges in managing their operations efficiently. In the initial stages, most startups operate with informal and flexible management practices, which work well when the business is small and less complex. However, as these ventures expand, there is a growing need to introduce structured systems that ensure transparency, accountability, and long-term stability. The author pointed out that with business growth, legal and regulatory requirements also become more demanding. Startups must protect their intellectual property, comply with labour laws, and secure various government approvals. Despite these obligations, many startups find it difficult to maintain proper governance and compliance because of limited financial resources and a lack of legal expertise. As a result, regulatory noncompliance and weak governance often emerge as major obstacles to sustainable growth.<sup>10</sup>

The Confederation of Indian Industry (CII) has underscored the importance of adopting a Governance Charter for Startups, highlighting that establishing investor trust forms the foundation for a company's sustainable and long-term growth. The Charter emphasizes that the early implementation of sound governance practices enables startups to evolve from emerging ventures into stable, transparent, and well-managed organizations. The extent and nature of governance requirements vary based on multiple factors, including the size of the enterprise, its stage of development, organizational structure such as company, LLP, partnership, or sole proprietorship, capital intensity, industry sector, and the applicable regulatory framework. Although the Governance Charter is primarily framed for entities incorporated under the Companies Act, 2013, it also encourages other business forms such as Limited Liability Partnerships (LLPs) and partnership firms to voluntarily adopt similar

<sup>8</sup> Urtado, F., & Machado Filho, C. (2025) Corporate governance in startups: A classification model for agtechs in Brazil Cogent Business & Management, 12(1), 2437149 <https://doi.org/10.1080/23311975.2024.2437149>

<sup>9</sup> Poonam Sethi & Supriya Kamna, Start-Up Governance through Corporate Governance: A Study of the Scope of Corporate Governance in the Management of Indian Start-Ups, 22 Empirical Econ. Letters (Special Issue 2) (Jan. 2023), <https://doi.org/10.5281/zenodo.7791627>

<sup>10</sup> Anamika Baid, Corporate Governance in Startups: Legal Challenges and Frameworks in India, 8 Int'l J. L. Mgmt. & Human. 2961 (2025), <https://doi.org/10.1000/IJLMH.119396>

governance frameworks. Such adoption can enhance operational efficiency, transparency, and investor confidence, thereby contributing<sup>11</sup>

Gabrielsson (2017) highlighted that start-ups, SMEs, venture capital-backed firms, and high-growth companies face challenges that differ from those encountered by large enterprises. He emphasized that the board of directors is not merely responsible for managing or controlling the company but also serves as a strategic advisor, facilitating innovation and growth. Furthermore, he discussed how corporate governance evolves over a firm's life cycle, particularly as it transitions from an entrepreneurial phase to a more professionalized structure. Gabrielsson concluded that good corporate governance is not merely about control but also about enabling entrepreneurship and innovation, thereby forming an invisible link between the stability and growth of new enterprises.<sup>12</sup>

Broughman (2010) emphasizes that startups appoint an independent director or a third person who acts as a judge or referee, not merely as a monitor. This person often settles disputes between investors and founders of the startup, helps to avoid selfish behavior, and ensures that decisions remain fair. However, Broughman notes that if there are too many statutory compliance requirements, it may discourage individuals from serving as independent directors in startups.<sup>13</sup>

### **Cultural and Institutional Insights from Silicon Valley's Startup Ecosystem**

June Y. Lee (2019) discussed the major changes that have taken place in Silicon Valley and highlighted the social and economic challenges that come with its growth. The author pointed out that the rapid development of the technology sector has increased income inequality among different groups of people. For instance, teachers and other community workers earn much lower salaries compared to employees working in technology startups, who receive very high pay. This difference in income levels has widened the economic gap within the region. Lee also emphasized that Silicon Valley continues to face issues related to diversity and inclusion. Venture capital firms have very few women representatives, and technology companies themselves often lack diversity in their workforce and leadership teams. The limited participation of women in venture capital and startup leadership roles restricts the variety of ideas and perspectives that are essential for innovation. The author further explained that technology influences all sections of society, and therefore, building diverse teams is crucial for developing better products and achieving stronger financial performance. While Silicon Valley remains a leading example of innovation and has built a strong business ecosystem that supports sustainable growth, it still struggles to address the problems of economic inequality and the lack of diversity in its professional and leadership structures.<sup>14</sup>

Peter Ester (2020) provides a comprehensive analysis of the factors underlying Silicon Valley's exceptional success in fostering startups and technological innovation, offering insights into what Europe can learn from this model. Situated in California, Silicon Valley has become the world's leading hub for technology enterprises, hosting global giants such as Google, Apple, Facebook, Tesla, and Intel, alongside thousands of emerging startups. Ester attributes this success to a combination of factors, including a vibrant entrepreneurial culture, abundant venture capital, and a highly skilled and diverse workforce many of whom are international professionals. According to Ester, the distinctive culture of Silicon Valley, which embraces risk-taking, values innovation, and treats failure as a learning experience, has been central to its sustained growth. In contrast, many European societies tend to favor employment stability and often perceive failure negatively, creating cultural and institutional barriers that inhibit entrepreneurial development. The author argues that while policymakers in Europe aspire to replicate the Silicon Valley model, such replication is inherently challenging because the

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<sup>11</sup> The Confederation of Indian Industry (CII) has recommended that startups adopt appropriate corporate governance practices throughout their life cycle.

<sup>12</sup> Jonas Gabrielsson, Corporate Governance and Entrepreneurship: Current States and Future Directions, *in* Handbook of Research on Corporate Governance and Entrepreneurship 3 (Jonas Gabrielsson ed., Edward Elgar Publ'g 2017).

<sup>13</sup> Brian J. Broughman, The Role of Independent Directors in Startup Firms, 2010 UTAH L. REV. 461 (2010), available at <https://scholarship.law.vanderbilt.edu/faculty-publications/1283>

<sup>14</sup> June Y. Lee, Entrepreneurship in Silicon Valley: The Road to Sustainable Prosperity, J. Interdisc. Persp. & Scholarship art. 11 (2019), available at <https://repository.usfca.edu/jips/vol1/iss1/11>

ecosystem's evolution was gradual, shaped by decades of technological progress in computing, the internet, and mobile technologies developments that were often supported by government investment and historical circumstances such as wartime research initiatives. Ester cautions that attempts to “copy and paste” the Silicon Valley model overlook the importance of building a solid foundation of technology, talent, and networks. For Europe, meaningful progress would require long-term efforts to reform education systems, promote entrepreneurial mindsets, and expand access to venture capital. Furthermore, Ester acknowledges that despite its economic success, Silicon Valley faces significant social challenges. Wealth generated from the tech boom remains highly concentrated, contributing to widening income inequality and social stratification. Marginalized groups such as African-Americans and Hispanics remain underrepresented in the technology sector, while rising housing costs have displaced large segments of the middle class. These inequalities, Ester suggests, highlight the paradox of Silicon Valley its innovation-driven prosperity coexists with growing social disparity, offering both inspiration and caution for regions seeking to emulate its success.<sup>15</sup>

### **Ipo Dilemma Balancing Disclosure, Control and Growth in Startup Evolution**

Vijay Kumar Singh (2020) explains that startups in India usually go through four main stages of growth before they reach the stage of an Initial Public Offering (IPO). The first stage, idea validation, involves shaping the business idea, creating a prototype, and testing it in the market. At this stage, entrepreneurs mostly rely on their own savings or small grants for financial support. The second stage, seed funding, is when startups look for early investors such as angel investors, incubators, or crowdfunding sources to survive the “valley of death,” a period marked by low or negative cash flow. The third stage, growth or scaling, begins when the startup has gained a steady customer base and attracts venture capital to expand its operations. The final stage, maturity, occurs when startups either choose to merge with or be acquired by other companies (M&A) or raise funds through an IPO. Going public helps startups access capital from the market and depend less on private investors, leading to greater financial stability and long-term growth.<sup>16</sup>

Davydova, Fahlenbrach, Sanz, and Stulz (2022) argue that many startups prefer to retain their status as unicorns or remain privately held rather than transitioning into public companies. This preference arises from both strategic and structural considerations. One major factor is that public listing imposes strict disclosure requirements under securities laws and regulations. A publicly listed company must regularly disclose detailed information about its financial condition, business operations, risks, and strategic plans through its prospectus and periodic filings. For unicorns, much of their competitive strength depends on intangible assets such as proprietary algorithms, brand reputation, customer data, innovative business models, and organizational expertise. These assets are particularly vulnerable to imitation or misuse once disclosed.

Therefore, early exposure of such information through public listing could weaken their competitive position in the market. Another significant concern is the potential dilution of founder control following an IPO. When ownership becomes distributed among public shareholders, founders and early investors may lose significant influence over strategic decisions. By remaining private, unicorns can continue to attract capital from venture capital firms, private equity investors, and Alternative Investment Funds (AIFs) without compromising control or revealing sensitive business information. This allows them to preserve both their governance autonomy and the value of their intangible assets.<sup>17</sup>

Guoliang Frank Jiang, Jeffrey J. Reuer, Colette Southam, and Paul W. Beamish (2019) studied how small and medium-sized enterprises (SMEs) expand internationally after becoming publicly listed through an Initial Public Offering (IPO). Their research showed that SMEs which go public tend to establish new branch offices or invest in foreign subsidiaries more quickly, often expanding in bursts rather than at a steady pace. After the IPO, these

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<sup>15</sup> Peter Ester, *Silicon Valley: The DNA of an Entrepreneurial Region*, in *Accelerators in Silicon Valley* (Amsterdam University Press) (2020)

<sup>16</sup> Vijay Kumar Singh, *Policy and Regulatory Changes for a Successful Startup Revolution: Experiences from the Startup Action Plan in India*, ADBI Working Paper Series No. 1146 (Asian Dev. Bank Inst. 2020)

<sup>17</sup> Davydova, Daria, Rüdiger Fahlenbrach, Leandro Sanz & René M. Stulz, *Why Do Startups Become Unicorns Instead of Going Public* 106 (Nat'l Bureau of Econ. Rsch., Working Paper No. 30604, 2022)

companies also enter new markets where they previously had little or no presence and usually take larger ownership stakes in their foreign subsidiaries. To examine this, the authors used a statistical approach called the difference-in-differences method with matching.

This approach allowed them to compare SMEs that became public with similar private firms, while removing the effects of natural growth that would have occurred even without the IPO. The study found that going public significantly speeds up the international expansion of SMEs. It also enables them to make stronger and more confident decisions about market entry and ownership control abroad. Overall, the findings suggest that an IPO is not just a financial event but also a strategic milestone that helps SMEs grow and compete more effectively in the global market.<sup>18</sup>

### **Leadership Dynamics, Learning Orientation and Performance Linkages in Corporate Governance**

James Nelson (2005) observes that corporate governance is primarily shaped by two key factors: the company's overall performance and the characteristics of its Chief Executive Officer (CEO). In the United States, by the mid-1990s, corporate governance systems had evolved from being largely shareholder-oriented to becoming more protective of boards and management.

This transformation was achieved through several structural and policy changes, including amendments to company charters, the adoption of poison pill strategies to resist hostile takeovers, and the implementation of other defensive mechanisms. These measures collectively curtailed the influence of shareholders while consolidating the authority of boards and executive management. Nelson further explains that changes in governance structures are often driven by performance dynamics.

When a company performs well, the board tends to exercise greater control over governance decisions. Conversely, when the company underperforms, shareholders gain more leverage to demand governance reforms. Thus, the balance of power in corporate governance arrangements largely depends on the company's success and the leadership attributes of its CEO.<sup>19</sup>

Catherine L. Wang (2008) highlights the interrelationship between Entrepreneurial Orientation (*EO*) and Learning Orientation (*LO*) as key determinants of firm performance. According to the author, both orientations contribute significantly to an organization's capacity for innovation, adaptability, and sustained competitiveness. The strategic posture of a firm, whether prospector or defender influences the extent to which *EO* and *LO* are manifested within the organization.

Wang explains that *EO* fosters a culture conducive to learning by promoting innovation, risk-taking, and openness to experimentation, thereby motivating employees to learn from both successes and failures. The study further reveals that *EO* positively influences *LO*, which in turn enhances overall firm performance, establishing *LO* as a crucial mediating factor between entrepreneurial behavior and business outcomes. *LO* encourages firms to continuously acquire, interpret, and apply knowledge, which strengthens their ability to respond to environmental changes and pursue innovative opportunities. Moreover, Wang emphasizes that *LO* is shaped by the internal learning ecosystem of the firm, including knowledge exchanges with customers, partners, and other stakeholders. Thus, the dynamic interaction between *EO* and *LO* not only drives innovation and adaptability but also underpins long-term organizational success.<sup>20</sup>

Patrick O'Callaghan and Associates (1999) highlight the evolving role and accountability of the board of directors in corporate governance. Traditionally, the Chief Executive Officer (CEO) was primarily blamed for failed transactions and poor company performance.

However, in recent years, both investors and the public have begun holding the board of directors equally responsible for a company's success or failure. Boards now operate under closer scrutiny, particularly from social media and public opinion, and are expected to ensure that the CEO functions effectively and that all decisions align with shareholders' interests. The authors emphasize that the selection and appointment of directors play a vital role in maintaining strong governance. To ensure transparency and independence, a specialized committee should oversee the appointment process rather than allowing the CEO to make these

decisions unilaterally. Moreover, directors should regularly assess the CEO's performance, including both decision-making and conduct, while actively participating in strategic

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- <sup>18</sup> Guoliang Frank Jiang, Jeffrey J. Reuer, Colette Southam & Paul W. Beamish, The Impact of Initial Public Offerings on SMEs' Foreign Investment Decisions, 53 *J. Int'l Bus. Stud.* 879 (2022), <https://doi.org/10.1057/s41267-022-00500-2>.
- <sup>19</sup> James Nelson, Corporate Governance Practices, CEO Characteristics and Firm Performance, 11 *J. Corp. Fin.* 197 (2005), <https://doi.org/10.1016/j.jcorpfin.2003.07.001>
- <sup>20</sup> Catherine L. Wang, Entrepreneurial Orientation, Learning Orientation, and Firm Performance, 32 *Entrepreneurship Theory & Practice* 635 (2008), <https://doi.org/10.1111/j.1540-6520.2008.00246.x>

planning instead of passively approving management proposals. The study also argues that companies should design customized governance frameworks suited to their specific business environment and culture, instead of rigidly adhering to generic or conventional governance models. Such tailored practices, according to the authors, enhance board effectiveness and reinforce accountability within corporate governance structures. O'Callaghan and Associates further note that Canadian corporations have implemented formal guidelines to promote sound governance practices. Under these guidelines, directors receive part of their compensation in the form of company shares, thereby aligning their interests with those of shareholders and encouraging responsible performance. Government surveys in Canada have revealed several positive trends: companies increasingly maintain both a CEO and a board with clearly defined checks and balances, directors' shareholding proportions are rising, and compensation is often linked to stock ownership. Additionally, companies are now required to publicly disclose their governance practices. Boards have expanded their focus to include areas such as succession planning, risk management, self-assessment, and director training to strengthen overall governance quality. Directors also receive fees for participating in board meetings, further formalizing their responsibilities and commitment.<sup>18</sup>

### **Integrating Corporate Governance and Risk Management for Sustainable Organizational Resilience**

Stephen A. W. Drew and Terry Kendrick (2005) emphasize the close relationship between corporate governance and risk management, noting that both elements are essential for achieving sustainable corporate growth and maintaining trust among shareholders, investors, and other stakeholders. Their study identifies five key pillars of corporate governance: accountability, transparency, fairness, responsibility, and independence as the foundation of an effective governance framework. Accountability ensures that all members of the organization, particularly the board of directors and the Chief Executive Officer (CEO), remain answerable to investors, regulators, and society at large. Transparency involves the accurate and timely disclosure of financial and risk-related information, which is crucial for maintaining stakeholder confidence. Fairness focuses on the equitable treatment of all stakeholders, avoiding any preferential behavior or bias. Responsibility requires that the board and management act in the best interests of investors while adhering to ethical principles and considering environmental and social responsibilities to support long-term sustainability. Independence highlights the need for objective and unbiased decision-making, achieved through the inclusion of independent directors who can minimize conflicts of interest and prevent poor governance outcomes. Drew and Kendrick further argue that risk management should be integrated into the organization's core operations and culture, rather than functioning as a separate or isolated activity. Embedding risk assessment and mitigation within everyday decision-making processes enhances the effectiveness of corporate governance and strengthens the company's resilience against uncertainty. Conversely, failure to uphold these five pillars exposes firms to a wide range of vulnerabilities, financial, operational, legal, and strategic, thereby increasing their overall risk exposure and undermining stakeholder confidence.<sup>19</sup>

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<sup>18</sup> Patrick O'Callaghan & Associates, Corporate Governance in Canada, 7(1) *Corp. Governance: An Int'l Rev.* 3 (1999)

<sup>19</sup> Stephen A.W. Drew & Terry Kendrick, Risk Management: The Five Pillars of Corporate Governance, 31 *J. Gen. Mgmt.* 19

Betty Simkins and Steven A. Ramirez (2008) argue that, legally, the only qualification required to serve as a company director is to be a natural person. However, they point out that this minimal requirement is often inadequate because companies face a wide range of financial, operational, and legal risks that demand specialized knowledge and expertise. Directors are responsible for identifying, managing, and disclosing these risks to investors. Failure to do so can prevent investors from making informed decisions, leading to the misallocation of capital and, in some cases, large-scale financial crises. The authors emphasize that the identification and management of legal risks are especially important. They refer to the case of *Pennzoil v. Texaco*, where Getty Oil had an oral agreement to sell its assets to Pennzoil. Before the sale was finalized, Texaco intervened and convinced Getty to sell to them instead. Pennzoil filed a lawsuit, and the court initially awarded 11 billion dollars in damages. Texaco was unable to pay this amount, filed for bankruptcy, and eventually settled for 3 billion dollars. This case shows how the board's failure to recognize potential legal risks can threaten a company's survival. Simkins and Ramirez also highlight the importance of human resource management in ensuring good corporate governance. They note that a poorly managed workplace culture can lead to serious financial losses and reputational harm. The Texaco racism scandal is cited as an example, where inadequate attention to workplace behavior and culture resulted in major financial and image-related damage. A healthy organizational culture and effective monitoring of employee relations are therefore essential for maintaining governance quality. In both cases, the failure of directors to identify and mitigate key risks whether legal, operational, or financial had severe consequences, including bankruptcy, investor distrust, and reputational decline. The authors conclude that directors should go beyond routine compliance and adopt a comprehensive approach known as Enterprise-Wide Risk Management (ERM). This framework helps boards to systematically identify, understand, and manage all types of risks within a unified system, enabling them to make better decisions and strengthen long-term corporate stability.<sup>20</sup>

Pablo Durán Santomil and Luis Otero González (2020) examined the evolution of risk management practices within insurance companies, emphasizing the significant influence of regulatory reforms in strengthening these frameworks. Their study highlighted the introduction of a solvency law that mandates all insurance firms to adopt Enterprise Risk Management (ERM) systems. Under this approach, risks are aggregated and managed collectively rather than in isolation, as addressing risks separately may lead to inconsistencies and potentially harm the company's overall reputation. The authors further underscored the relevance of *Own Risk and Solvency Assessment (ORSA)*, which requires firms to evaluate their internal risk exposure and ensure adequate financial resources are available to withstand adverse conditions. They also emphasized governance enhancements within insurance companies, particularly the active involvement of the board of directors and the Chief Executive Officer (CEO) in strategic risk-related decision-making. Moreover, the study stressed the critical role of the Chief Risk Officer (*CRO*) in identifying, assessing, and communicating potential risks to senior management, including the CEO and the board. Regular and transparent reporting, preferably on a quarterly basis was recommended to ensure that management remains informed and can undertake timely corrective actions. By integrating these measures, insurance companies can enhance their capacity for effective planning, minimize unexpected financial shocks, and maintain resilience in uncertain market environments.<sup>21</sup>

### **Ethical Accountability and Cultural Integrity in Corporate Governance Strengthening Transparency and Preventing Misconduct**

Karn Marwaha (2017) emphasizes the need to extend the Whistle Blowers Protection Act, 2011 to include private sector organizations in addition to public entities. According to the author, such an extension would safeguard employees who disclose instances of corporate misconduct to senior management, ensuring that they are not dismissed, demoted, or otherwise penalized for their disclosures. Establishing whistleblower protection

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(2005), <https://doi.org/10.1177/030630700503100202>

<sup>20</sup> Betty Simkins & Steven A. Ramirez, Enterprise-Wide Risk Management and Corporate Governance, 39 Loy. U. Chi. L.J. 571 (2008)

<sup>21</sup> Pablo Durán Santomil & Luis Otero González, Enterprise Risk Management and Solvency II: The System of Governance and the Own Risk and Solvency Assessment, 21 J. Risk Fin. (2020).

mechanisms within private companies, Marwaha argues, would deter unethical behavior, prevent corruption, and enhance the overall framework of corporate governance.

The absence of adequate protection, conversely, may discourage employees from reporting wrongdoing and diminish organizational transparency. The author further contends that robust corporate governance is fundamental to maintaining the integrity of companies, financial institutions, and capital markets. It also contributes significantly to economic stability and sustainable growth. Whistleblower protection, in this context, functions as a key governance tool by fostering accountability and ethical compliance within corporate structures. In the Indian context, Marwaha refers to the “Desirable Corporate Governance: A Code” formulated by the Confederation of Indian Industry (CII), which recommended the adoption of whistleblower mechanisms as a best practice.

These recommendations were subsequently reflected in the Kumar Mangalam Birla Committee Report established by the Securities and Exchange Board of India (SEBI), culminating in the 2003 amendments to Clause 49 of the Listing Agreement. These reforms marked a significant step toward institutionalizing whistleblower policies in listed companies, thereby improving corporate culture and offering protection against financial, professional, and social retaliation. Drawing on prominent examples such as the Satyam Computer Services fraud and the Indian Premier League (IPL) scandal, Marwaha illustrates the urgent necessity of effective whistleblower safeguards in the private sector. The implementation of such mechanisms, the author concludes, would foster a culture of accountability, transparency, and ethical governance, thereby strengthening India’s corporate ecosystem.<sup>22</sup>

Raymonde Crete (2016) examined the Volkswagen (VW) emissions scandal as a prominent example of how deficiencies in corporate governance can result in severe corporate misconduct. The author noted that Volkswagen’s management established highly ambitious sales targets for the U.S. market while simultaneously seeking to minimize production costs. This created immense pressure on employees to meet unattainable objectives. In response, employees installed deceptive software designed to manipulate emissions testing results; vehicles appeared compliant during tests but emitted significantly higher pollutants under normal driving conditions, causing environmental harm. When the misconduct was exposed, Volkswagen initially attributed the wrongdoing to a few individual employees. However, subsequent investigations revealed that the deeper causes lay in weak governance structures, ineffective monitoring mechanisms, unrealistic corporate targets, and a culture that implicitly tolerated unethical behavior. Crête emphasized that this governance failure eroded stakeholder trust, tarnished the company’s reputation, and demonstrated the systemic risks of poor oversight. Following the 2015 scandal, Volkswagen undertook extensive reforms aimed at restoring integrity and accountability. The company restructured its governance framework, enhanced compliance and risk-monitoring systems, and sought to transform its corporate culture from one characterized by obedience and conformity to one that encouraged open dialogue and critical feedback among managers and engineers. Crête concluded that the VW case illustrates how weak governance and an unhealthy corporate culture can precipitate large-scale ethical and financial crises, underscoring the necessity of strong governance systems and value-driven leadership in modern corporations.<sup>23</sup>

### **Evolving and Decentralized Governance for Organizational Agility and Sustainable Growth**

Stuti Saxena (2018) emphasizes that the governance structure adopted during the early stages of a business may not remain sustainable as the enterprise grows and becomes more complex. The author argues that while initial governance models often rely on informal processes and centralized decision-making, such arrangements can create inefficiencies and hinder long-term growth. Hence, the establishment of sound corporate governance practices with a well-defined structure and decentralized decision-making is essential for organizational sustainability and adaptability. Saxena illustrates this argument through a case study from Ahmedabad, where a couple, Mukesh and Naina, founded a fitness startup that initially achieved significant success. The business

<sup>22</sup> Karn Marwaha, Corporate Governance and Whistle Blowing in India: Promises or Reality?, 59 Int’l J. L. & Mgmt. (2017), <https://doi.org/10.1108/IJLMA-12-2015-0064>.

<sup>23</sup> Raymonde Crete, The Volkswagen Scandal from the Viewpoint of Corporate Governance, 7 Eur. J. Risk Reg. 25 (2016).

expanded rapidly, benefiting from strategies such as personalized marketing and direct customer feedback. However, as the company grew, these early-stage strategies proved inadequate, leading to a decline in new memberships. This example underscores the necessity of evolving governance systems as organizations expand. The author concludes that a structured and flexible governance framework is critical for businesses to adapt to changing circumstances, maintain operational efficiency, and ensure continued success in dynamic markets.<sup>24</sup>

Kenneth Lehn (2021) underscores the importance of corporate governance in enhancing organizational agility through the decentralization of authority. According to Lehn, delegating decision-making rights to individuals who possess the most relevant situational knowledge enables companies to respond more swiftly and effectively to environmental changes. Such decentralization not only facilitates faster decision-making but also strengthens a company's long-term adaptability and survival. The concept of corporate agility, as described by the author, refers to an organization's capacity to react promptly and flexibly to external pressures while maintaining strategic coherence. This may involve innovative governance mechanisms such as insider-controlled boards or dual-class share structures that allow quicker responses to dynamic conditions without compromising the principles of sound governance. Lehn further supports his argument by referencing economist F.A. Hayek's (1945) seminal insight that no single individual or top manager possesses complete knowledge to manage a complex organization efficiently. Since knowledge is inherently dispersed among individuals within a firm, effective governance requires empowering those with localized or specialized knowledge to make timely decisions. The author elaborates on the distinction between general and specific knowledge while general knowledge can be easily shared across the organization, specific knowledge is often context-dependent and best applied by experts who possess it. Therefore, Lehn concludes that transferring decision rights to individuals with specific knowledge, typically through decentralized decision-making structures, is essential for promoting corporate agility and achieving sustainable governance outcomes.<sup>25</sup>

### **Sustainability, Inclusivity and Evolving Corporate Governance Integrating Sdgs, Diversity and Long-Term Value Creation**

Inmaculada Bel, Alfredo Juan Grau, and Amalia Rodrigo (2023) conducted an empirical study on Spanish startups to assess the extent to which these firms adhere to recommended corporate governance practices. The authors emphasized that sound governance mechanisms are essential for fostering transparency, accountability, and investor confidence factors particularly crucial for early-stage enterprises seeking external funding. The study examined three major dimensions of governance board structure, gender diversity, and the integration of Sustainable Development Goals (*SDGs*). The findings revealed that most Spanish startups were in their nascent stages of development and often lacked experienced external or independent board members, thereby limiting the board's effectiveness in oversight and strategic decision-making. The research also found that the presence of audit committees was more closely associated with board composition than with the company's age or size. Regarding gender diversity, female representation on boards remained relatively low, indicating that inclusivity in leadership positions is yet to be fully realized within Spain's startup ecosystem. In relation to sustainability practices, the study noted that while several startups demonstrated an interest in aligning with the SDGs, many were still in the planning phase of integrating such initiatives into their business strategies. The authors concluded that Spanish startups are still evolving toward comprehensive governance frameworks. To improve governance quality and enhance investor trust, they recommended increasing the participation of independent and female directors and embedding Corporate Social Responsibility (CSR) and SDG-oriented practices into organizational operations. Such reforms, they argue, would not only strengthen transparency but also enhance long-term corporate value and competitiveness.<sup>26</sup>

<sup>24</sup> Stuti Saxena, "Fit in" Fitness Point, Emerald Emerging Markets Case Studies, Vol. 8, No. 2, 2018, <https://doi.org/10.1108/EEMCS-05-2013-0046>.

<sup>25</sup> Kenneth Lehn, Corporate Governance and Corporate Agility, 66 J. Corp. Fin. 101929 (Feb. 2021), <https://doi.org/10.1016/j.jcorpfin.2021.101929>

<sup>26</sup> Inmaculada Bel, Alfredo Juan Grau & Amalia Rodrigo, Corporate Governance in Startups, in *New Frontiers in Entrepreneurial Fundraising* [P. Sendra-Pons et al. eds., Springer Nature 2023], [https://doi.org/10.1007/978-3-031-33994-3\\_10](https://doi.org/10.1007/978-3-031-33994-3_10)

Robert G. Eccles, Ioannis Ioannou, and George Serafeim (2014) conducted a comparative study examining how the integration of sustainability into corporate strategy influences organizational performance and governance structures. Their research demonstrated that firms adopting sustainability-oriented goals such as environmental protection, employee welfare, social responsibility, and performance-linked executive compensation tend to prioritize long-term success over short-term gains. The authors observed that incorporating sustainability principles enhances internal processes, strengthens stakeholder relationships, and often leads to improved financial performance over time. While some scholars argue that sustainability increases costs and may reduce immediate profitability, the study provides evidence that long-term financial outcomes and organizational resilience are generally stronger among firms with robust sustainability practices. The study compared 90 “high-sustainability” firms with 90 “low-sustainability” firms and found notable distinctions in governance, stakeholder engagement, and transparency. High-sustainability companies had more formalized governance systems, with board members and dedicated committees overseeing sustainability initiatives. These firms also linked executive compensation to sustainability targets, demonstrated deeper engagement with stakeholders, emphasized long-term decision-making, and disclosed more comprehensive sustainability information. Eccles and his co-authors identified four key pillars essential to effective sustainability implementation: governance, stakeholder engagement, long-term orientation, and measurement and reporting. The authors also explored why some companies resist adopting sustainability strategies. They identified three primary barriers: agency issues, where managers prioritize short-term stock volatility to maximize personal stock-option gains; cognitive inertia, reflecting managerial resistance to change despite potential long-term benefits; and knowledge gaps, where executives lack the expertise to operationalize sustainability frameworks effectively. Finally, the study aligns with the team production theory of the firm proposed by Blair and Stout (1999), which conceptualizes the corporation as a cooperative enterprise among various stakeholders, including employees, investors, customers, and communities, rather than as an entity solely serving shareholders. By balancing the interests of all stakeholders, sustainability-oriented companies are better positioned to achieve durable competitive advantage, long-term profitability, and meaningful contributions to society.<sup>27</sup>

Kenney, Martin, Donald Patton, and Siri Terjesen (2024) discussed how diversity in leadership acts as an indicator of good corporate governance. They observed that startups supported by private investors, especially venture capitalists, usually concentrate on profit-making and often have male-dominated leadership teams. However, before entering the public market through an Initial Public Offering (IPO), these startups tend to form a more diverse leadership group that includes both men and women. The authors explain that the presence of women in top management positions is viewed as a sign of good governance and helps attract both institutional and retail investors during the IPO stage. Appointing women leaders signals that the company follows modern corporate governance practices and values inclusiveness. Their findings also show that after the 2008 financial crisis, the number of women in senior management positions increased. This rise occurred mainly because startups began to include women in leadership roles before going public to improve their reputation and appeal to investors. The authors further note that while early-stage startups are often led mostly by men, they tend to add women to their boards and executive teams in the later stages, particularly before listing on the stock exchange, to demonstrate responsible and balanced governance.<sup>28</sup>

## Research Problem

Startups in India can be formed as different types of business organizations, such as sole proprietorships, partnership firms, limited liability partnerships (LLPs), private limited companies, and public limited companies under the Companies Act. Each of these business forms has its own rules and systems of corporate governance. As startups grow, they often change their business structure, for example, from a partnership to an LLP, from an LLP to a private company, or from a private company to a public company. This research aims to identify suitable corporate governance practices for each type of business organization and to examine the level of transparency

<sup>27</sup> Robert G. Eccles, Ioannis Ioannou & George Serafeim, The Impact of Corporate Sustainability on Organizational Processes and Performance, *60 Mgmt. Sci.* 2835 (2014)

<sup>28</sup> Kenney, Martin, Donald Patton & Siri Terjesen, Gender Diversity at Entrepreneurial Firm IPOs: Responding to Changing Societal Norms, *63 SMALL BUS. ECON.* 897 (2024), <https://doi.org/10.1007/s11187-023-00854-3>.

and governance that should be maintained during the conversion from one form to another as startups move through different stages of growth.

## CONCLUSION

This study demonstrates that corporate governance is a decisive factor in determining the sustainability, credibility, and growth trajectory of Indian startups across their lifecycle. The doctrinal analysis reveals that governance requirements differ significantly across organizational forms sole proprietorships, partnerships, LLPs, private companies, and public companies because each structure operates under distinct statutory frameworks, disclosure norms, and accountability mechanisms. As startups evolve and transition between these forms to secure funding, scale operations, or enhance legitimacy, governance challenges intensify, particularly in relation to transparency, regulatory compliance, stakeholder protection, and managerial accountability.

The findings indicate that startups that adopt structured governance practices early, such as defined decision-making processes, financial reporting discipline, risk-management systems, and independent oversight, are better positioned to attract investors, manage legal risks, and achieve long-term stability. Conversely, weak governance structures, informal management practices, and a lack of compliance awareness often hinder scalability and may expose startups to financial distress or reputational harm.

The study further finds that governance should be viewed not merely as a regulatory obligation but as a strategic enabler of innovation, investor trust, and organizational resilience. Effective governance frameworks promote efficient fund flow, align stakeholder interests, reduce agency conflicts, and facilitate smoother transitions during structural conversions or public listing stages. Evidence from comparative literature also suggests that board diversity, decentralization of decision-making, integration of sustainability goals, and enterprise-wide risk management significantly enhance governance quality and long-term performance.

Based on these findings, the study suggests that India should promote a differentiated governance approach tailored to startup size, growth stage, and organizational form rather than imposing uniform compliance standards. Policymakers should develop simplified governance guidelines for early-stage ventures, expand awareness programs on legal compliance, and encourage voluntary adoption of governance charters. Startups, in turn, should institutionalize governance gradually by introducing formal boards, independent advisors, transparent reporting systems, and internal controls as they scale. Ultimately, a stage-based governance model where governance complexity evolves alongside organizational growth emerges as the most effective framework for ensuring sustainable development, investor confidence, and institutional stability within India's dynamic startup ecosystem.