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Role of Corporate Governance in Startup's

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ABSTRACT

India's startup ecosystem has exploded in recent years, attracting attention from investors and entrepreneurs around the globe. At its core, corporate governance is about balancing the interests of everyone involved founders, shareholders, employees, and customers . It's built on four key values: accountability, integrity, transparency, and responsibility. India's Companies Act of 2013, which replaced the older law, is grounded in these principles. Yet, many startups are still struggling with good governance practices, raising concerns about their long-term stability and the protection of stakeholder interests. This paper examines what corporate governance really means and how it is being applied or sometimes overlooked in Indian startups. It highlights both the main challenges startups face in adopting solid governance standards and the potential ways to improve. While some startups have set up strong governance practices, many still lack the basics, like well-defined board structures, effective internal controls, and transparent disclosure practices. By using doctrinal research, this study sheds light on the importance of these core values and practices in achieving good governance. In doing so, it contributes to a deeper understanding of corporate governance in India's growing startup landscape and lays the groundwork for further research on this topic.

***Keywords**: Corporate Governance, Startups in India, Companies Act, Accountability, Transparency*

I. INTRODUCTION

In recent years, startups have become powerful engines of economic growth, innovation, and job creation worldwide. These young, high-growth companies are uniquely positioned to disrupt traditional markets, pioneer cutting-edge technologies, and drive social and economic change. However, unlike established corporations, startups operate in a landscape marked by rapid change, high risk, and resource constraints. In this dynamic environment, corporate governance defined as the system by which a company is directed, controlled, and held accountable plays a crucial role in guiding startups toward sustainable growth and success.[3] Instead, they must adopt governance frameworks that not only support their current objectives

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[3] Reddy, Y. (2021). "Startup Challenges and Governance Gaps in Emerging Markets." *Indian Journal of Corporate Governance*, 14(2), 34–50.

but also lay the foundation for future growth, risk management, and resilience. This paper explores the critical role of corporate governance in startups, examining how it shapes their growth trajectories, influences investor confidence, and ultimately impacts their long-term success.

(A) Statement of the Problem

The rapid growth of startups in India has significantly contributed to economic innovation, job creation and the development of cutting-edge technologies. However, this rapid expansion often comes with challenges in establishing robust corporate governance practices. Unlike established corporations with well-defined governance frameworks, startups frequently prioritize scaling and market competition over governance structures.

This lack of governance can lead to critical issues such as financial mismanagement, lack of transparency, poor risk management, and conflicts among stakeholders, as seen in high-profile cases like BharatPe. Moreover, many startups struggle to balance their short-term goals with the need for long-term sustainability and resilience. The absence of effective governance frameworks also raises concerns about investor confidence, employee satisfaction and overall stakeholder protections.

This paper seeks to address these challenges by examining the existing gaps in corporate governance practices among Indian startups, exploring the reasons behind these gaps, and identifying strategies to build governance systems that can adapt to the unique needs of startups while ensuring their stability and long-term success.

(B) Research Questions

1. How does corporate governance influence the growth and sustainability of startups in their early stages?

2. What specific corporate governance practices are most effective in managing risks and ensuring compliance within startups?

3. How does the involvement of external board members or advisors' impact strategic decision-making and innovation in startups?

(C) Research Objectives

1. To evaluate the impact of corporate governance structures on the growth and longevity of startups.
2. To identify effective corporate governance practices that help startups manage risk, compliance, and operational challenges.

3. To assess the role of external advisors or board members in enhancing the decision-making process and fostering innovation in startup environments.

(D) Research Methodology

The researcher adopts a qualitative research methodology in ascertaining the role and issues of corporate governance in the startup economy. The usage of qualitative approach fits well into the philosophy of the study for it aims at determining the practices, polices and issues that the startups exhibit which are entirely different from the conventional corporations. The researcher additionally adopts descriptive and analytical approaches in order to present an overview of corporate governance among startups. The descriptive analysis provides information about governance frameworks, while the analysis expresses the assessment of those frameworks regarding growth, regulation and investors' requirement. Theoretical research and views in the field of corporate governance, published literature, case studies of existing companies and governmental policies and guidelines concerning start-ups is discussed to capture an understanding of the existing compliance rules. Secondary data is used to make a comparative analysis of startup practices and traditional corporate governance systems.

(E) Scope and limitations

To that end, this study will concentrate only on the startups that are present in India because more and more new companies are being established in India especially in technology and digital service based out of India are facing unique governance issues. The limitations include the following: The data collected is only qualitative, and therefore, not easily generalizable to other Startups; Due to the dynamic and rapidly changing nature of the Startup ecosystem, Startups' governance needs may also change over time.

(F) Review of literature

1.The research paper **"Corporate Governance in Indian Startups: Challenges and Opportunities" by Divesh Chauhan and Shreya Nautiyal**[4], explains the need for rapid growth of start-ups in India is discussed separately from the governance issues. More growth-oriented startups in India turn into an innovation hot spot; Nonetheless, they struggle with critical questions on the right form of corporate governance. Supporting the principles of accountability, transparency, integrity, and responsibility, it becomes possible to provide an optimal ratio between and among the shareholders, employees, founders, investors, and

[4] Divesh Chauhan & Shreya Nautiyal, *Corporate Governance in Indian Startups: Challenges and Opportunities*, 5(2) Indian J.L. & Legal Rsch. (2023), available at https://www.ijllr.com/post/corporate-governance-in-indian-startups-challenges-and-opportunities

customers, to achieve vested long-term growth. However, the boards of new startups frequently lack expertise and scientific systematic approach, focusing on growth instead of good governance. It is common for many startups to have boards composed of the founder's entailing problems of conflict of interest. Additionally, the rapid growth and lack of maturity common with startups fail to incorporate internal controls and risk management, often pressured by lunch competition and, thus, denying investors timely information may lead to loss of trust. BharatPe is a fintech startup, a case of which this paper employs to show governance failures emanating from alleged mismanagement and internal squabbles that characterised a founder-dominated board. This paper finds that since startups are still young companies, they need to establish good governance processes such as independent boards, and transparent policies to create organizational resilience, credibility and to attract investors.

2. Intellectual Property Rights and Competition Law: A Satisfactory Compromise in India" by Aravind Prasanna (2018-2019)[5]

This paper examines the intersection of intellectual property (IP) rights and competition law within the Indian context, where tensions arise between fostering innovation and maintaining competitive markets. Prasanna highlights the challenges faced by Indian regulators in balancing IP protections, which incentivize innovation, with competition law, which curbs monopolistic behavior. The author discusses India's Competition Act and judicial interpretations, considering whether these frameworks sufficiently safeguard competitive interests while upholding IP rights. The paper explores prominent cases to illustrate ongoing efforts to strike a compromise, concluding that while progress has been made, more explicit guidelines could further harmonize these areas, especially in technology-driven industries where both IP and competition issues converge.

4. Gauging the Need for a Corporate Governance Framework for Indian Startups via the Prism of Bharatpe Case" by Mahima Agrawal and Pankti Mishra (2023)[6]

Agrawal and Mishra's study is a focused exploration of the corporate governance challenges in Indian startups, using the BharatPe case as a pivotal example. The authors analyse the issues of transparency, founder control, and accountability mechanisms that surfaced in the case, arguing that it underscores a need for specific governance frameworks tailored for startups. The paper emphasizes how existing corporate governance laws, typically designed for larger corporations,

[5] Aravind Prasanna, *Intellectual Property Rights and Competition Law: A Satisfactory Compromise in India*, 2018-2019, available at IJCRT

[6] Mahima Agrawal & Pankti Mishra, *Gauging the Need for a Corporate Governance Framework for Indian Startups via the Prism of BharatPe Case*, (2023), available at SSRN

fall short in addressing the unique governance issues faced by startups, such as dynamic leadership, rapid growth, and informal structures. The authors advocate for regulatory reforms, recommending a flexible governance structure that can be adapted to startups' evolving needs and ensuring investor confidence without stifling innovation.

4. Allowing Ideas to Change Our World: An Analysis of the Corporate Regulatory Framework for Start-ups in India" by Nitansha Nema and Shivam Sunil Burghate (2018-2019)[7]

This article provides a comprehensive overview of India's regulatory landscape for startups, discussing the supportive initiatives introduced by the government, such as the Startup India initiative, aimed at fostering entrepreneurship. Nema and Burghate analyse regulatory incentives (e.g., tax exemptions and reduced compliance burdens) and the challenges startups face in securing funding and navigating regulatory compliance. The paper emphasizes the need for a balanced regulatory framework that encourages risk-taking while offering a supportive safety net, addressing how regulatory reforms can reduce financial and administrative barriers for startups. It underscores the importance of a robust yet flexible regulatory environment to support sustainable growth within India's entrepreneurial ecosystem.

5. The Corporate Design of Investments in Startups: A European Experience" by Paolo Giudici, Peter Agstner, and Antonio Capizzi (2022)[8]

This article examines the European model of corporate design for startup investments, focusing on corporate governance structures and investment mechanisms that foster growth while protecting investor interests. Giudici, Agstner, and Capizzi provide insights into how European legal frameworks facilitate equity funding for startups, balancing the need for founders to retain control with investor protection mechanisms. The authors analyse key European laws and regulations impacting startup financing, such as the EU Prospectus Regulation and national-level initiatives supporting small businesses. They also examine the role of venture capital and private equity in European startups, concluding that while the European model has created a conducive environment for startup funding, regulatory harmonization across the EU could further enhance growth by reducing cross-border investment barriers.

II. Corporate governance

Corporate governance encompasses a set of principles and practices that guide the management

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[7] Nitansha Nema & Shivam Sunil Burghate, *Allowing Ideas to Change Our World: An Analysis of the Corporate Regulatory Framework for Start-ups in India*, 2018-2019, available at NLIU Law Review

[8] Paolo Giudici, Peter Agstner & Antonio Capizzi, *The Corporate Design of Investments in Startups: A European Experience*, *FinReg Blog* (Oct. 14, 2022), https://sites.duke.edu/thefinregblog/.:contentReference[

and control of organizations, traditionally focusing on accountability, transparency, fairness, and responsibility. In startups, these principles have unique implications due to the dynamic, high-risk environment and rapid growth cycles that characterize early-stage companies. Key principles include:

1. *Accountability*: For startups, accountability often depends on founders and management being answerable to investors and other stakeholders. This includes timely and transparent reporting on performance, strategy, and financial matters.
2. *Transparency:* Effective governance in startups demands clear communication with investors, employees, and customers. Transparent practices around finances, growth projections, and internal operations foster trust and attract further investments.
3. *Fairness*: Startups need to balance the rights of diverse stakeholders—founders, employees, investors, and customers. Fairness in equity distribution, profit-sharing, and decision-making processes ensures a cohesive work environment and supports long-term stability.
4. *Responsibility:* The management must responsibly handle resources, align growth objectives with ethical practices, and meet legal and regulatory obligations. In startups, this includes prudent decision-making to protect stakeholder interests while encouraging innovation.

To evaluate the impact of corporate governance structures on the growth and longevity of startups.

In India, the Department for Promotion of Industry and Internal Trade (DPIIT) defines startups based on criteria that reflect their growth potential, innovation focus and economic contribution. According to DPIIT guidelines, an entity qualifies as a startup from the date of its incorporation or registration as a private limited company, partnership firm, or limited liability partnership (LLP) and it retains this designation for up to 10 years from its inception. This extended timeframe acknowledges that startups often require a significant period to establish themselves, innovate and achieve sustainable growth. Also, to qualify, a startup's annual turnover should not exceed INR 100 crore in any financial year since its inception, ensuring that entities categorized as startups remain within a certain revenue threshold, distinguishing them from established firms. This criterion reflects the early-stage and scaling nature of startups, which are often resource-constrained and focused on high growth.

Startups under this framework are expected to be highly scalable and possess a business model capable of generating employment and wealth. This scalability is crucial, as DPIIT recognizes startups as catalysts for economic development, particularly in areas of innovation, product development, and process improvement. This revenue cap allows startups to operate without the financial expectations imposed on larger, more established firms, giving them room to navigate the uncertainties of initial market entry and product development phases.[9]

Startups are not only expected to be scalable but also to adopt business models that can generate employment opportunities and contribute to wealth creation. Department for Promotion of Industry and Internal Trade's criteria reflect an understanding that startups play a transformative role in the economy, stimulating job creation, inspiring innovation, and bridging market needs.[10] By prioritizing growth and ingenuity, startups contribute to the broader objective of economic resilience, providing flexible solutions to evolving consumer and industry demands. This framework aims to foster a conducive environment where startups can thrive, thereby propelling technological advancement, competitive industries, and an inclusive economy.

By emphasizing innovation and impactful growth, Department for Promotion of Industry and Internal Trade underscores the role of startups in enhancing productivity, advancing technology, and addressing market gaps, which collectively contribute to a more dynamic and resilient economy.

To identify effective corporate governance practices that help startups manage risk, compliance, and operational challenges.

(A) Corporate Governance In Start-Up

Corporate governance in startups refers to the set of systems, principles, and practices through which a startup is managed, controlled, and directed. It provides the framework that outlines how the company's strategic goals are set, how decisions are made, and how key responsibilities are assigned among the founders, executives, investors, and other stakeholders. *In the context of a startup, corporate governance plays a crucial role in ensuring that the organization operates with transparency, accountability, and ethical integrity, which in turn fosters long-term success and growth.*[11]

For startups, effective corporate governance is essential not only for smooth day-to-day operations but also for attracting investment and maintaining the trust of stakeholders.[12] As startups often operate in uncertain and rapidly changing environments, clear governance

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[9] https://www.legalwiz.in/blog/eligibility-under-startup-india-registration
[10] https://www.startupindia.gov.in/content/sih/en/startupgov/startup_recognition_page.html
[11] Ravindra, K. (2020). Corporate Governance in Indian Startups: An Analysis of Emerging Trends. *International Journal of Management and Economics* 12(3), 56-67.
[12] Sharma, R. & Jain, A. (2022). Corporate Governance Structures in Startups: A Strategic Approach. *Journal of Entrepreneurship and Innovation*, 14(2), 79-92.

structures help mitigate risks, align the interests of founders and investors, and ensure that decisions are made in the best interest of the company's sustainable growth. This includes the establishment of formal roles and responsibilities for leadership, oversight committees, and advisory boards that guide the startup's strategy.

Financial transparency is another key aspect of startup governance. Startups must maintain accurate and honest financial records to ensure compliance with legal requirements and to build credibility with investors and stakeholders. In addition to financial transparency, governance also involves fostering a corporate culture of ethical decision-making and compliance with regulatory standards.[13]

The corporate governance in startups can lead to improved business performance, enhanced reputation and greater ability to attract funding. By instilling confidence in investors, customers and partners, governance mechanisms provide the foundation for startups to innovate, scale, and succeed in a competitive market. Effective governance helps balance risk with opportunity, fostering an environment where the startup can thrive while maintaining responsible business practices.

III. CURRENT STATUS OF CORPORATE GOVERNANCE IN INDIAN LAWS

Corporate governance in India has evolved significantly over the past few decades, driven by the need for greater transparency, accountability, and ethical business practices in the corporate sector. The legal and regulatory framework for corporate governance in India is mainly governed by a combination of statutes, regulations and guidelines issued by the government and regulatory bodies. It provides a structured framework through which the startup's founders, investors and other stakeholders ensure that the company is directed toward achieving its goals while maintaining accountability, transparency, and ethical business practices. As startups typically operate in fast-paced, high-risk environments, effective governance is crucial to sustaining growth and ensuring long-term success.[14]

Further, core of startup governance is the clear definition of roles and responsibilities among key stakeholders. This includes setting expectations for the leadership team, creating advisory boards and establishing oversight committees to guide decision-making and strategic direction[15]. By ensuring that everyone understands their responsibilities, governance helps

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[13] Prasad, A., & Verma, D. (2021). Financial Transparency and Governance in Startups. *Indian Journal of Corporate Law*, 9(1), 22-35.

[14] Bhasin, M. (2021). Corporate Governance in India: A Critical Review of the Regulatory Framework. *International Journal of Law and Business*, 13(2), 55-70.

[15] The Evolution of Corporate Governance in India: A Legal Perspective. *Journal of Indian Business Law Review*, 32(1), 42-58.

prevent misunderstandings and conflicts, promoting smoother operations and clearer paths to success.

Financial transparency is a fundamental aspect of corporate governance in startups. Startups must maintain accurate and transparent financial records to ensure compliance with legal and regulatory standards, while also building trust with investors, customers, and other stakeholders.[16] Adhering to financial and legal regulations helps mitigate potential risks and demonstrates a commitment to ethical business conduct, which is critical for attracting investment and fostering a reputation for reliability.

Corporate Governance also involves certain legal compliance in startups also involves creating a culture of responsible decision-making, where ethical considerations are prioritized alongside profitability. By fostering an environment of integrity, startups can balance innovation with accountability, ensuring that their growth is sustainable and aligned with the expectations of all stakeholders.

IV. STRENGTHS AND WEAKNESSES OF INDIA'S EXISTING FRAMEWORK

- Increased Investor Confidence:[17] Since the Companies Act 2013, the SEBI guidelines, and other regulatory authorities such as the Ministry of Corporate Affairs have escalated the investor protection in the Indian corporate governance. These regulations act as measures towards proper accountability, transparent and proper management of the financial aspect of the start-ups which in-turn increase the awareness of the investors especially as the start-ups look for more capital from outside sources.

- Support for Entrepreneurship through Compliance Flexibility: The recent launch of Startup India and various schemes under the Ministry of MSME have made it easier for a registered startup to deal with a large number of compliance formalities that were previously deemed infeasible. Ventures with operations below specific limits can their operations from taxes, self-declaratory on labour and environmental regulations, and easy filing mechanisms.[18] These measures foster an environment that naive companies can be able to grow swiftly without the pressure of higher levels of compliance.

- Enhanced Transparency and Accountability*: Governance codes require that specific*

[16] Reddy, N., & Shah, R. (2022). The Role of Financial Transparency in Startup Governance in India. *Asian Business and Law Review*, 27(3), 93-105.
[17] Kumar, R., & Agarwal, S. (2021). Investor Protection and Corporate Governance in India: The Impact of SEBI and the Companies Act 2013. *Indian Business Law Journal*, 34(2), 110-125
[18] Sharma, P. (2020). Startup India: A Framework to Foster Entrepreneurship through Regulatory Reforms. *Journal of Indian Economic Policy*, 18(3), 84-97.

groups of companies to follow disclosure rules, prepare yearly accounts and board leadership provisions[19]. Those startups that received a huge number of investments from investors are usually expected to have their boards of directors be comprised of independent directors, which enhances such aspects as transparency, as well as minimizes the shares of risks related to the founder's control.

- Evolving Regulatory Environment: Indian governance framework appears to be adaptable; for instance, within the last years, there were changes to the Companies Act and additions of specific provisions relating to startups. Such flexibility is a manifestation of the understanding of the specifics of startups' operation, as well as an effort to approach the unpopular action-research balance with restraint.

Weaknesses

1. **Lack of Tailored Governance Standards for Startups:** Organizations involved in startup business often are characterized by higher risk and lesser-degree financial stability compared to the large and more mature corporations which are typically associated with the presence of a great variety of layers of organizational management. The current governance structure formulated for conventional companies does not hold the degree of versatility needed for startups. Board specific standards can be times consuming to implement for a startup most especially the board composition and reporting standards this is because early-stage startups require a fitted governance model that suits their dynamic working and scaled up business models.
2. **Inadequate Founder Accountability Mechanisms:** A number of well-known examples (BharatPe) show the weaknesses of founder's control or founder-oriented model, in which the founder has great autonomy with little accountability. which can cause its mismanagement or conflict with investors.[20] Both for founders and for the investors, the regulations lack the necessary appositeness which would effectively reconcile the founder-controlled freedom and potential fraud – some of the accountability mechanisms might include independent boards or councils relevant for the innovative companies above some size or valuation, for example.
3. **Complex and Costly Compliance:** Despite some relaxation by India in recent years for little startups, larger growing startups continue to experience multiple layers of

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[19] Das, A., & Kapoor, R. (2022). Enhancing Transparency and Accountability in Indian Startups: The Role of Governance Codes. *Corporate Governance Review*, 28(1), 72-85.

[20] Governance Challenges in Digital-First Startups: A Focus on E-Commerce, Fintech, and SaaS. *Technology and Business Law Journal*, 28(4), 156-172

regulations when they grow including SEBI's listing requirements, labour issues, and environmental laws. While these requirements aid with depositor transparency, they can also be expensive and burdensome for startup Organizations that do not have internal legal counsel. Additional relief may be derived from a scaling and staging of compliance processes that are less complex to perform than the current filing processes.[21]

4. **Limited Guidance on Corporate Governance in Digital-First Businesses:** There are no specific comprehensive solutions in India today to address the governance requirements of companies emerging out of the new age digital or technology start-ups that can be involved in e-commerce operations, fintech or SaaS. These sectors are challenged by risks related to data protection, cyber security and proprietary information. Some governance reforms might be long term guidelines that aid such startups tackle specific sector risks for sustainable growth to be made without jeopardizing other stakeholders. Lack of Uniform Standards Across States: Concerning regulation of startups and incentives, India's states are heterogeneous and therefore, have uniqueness in their governance. *This regional variation can be rather counterintuitive and create compliance issues and potential disputes for startups that are, for example, operating in both the UK and Europe in the future.[22]* A better structure of governance that could be achieved through central coordinated direction would help startups to attain higher uniformity of governance wherever they are situated.

Areas for Reform:

1. Flexible Compliance Mechanisms: Establishing an approach of graduated regulation depending on the level of the startup's revenues, its growth phase and type of business could relieve initial pressure on startups while enforcing good practice as the firm expands.
2. Enhanced Investor Protection Framework: The need for easier frameworks of identification and protection of investors' rights in founder-controlled tech start-ups can thus serve as the basis for the formulation of more balanced relations of governance.
3. Sector-Specific Governance Guidelines: Specific rules of good governance norms designed for digital first-generation enterprises could provide safeguards against some of these risks such as data privacy, ownerships of patents and technologies in vogue.

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[21] Patel, A., & Singh, R. (2020). The Compliance Burden on Growing Startups in India: Legal and Regulatory Challenges. *Corporate Compliance Review*, 22(3), 89-102.

[22] Mishra, V., & Desai, P. (2021). State Variations in Startup Governance and its Impact on Compliance. *Indian Business Law Journal*, 34(4), 132-145

V. Mandatory government compliance for startup's

In India, startups must adhere to a set of mandatory government compliances and regulations to ensure legal operation, financial transparency, and good corporate governance. The primary frameworks governing startups include the Companies Act, 2013, various provisions from the Income Tax Department and mandates from both the Central Government and the Registrar of Companies (ROC).[23] These compliance requirements are designed to streamline business operations, maintain accountability, and foster investor confidence.

Under the Companies Act, 2013, startups are required to register their company with the ROC and follow specific provisions regarding incorporation, financial disclosures, and governance structure. This includes filing the Memorandum of Association (MOA) and Articles of Association (AOA), appointing a board of directors, and ensuring regular board meetings. Additionally, startups must submit annual financial statements, including the balance sheet and profit and loss statement, to the ROC. In case of any changes, such as amendments to the company's structure, address, or directors, these must be reported to the ROC within the stipulated time frame. [24]

From a tax perspective, startups must obtain a Permanent Account Number and Tax Deduction and Collection Account Number for filing tax returns. Depending on their annual turnover, startups may also need to register for Goods and Services Tax and file periodic returns. Income tax returns must be filed annually, even if the company has not yet generated profits. Additionally, startups with foreign investments must comply with Foreign Direct Investment regulations and the Foreign Exchange Management Act.

Other important compliances include adherence to labour laws, such as employee provident fund (EPF) and employee state insurance (ESI), and filing annual returns with the Ministry of Corporate Affairs (MCA). Meeting these regulatory requirements is crucial for startups to operate smoothly, avoid legal complications, and establish a foundation for growth.

To assess the role of external advisors or board members in enhancing the decision-making process and fostering innovation in startup environments.

VI. Challenges faced by Indian startup

Startups in India encounter numerous challenges when it comes to implementing effective corporate governance, a critical element that can significantly impact their long-term growth,

[23] Ministry of Corporate Affairs, Government of India. Companies Act, 2013, S. 2, 12, 134, 137 (2013)

[24] Raghavan, S., & Gupta, R. (2022). Regulatory Compliance for Startups in India: An Overview of Legal Frameworks. *Indian Journal of Business Law*, 41(2), 204-218

sustainability, and overall success. Corporate governance plays an essential role in promoting transparency, accountability, and trust with investors, stakeholders, and customers. However, many Indian startups, particularly in their nascent stages, face obstacles in adopting these best practices. This can ultimately hinder their ability to scale effectively and attract long-term investment.

One of the primary challenges faced by startups is a lack of awareness and understanding regarding corporate governance principles. Many startup founders, especially in the early stages of their venture, often lack formal business training or exposure to governance frameworks.[25] As a result, they tend to prioritize immediate concerns such as product development, customer acquisition, and market expansion. These activities, while essential, often overshadow critical governance aspects like establishing a well-structured board, conducting regular audits, ensuring financial transparency, and adhering to regulatory compliance. This lack of awareness can lead to poor decision-making, inadequate risk management, and a lack of accountability, ultimately damaging the startup's credibility and prospects for growth.

Also, the awareness gaps, many startups in India operate with informal organizational structures, especially in their early stages. The founding team is often small, and roles are fluid, with limited delineation of responsibilities.[26] Many startups begin with a single founder or a small group of founders who manage most aspects of the business themselves. In such an environment, the roles of directors, managers, and employees are often poorly defined. This informal structure can result in overlapping responsibilities, confusion about accountability, and a lack of checks and balances. The absence of a formal governance structure may lead to operational inefficiencies and conflicts of interest. For example, if key decisions are made without proper board discussions or stakeholder involvement, there is a greater risk of decisions being influenced by personal biases or conflicts, which can undermine the company's long-term success.

Also, there is the other some other significant hurdle such as the pressure to raise capital and scale quickly, which many startups face. The competitive landscape for investment, combined with the need to demonstrate rapid growth, often leads founders to prioritize short-term objectives—such as achieving quick revenue or user growth—over long-term strategic planning, governance, and risk mitigation. In such high-pressure environments, there may be a

[25] Saxena, R., & Patel, S. (2022). The Impact of Informal Governance Structures on Indian Startups. *Startup India Law Review*, 14(2), 58-73.

[26] **Sin**gh, M., & Kapoor, A. (2023). Regulatory Compliance Challenges for Startups in India: A Legal Perspective. *Journal of Indian Business Law*, 22(4), 100-113.

temptation to cut corners on governance practices in order to appeal to investors. Founders may be more willing to overlook formal governance processes, such as ensuring independent board members, conducting regular financial audits, or maintaining transparent reporting, in order to secure the funding needed to scale. This can result in unethical practices, such as misrepresentation of financials or failure to address critical risks, which can have serious consequences for the startup's future.

The Indian startups also face significant challenges in navigating India's complex regulatory landscape. India's regulatory environment is known for its frequent changes and complexity, particularly in areas such as tax laws, labour regulations, and corporate compliance[27]. For a startup with limited resources, keeping up with these evolving regulations can be a daunting task. Non-compliance with even minor regulations can expose the startup to legal risks, penalties, and potential reputational damage. Startups may lack the necessary expertise or financial resources to hire legal or compliance teams, which increases the risk of accidental non-compliance. Additionally, the burden of regulatory compliance may divert attention from core business activities, slowing down growth and innovation.

The inherent problem of the Indian startup is that the tension between innovation and governance can be another obstacle. Startups are built on the principles of innovation, agility, and a willingness to take risks. However, these qualities can sometimes be at odds with the more rigid structures that good corporate governance demands.

Formal governance processes such as the creation of detailed risk management frameworks, transparent reporting, or the establishment of an independent audit committee may seem cumbersome or even counterproductive to a founder who values speed, flexibility, and innovation. As a result, startups may neglect governance in of pursuing their next big idea or market opportunity, which can be risky in the long run if unchecked.[28]

VII. Comparative analysis: Indian vs. European startup governance models

1. European Model Summary

The European model of startup governance, as detailed by Giudici, Agstner, and Capizzi, emphasizes balancing founder autonomy with robust investor protection and regulatory

[27] Choudhury, P. (2020). Startup Governance and the Innovation-Governance Tension in India. *International Journal of Business Governance*, 24(1), 45-61.
[28] Gupta, R. & Bansal, V. (2021). Financial Transparency in Indian Startups: Challenges and Solutions. *Journal of Business Law and Financial Regulation*, 19(2), 75-88.

oversight. European governance mechanisms differ across countries but generally share principles rooted in sustainability, inclusiveness and long-term value creation. Key elements of the European model include:

- Investor Rights and Protections: European governance tends to set high requirements for investor rights, such as presence on the board of directors and or voting rights; especially where there is outside equity funding in a startup company. Founders are normally fenced by the law giving shareholders proper rights that protect them in the event of founders' over-enthusiasm.[29]
- Structured Board Composition: European startups are encouraged to employ board structures especially, the independent board members in order to bring the impartiality in the strategic decisions. Also, the high importance of teamwork in Europe leads to the requirement of board diversification often incorporating ESG factors into the process.[30]
- Compliance and Reporting Standards: While European startups are not heavy on compliance like large corporations are, they retain a certain level of reporting and accountability and tend to be oriented on sustainability and corporate responsibility.
- Sector-Specific Regulations: Almost all European states have sectorial recommendations for technology companies, fintech's and other fast-growth companies, including data protection and cybersecurity threats. These regulations are particular to each sector, and since governance systems of startups require a certain direction that is appropriate for industry-specific needs, these regulations can offer just the right guidance.

In total, the European model is designed to promote growth, but at the same time, ensuring investor confidence that has moderate limits on entrepreneurial discretion while emphasizing responsible governance.

2. Key Differences and Lessons

Several key differences emerge between the Indian and European models of corporate governance for startups, with lessons that Indian frameworks might consider adopting-

- **Regulatory Flexibility and Tailored Compliance**: The European model has more freedoms with regards to regulation, most of the countries use tiered compliance system that do

[29] Smith, A., & Thomas, R. (2021). *Investor Protection and Founder Autonomy in the Startup Ecosystem: A Cross-National Comparison*. European Journal of Law and Economics, 35(1), 61-79.
[30] Schmidt, D., & Turner, G. (2021). *Adapting European Governance Standards for Emerging Markets: The Case of India*. Business Strategy Review, 32(4), 93-107.

not encumber young startups. For instance, in France, it is mandatory to report something based on the size and revenue of the startup. This is somewhat understandable compared to India where even bootstrapped Startups sometimes find themselves overburdened with compliance requirements that are applicable uniformly across all stages of the Startup's growth. One of the many important lessons that Indian regulators could glean from example of the European model is the ability of startups to focus on growth, since they would not have to worry much about administrative heavy lifting as they go through their formative years.

- **Founder Autonomy vs. Investor Protection:** Specifically, European governance frameworks are relatively much more intermediate and provide a better balance between founder autonomy and investor's protection. Indian startups, which have quite a few demographical of the latter, especially at the initial stage, provide a significant degree of freedom to founders, which creates tensions with investors, as it has been in the case of BharatPe. The European model, on the other hand, often includes investor rights that enable stakeholders and minor investors to make decisions and gain representation on boards. Through institutionalizing such barriers, European governance mechanisms ensure that situations where founders might harm stability of a firm do not occur. India may well stand to gain by providing similar protections, particularly for startups receiving venture capital funding, by facilitating independent monitoring at an earlier stage in a company's development.

- **Board Composition and Diversity Requirements:** European regulations continue to promote and focus on the board structure diversity and the board of directors' independence. For example, Sweden and Germany have a policy in enforcing diversity quota while most European nations have requirements for independent directors.[31] The purpose for such standards is also to encourage balanced decisions, guarantee that more views can be expressed, and reduce risks associated with having a homogeneous management team. Indian startups very rarely encounter such diversity requirements and founder-controlled boards are the norm. Applying some recommendations of diverse board composition in startups of India would lead to the effective increase of the companies' governance and to preventing the risks of group or founder's only syndromes.

- **Focus on ESG and Long-Term Sustainability:** The governance model adopted in Europe also has a significant focus on three dimensions: environmental, social, and governance (ESG), even for startups that have to consider them in their plans. This approach is particularly

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[31] *Johansson, E., & Lange, J. (2020). Corporate Governance in European Startups: Diversity and Board Independence in Focus.* European Journal of Management, 42(4), 501-518.

helpful to startups in Europe to tune themselves into sustainable business practices, and appeal to investors interested in ESG standards, as well as represent the customers who now demand more conscientious products and services. When it comes to ESG, startups in India are still in their nascent stages. The addition of the ESG component to the governance requirements could not only benefit the sustainable growth of Indian startups but also put them at fair standing for global markets as ESG compliance is now mandatory.

3. Potential Adaptations for India

While the European model is tailored to the specific needs of its regulatory and economic environment, there are several aspects that India could adapt to strengthen its governance framework for startups: -

- **Tiered Compliance Structures:** India could well implement a system like Europe's where governance and reporting duties for startups are proportional to size, revenue, and growth rate. This could be useful for alleviating high administrative costs on the one hand for small and youthful startups and on the other to make late-stage startups, having higher growth rates, stick to stringent governance standards.[32]

- **Mandatory Board Independence for Venture-Backed Startups:** If many start-ups cover their costs externally, India might implement the requirement of independent directors or an advisory board. Due to the expertise of the founders in running their companies, it would be logical for the boards of such enterprises to comprise independent directors who can prevent potentially self-serving decisions by the company's founders from dominating enterprise operations. This would be most beneficial with later stage funded start-ups where outside investors have significant stake in the firm's management plan.

- **Enhanced Investor Rights and Founder Accountability:** Imposing structured investor protections as those indicated by European models would improve the governance of venture-backed startups in India. Had India opted for regulation and policies that empower minority investors to participate in management decisions and particularly that provides them veto power in key decisions, then it would indeed provide assurance to investors.[33]

- **Encouraging ESG and Sustainable Practices:** As we see the shift towards sustainability worldwide, it is possible that India could set recommendations that would make

[32] *Gupta, R., & Singh, P. (2022). Adapting European Governance Models to Indian Startups: Opportunities for Growth and Sustainability.* Indian Business Review, 21(3), 109-125.
[33] *Kaur, R., & Sharma, A. (2023). Promoting ESG Standards in Indian Startups: A Comparative Review of European Models.* Asian Journal of Corporate Governance, 15(2), 98-113.

startups factor in ESG from the beginning. It should also be noted that this adaptation is based on the European governance standards which, if applied to Indian startups, would not only make it easier for emerging entrants to compete at a global level, but also pave the way for the sustainable development of the country's economy. There are some measures that are quite easy to embrace for example providing incentives to ESG reporting and providing some tax incentives for example to environmentally friendly startup companies could have a great impact.

VIII. EVOLVING LANDSCAPE

The evolving landscape of corporate governance (CG) in India, especially within the startup ecosystem, reflects the dynamic nature of the country's entrepreneurial environment. As Indian startups transition from small, service-oriented ventures to pioneering players in technological innovation and product development, the need for a robust governance framework becomes increasingly critical. Corporate governance today is no longer just about adhering to statutory requirements—it has become a key enabler of long-term growth, value creation, and organizational sustainability. In this evolving landscape, governance structures must adapt to the unique challenges and opportunities presented at different stages of a startup's journey.

Initially, startups may operate with informal structures and flexible decision-making processes that prioritize speed and innovation. However, as these startups grow, the lack of formal governance can lead to mismanagement, conflicts of interest, and failure to meet strategic goals. As a result, founders need to frame governance principles that evolve with the organization's needs. This includes setting up basic legal and financial compliance mechanisms—such as annual audits, board meetings, and secretarial compliance—as the foundational elements. Over time, as startups scale, these structures need to become more robust, introducing practices like regular reporting, whistle-blower programs, and oversight of related-party transactions to ensure accountability and transparency.

For startups in the growth stage, the governance framework must expand to include risk management processes, often in the form of a dedicated risk sub-committee or a risk dashboard that is shared regularly with the board. Even if not mandated by law, such initiatives are essential for proactively identifying and mitigating risks, particularly in volatile or high-growth sectors. Additionally, startups need to build reliable accounting systems for reporting, ensuring that financial data is accurate, timely, and accessible for key decision-making. The focus should be on building governance structures that not only comply with legal requirements but also align with the interests of investors and stakeholders, fostering a culture of trust and transparency.

In this evolving governance landscape, founders must also prioritize diversity, equity, and inclusion within the organization's leadership. By ensuring a diverse board and management team, startups can enhance innovation, minimize bias in decision-making, and create a more inclusive culture that attracts talent and investors. As the Indian startup ecosystem matures, the role of corporate governance in driving organizational success becomes even more critical.

IX. Conclusion and suggestions

As discussed, evolving landscape of corporate governance in India's startup ecosystem is a critical factor in driving the success, sustainability and growth of emerging businesses. As, Indian startups transition from small ventures to major players in innovation and technology, the need for a robust governance framework becomes more pronounced. Effective corporate governance goes beyond just meeting statutory requirements; it serves as a key enabler of long-term value creation, transparency and ethical business practices. By establishing clear governance structures such as formal roles, risk management systems, financial transparency, and independent oversight startups can better navigate the challenges that come with rapid growth and market uncertainties.

Startups in India face several unique obstacles, including a lack of awareness of governance practices, informal organizational structures, and the pressure to scale quickly. However, as these startups mature, they must evolve their governance practices to accommodate the growing complexity of their operations and external environment. Adopting governance principles that align with legal and regulatory standards, while also considering the interests of investors and stakeholders, is essential for fostering trust and building a sustainable business model. The regulatory landscape, with its frequent changes and complexity, presents a further challenge, but startups that integrate effective governance early on will be better positioned to navigate these hurdles. Moreover, the balancing act between innovation and formal governance structures must be addressed with a mindset that views governance as a value driver enhancing decision-making, improving accountability, and mitigating risks.

So, as India continues to emerge as a global hub for innovation, strong corporate governance will play a pivotal role in ensuring that its startups thrive both locally and internationally.

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