

Corporate Governance and Legal Risk Management in Entrepreneurial Firms

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Abstract

Corporate governance in entrepreneurial firms represents a distinctive domain within organizational management, characterized by the intersection of founding vision, investor expectations, regulatory compliance, and the dynamic risk environments that accompany rapid growth and market disruption. Unlike established corporations, entrepreneurial firms operate under conditions of resource scarcity, informational asymmetry, and institutional uncertainty that fundamentally shape their governance structures and legal risk exposure. This paper examines the theoretical and practical dimensions of corporate governance and legal risk management as they apply to entrepreneurial organizations across various stages of their lifecycle, from early-stage startups through growth-phase companies approaching public markets. Drawing on agency theory, stewardship theory, institutional theory, and stakeholder theory, the study analyzes how governance mechanisms including board composition, ownership structures, executive incentive systems, internal audit functions, and contractual risk allocation contribute to or detract from entrepreneurial performance, compliance, and long-term sustainability. The paper further investigates the specific legal risks encountered by entrepreneurial firms in areas including intellectual property protection, employment law, securities regulation, contract enforcement, and liability management, proposing structured frameworks for proactive legal risk identification, assessment, and mitigation. Comparative analysis across jurisdictions highlights how legal system characteristics influence the governance choices available to entrepreneurs and the risks they are most likely to encounter. The study concludes that entrepreneurial firms adopting formalized yet adaptive governance structures demonstrate superior legal risk management outcomes, reduced regulatory violations, and stronger investor relations, without necessarily sacrificing the agility and innovation capacity that define entrepreneurial competitive advantage.

Keywords: Corporate Governance, Legal Risk Management, Entrepreneurial Firms, Agency Theory, Board Composition, Intellectual Property, Startup Governance, Regulatory Compliance, Venture Capital, Stakeholder Theory

I. Introduction

Entrepreneurial firms occupy a unique and challenging position within the broader landscape of organizational governance. Defined by their pursuit of opportunity under conditions of uncertainty, their dependence on external capital for growth, and their aspiration to create and scale disruptive innovations, these organizations face

governance demands that differ fundamentally from those applicable to mature corporations with established management hierarchies, stable revenue streams, and well-developed compliance infrastructures [1]. The governance challenges confronting entrepreneurial firms are simultaneously internal and external in nature: internally, they must navigate the tensions between founder authority and investor oversight, the management of knowledge-intensive assets in legally precarious ways, and the building of organizational structures capable of supporting rapid scaling; externally, they must comply with an increasingly complex web of regulatory requirements while managing legal risks that can threaten business continuity if inadequately anticipated or addressed [2].

The academic and practitioner communities have long recognized that corporate governance failures in entrepreneurial firms carry consequences that extend beyond individual organizations to affect investors, employees, customers, and the broader innovation ecosystem. High-profile governance crises in companies such as Theranos, Uber, WeWork, and FTX have exposed the severe consequences that can result from inadequate board oversight, misaligned executive incentive structures, deficient legal compliance functions, and the concentration of decision-making authority in founders who are inadequately accountable to other stakeholders [3]. These cases have accelerated regulatory attention to the governance practices of growth-stage companies, particularly in the period preceding initial public offerings, and have prompted venture capital investors to incorporate governance due diligence more systematically into their investment evaluation processes [4].

Legal risk management in entrepreneurial firms encompasses a broad spectrum of concerns that reflect the distinctive operational profile of these organizations. Intellectual property represents perhaps the most strategically critical legal asset class for knowledge-intensive startups, and the failure to secure adequate patent, trademark, copyright, and trade secret protections at early stages of development can have catastrophic consequences for competitive positioning and valuation [5]. Employment law presents recurring challenges, particularly in jurisdictions with strong worker protection frameworks, as entrepreneurial firms frequently rely on non-standard employment arrangements including independent contractor relationships, equity-based compensation structures, and informal working practices that may not withstand legal scrutiny [6]. Securities regulation becomes increasingly relevant as entrepreneurial firms raise successive rounds of capital, creating disclosure obligations, anti-fraud liabilities, and insider trading restrictions that must be navigated carefully to avoid regulatory sanctions [7].

This paper argues that the conventional dichotomy between governance formality and entrepreneurial agility is a false one: well-designed governance structures that are appropriately tailored to the stage, sector, and ownership structure of entrepreneurial firms can enhance rather than impede innovative capacity by providing clearer accountability, better risk identification, more effective decision-making, and stronger stakeholder relationships. The analysis proceeds through a systematic examination of governance theory, empirical evidence on governance-performance relationships in entrepreneurial contexts, legal risk categories and management strategies, and comparative jurisdictional analysis, culminating in an integrated framework for governance and legal risk management in entrepreneurial firms.

II. Related Works

The theoretical foundations of corporate governance scholarship rest principally on agency theory, which conceptualizes governance mechanisms as instruments for aligning the interests of agents (managers and founders) with those of principals (investors and shareholders) in conditions of informational asymmetry and divergent incentives [1]. In the entrepreneurial context, agency relationships are complicated by the dual role frequently occupied by founders as both agents and principals, the multi-principal structure created by successive rounds of venture capital investment with varying rights and preferences, and the information advantages that technical founders possess relative to their investor-directors [2]. Early agency-theoretical work assumed that governance formalization was universally beneficial for reducing opportunistic behavior and improving accountability, but subsequent research demonstrated that excessive governance formalization in early-stage firms

can create bureaucratic rigidity that impairs the rapid decision-making and experimentation that entrepreneurial performance requires [3].

Stewardship theory offered an important corrective to the agency-theoretical perspective, arguing that in many organizational contexts, particularly those characterized by strong intrinsic motivation, professional identity, and alignment of personal and organizational goals, managers and founders behave as stewards of organizational resources rather than self-interested opportunists [4]. Research applying stewardship theory to entrepreneurial governance has suggested that founder-led firms with relatively concentrated decision-making authority can outperform those with more elaborate oversight structures in early stages, provided that founders possess adequate competence, integrity, and strategic vision [5]. However, the empirical record of governance failures in high-profile founder-led companies suggests that stewardship assumptions require careful validation against the specific characteristics of individual founders and organizational contexts rather than being applied as a general presumption.

Research on board composition in entrepreneurial firms has produced rich and nuanced findings. Studies consistently demonstrate that the transition from a pure advisory board, typical of very early-stage startups, to a fiduciary board with genuine oversight authority represents a critical governance milestone that significantly affects the quality of strategic decision-making, investor confidence, and legal compliance [6]. The inclusion of independent directors with complementary expertise, including legal, financial, industry-specific, and governance knowledge, is associated with improved performance outcomes across multiple dimensions [7]. However, research also indicates that governance structures appropriate for one stage of entrepreneurial development may become liabilities at subsequent stages, underscoring the importance of adaptive governance design that evolves alongside organizational growth and changing risk profiles [8].

Legal risk management in entrepreneurial contexts has been examined through multiple disciplinary lenses. Legal scholars have documented the distinctive intellectual property vulnerabilities of knowledge-intensive startups, including the risks posed by inadequate IP assignment agreements with founders and early employees, freedom-to-operate uncertainties in patent-dense technology fields, and the reputational and financial costs of intellectual property litigation [9]. Employment law scholars have highlighted the systematic misclassification of workers as independent contractors in the gig economy and startup ecosystem, a practice that exposes entrepreneurial firms to significant liability for unpaid wages, benefits, and tax obligations [10]. Securities law researchers have analyzed the expanding regulatory obligations that accompany equity crowdfunding, private placements, and eventual public offerings, demonstrating that disclosure failures and securities fraud in the entrepreneurial context produce severe legal and reputational consequences that frequently prove fatal to the affected enterprises [11].

Comparative corporate governance research has demonstrated that legal system characteristics, particularly the distinction between common law and civil law traditions, significantly influence the governance options available to entrepreneurs and the legal risks they are most likely to encounter [12]. Common law jurisdictions, including the United States, United Kingdom, and Singapore, tend to provide more flexible contractual governance tools, including customizable shareholder agreements, varied equity structures, and robust private ordering mechanisms that allow entrepreneurial firms to tailor governance arrangements to their specific circumstances [13]. Civil law jurisdictions typically impose more mandatory governance rules, which can constrain entrepreneurial governance flexibility but may also provide more predictable legal environments for employee and creditor protection [14]. The recent proliferation of specialized legal entities for entrepreneurial firms, including the benefit corporation, the low-profit limited liability company, and various forms of cooperative, reflects growing recognition of the governance needs of organizations pursuing hybrid social and commercial objectives [15].

III. Methodology

3.1 Research Design

This study employs a qualitative research design integrating systematic literature review, theoretical framework analysis, and multi-case examination of governance and legal risk outcomes in entrepreneurial firms across

different sectors, stages, and jurisdictions. The research design is structured to address four interconnected research questions: how do governance mechanisms in entrepreneurial firms vary by organizational stage and ownership structure; what categories of legal risk are most prevalent and consequential for entrepreneurial firms; how do governance and legal risk management practices interact to influence entrepreneurial performance and survival; and what governance and legal risk management frameworks are most effective across different jurisdictional and sectoral contexts [16]. The study draws on primary case data from publicly available regulatory filings, court decisions, and corporate disclosure documents, supplemented by secondary analysis of peer-reviewed empirical studies, practitioner reports, and legal scholarship [17].

Table 1: Research Design Overview

Research Stage	Description	Purpose
Literature Review	Systematic review of governance and legal risk research	Map theoretical and empirical landscape
Theoretical Framework	Agency, stewardship, institutional, stakeholder theories	Provide analytical scaffolding
Case Data Collection	Regulatory filings, court records, corporate documents	Ground analysis in empirical evidence
Risk Categorization	Taxonomy of legal risks by type and stage	Structure legal risk management analysis
Comparative Analysis	Cross-jurisdictional governance comparison	Identify transferable governance lessons
Framework Synthesis	Integration of governance and legal risk findings	Develop actionable management framework

3.2 Data Collection and Source Evaluation

Data collection encompasses three primary streams. First, peer-reviewed academic literature was systematically retrieved from legal, management, and entrepreneurship journals using search terms covering corporate governance, legal risk management, startup governance, venture capital, board composition, intellectual property management, and employment law compliance. Second, regulatory and legal case data was gathered from publicly accessible databases including SEC EDGAR, PACER, Companies House, and equivalent national regulatory repositories, providing empirical evidence of governance failures, legal violations, and compliance practices across entrepreneurial firms in different jurisdictions. Third, practitioner knowledge was incorporated through analysis of governance guidance published by major venture capital associations, bar associations, and corporate governance institutes [18], [19].

3.3 Analytical Framework

The analytical framework employs a multi-theoretical lens that draws on agency theory for analyzing incentive alignment and monitoring mechanisms, stewardship theory for examining founder governance roles, institutional theory for understanding how regulatory environments shape governance choices, and stakeholder theory for assessing the breadth of governance obligations applicable to entrepreneurial firms operating across diverse stakeholder ecosystems [20], [21].

Table 2: Analytical Framework Components

Framework Layer	Evaluated Parameters	Expected Outcomes
Agency Analysis	Incentive structures, information asymmetry, monitoring	Identify governance alignment mechanisms
Stewardship Assessment	Founder competence, integrity, motivational orientation	Evaluate founder governance suitability
Institutional Analysis	Regulatory environment, legal system characteristics	Assess jurisdictional governance constraints
Stakeholder Mapping	Investor, employee, customer, regulator interests	Understand governance obligation breadth
Legal Risk Assessment	IP, employment, securities, contract, liability risks	Categorize and prioritize legal exposures
Performance Correlation	Governance-performance and governance-survival relationships	Validate governance effectiveness

3.4 Evaluation Techniques

Legal risk assessment employs a structured risk matrix methodology that categorizes identified legal risks by likelihood of occurrence, potential severity of consequence, and manageability through available legal and governance instruments. Governance effectiveness is assessed through comparative analysis of governance structures across case study firms at matched stages of development, controlling for sector, jurisdiction, and funding stage to isolate the contribution of governance choices to legal risk outcomes [22]. Cross-jurisdictional analysis applies a legal origins framework to assess how common law versus civil law traditions influence governance flexibility, enforcement effectiveness, and legal risk profiles in entrepreneurial contexts [23].

3.5 Implementation Strategy

The governance and legal risk management framework proposed by this study is designed for practical adoption by entrepreneurial firms across different stages of development. The framework is structured around a lifecycle model in which governance formalization and legal risk management sophistication scale proportionally with organizational growth, capital raised, employee count, and regulatory exposure. Implementation guidance is provided for each major stage of entrepreneurial development: pre-seed and seed stage, early growth stage, scaling stage, and pre-IPO or exit preparation stage. The framework emphasizes the importance of proactive legal counsel engagement, governance documentation discipline, board capability development, and systematic legal risk monitoring as foundations for sustainable entrepreneurial governance.

IV. Results And Analysis

4.1 Governance Structures Across Entrepreneurial Stages

Analysis of governance structures across entrepreneurial stages reveals a consistent pattern of governance evolution from informal founder-controlled structures in early stages toward more formalized multi-stakeholder governance frameworks as organizations scale and raise successive rounds of capital. Pre-seed and seed-stage firms predominantly operate with minimal governance formalization, relying on founders' personal authority and informal advisory relationships for strategic decision-making [5]. This informality is functionally appropriate for organizations navigating rapid iteration and resource constraints, but the absence of documented governance procedures, clear decision-making protocols, and formal accountability mechanisms creates legal vulnerabilities that may not become apparent until later funding rounds or regulatory encounters.

Table 3: Governance Characteristics by Entrepreneurial Stage

Stage	Board Structure	Governance Formality	Primary Legal Risks	Key Governance Priorities
Pre-Seed	Founders only	Minimal	IP assignment, co-founder disputes	Shareholder agreement, IP documentation
Seed	Founders + Angels	Low	Employment misclassification, contract gaps	Board formation, legal counsel engagement
Series A	Board with VC Directors	Moderate	Securities compliance, equity disputes	Independent directors, audit function
Series B/C	Mixed Board	High	Regulatory compliance, employment law	Risk management function, legal team
Pre-IPO	Majority Independent	Very High	Securities law, disclosure obligations	Governance audit, compliance infrastructure

4.2 Legal Risk Categories and Prevalence

Systematic analysis of legal risk categories across the case study sample and supporting literature identifies intellectual property management, employment law compliance, and securities regulation as the three highest-impact legal risk domains for entrepreneurial firms, with contractual risk and product liability representing significant secondary concerns in sector-specific contexts [9], [10].

Table 4: Legal Risk Assessment Matrix for Entrepreneurial Firms

Legal Risk Category	Likelihood	Potential Severity	Stage of Peak Exposure	Primary Mitigation Mechanisms
Intellectual Property	High	Very High	All stages	IP audit, assignment agreements, patent filing
Employment Law	High	High	Growth stage	Legal counsel, classification review, HR policies
Securities Regulation	Moderate	Very High	Funding and pre-IPO	Securities counsel, disclosure protocols
Contractual Risk	High	Moderate	All stages	Standard templates, legal review, NDAs
Regulatory Compliance	Moderate	High	Scaling stage	Compliance function, regulatory monitoring
Director Liability	Low-Moderate	High	Series A+	D&O insurance, governance training
Product Liability	Sector-specific	Very High	Launch and scaling	Product testing, liability insurance

4.3 Governance-Legal Risk Interaction Effects

Analysis of the interaction between governance structures and legal risk outcomes reveals significant positive correlations between governance formalization indicators and legal risk management effectiveness. Entrepreneurial firms with independent directors possessing legal or compliance expertise are associated with earlier identification of legal risks, faster remediation of compliance gaps, and lower rates of regulatory sanction [6]. The presence of a designated legal risk officer or general counsel at or before the Series A stage is associated with substantially reduced intellectual property and employment law violation rates compared to firms relying exclusively on external legal counsel engaged on a reactive basis [11]. Formal board-level risk committees are associated with more systematic legal risk monitoring and more proactive regulatory engagement, particularly in heavily regulated sectors including financial services, healthcare technology, and data-intensive platform businesses.

4.4 Comparative Jurisdictional Analysis

Cross-jurisdictional comparison of governance and legal risk environments reveals important structural differences that entrepreneurs must account for when designing governance structures and legal risk management strategies. US-based entrepreneurial firms benefit from highly developed venture capital governance conventions, standardized equity documentation, and relatively permissive corporate law in Delaware that offers considerable governance flexibility, but face significant legal risk exposure from complex securities regulation, extensive employment litigation, and fragmented state-level regulatory requirements [12]. UK-based firms operate under a more unified regulatory environment with strong employee protection obligations and mandatory governance requirements that increase more steeply with organizational growth than their US counterparts [13].

Table 5: Jurisdictional Comparison of Entrepreneurial Governance Environments

Jurisdiction	Governance Flexibility	Employment Protection	IP Framework	Securities Regulation	Overall Legal Risk Level
United States (Delaware)	Very High	Moderate	Strong	Complex	Moderate-High
United Kingdom	Moderate	High	Strong	Moderate	Moderate
European Union	Moderate	Very High	Strong	Moderate	Moderate-High
Singapore	High	Moderate	Strong	Moderate	Moderate
India	Low-Moderate	Moderate	Developing	Complex	High
Canada	High	Moderate-High	Strong	Moderate	Moderate

4.5 Framework Validation and Practical Implications

The integrated governance and legal risk management framework proposed by this study is validated through cross-case comparison, which demonstrates that firms whose governance practices most closely align with framework recommendations demonstrate superior legal risk management outcomes, as measured by lower rates of regulatory sanction, reduced incidence of material legal disputes, stronger investor relations, and higher survival rates through high-risk developmental transitions including funding rounds and product launches [15]. The framework's lifecycle-sensitive design, which calibrates governance formalization to organizational stage rather than imposing uniform standards, is supported by empirical evidence indicating that premature governance over-formalization in early-stage firms is associated with reduced innovation output and founder departure, while governance under-formalization at later stages is associated with elevated legal risk realization.

V. Conclusion

This paper has demonstrated that corporate governance and legal risk management in entrepreneurial firms represent distinct but deeply interconnected domains whose effective integration is essential for sustainable entrepreneurial performance. The analysis reveals that governance structures appropriate for entrepreneurial organizations must be simultaneously principled and adaptive, providing the accountability, transparency, and risk identification functions essential for investor confidence and regulatory compliance, while preserving the decisional agility and innovative capacity that define entrepreneurial competitive advantage.

The legal risk landscape confronting entrepreneurial firms is complex, multi-dimensional, and highly stage-sensitive, with intellectual property management, employment law compliance, and securities regulation representing the most consequential risk domains across the entrepreneurial lifecycle. The evidence consistently indicates that proactive legal risk management, supported by competent legal counsel, board-level risk oversight, and systematic compliance monitoring, produces substantially superior outcomes compared to reactive approaches that engage with legal risks only after they have materialized as disputes, violations, or regulatory sanctions.

Jurisdictional analysis confirms that the legal and regulatory environment significantly shapes the governance options available to entrepreneurs and the specific risk exposures they are most likely to encounter, underscoring the importance of jurisdiction-sensitive governance design. Future research should examine the specific governance mechanisms most effective in mitigating emerging legal risks including AI-related liability, platform regulation, and environmental compliance obligations, as well as the governance implications of increasingly common multi-jurisdictional entrepreneurial operations. Policymakers should consider how regulatory frameworks for entrepreneurial firms can be modernized to reduce unnecessary compliance burdens while maintaining essential investor and stakeholder protections that are fundamental to well-functioning entrepreneurial ecosystems.

VI. Future Work

The proposed governance–legal risk framework across diverse entrepreneurial ecosystems, particularly in emerging markets where regulatory volatility and institutional gaps are more pronounced. Longitudinal studies tracking firms from pre-seed to pre-IPO stages would provide deeper insights into how governance adaptability influences legal risk outcomes over time. Additionally, future work should explore emerging risk domains such as artificial intelligence liability, data privacy regulation, environmental compliance, and ESG-driven governance pressures, which are becoming increasingly relevant for modern startups. Comparative analyses of digital-first versus traditional entrepreneurial firms could further refine governance design principles. There is also scope to investigate the role of technology such as legal tech, compliance automation, and blockchain-based governance in enhancing risk monitoring and transparency. Finally, interdisciplinary approaches integrating legal scholarship, entrepreneurship theory, and data analytics would strengthen predictive models of governance effectiveness and legal risk mitigation in entrepreneurial contexts

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