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CORPORATE GOVERNANCE AND IPO SUBSCRIPTION LEVELS: EVIDENCE FROM INDIAN STARTUPS

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Abstract

The modernization of corporate governance has become a cornerstone for ensuring transparency, investor confidence, and sustainable growth in capital markets. In India's evolving startup ecosystem, the role of governance practices has gained heightened importance as young, innovation-driven firms increasingly access public markets through initial public offerings (IPOs). This study examines how modern corporate governance mechanisms such as board independence, disclosure quality, venture capital and underwriter certification, and intellectual capital reporting shape the subscription levels of startup IPOs in India. Drawing on signaling theory, asymmetric information models, and behavioral finance perspectives, the research develops an integrated framework to assess both financial and non-financial determinants of investor participation. Using a mixed-method approach that combines empirical analysis of post-2016 startup IPOs with qualitative insights from market practitioners, the study provides evidence on how governance modernization influences demand across investor categories (retail, institutional, and high-net-worth individuals). The findings are expected to contribute theoretically by extending IPO and governance literature into the startup financing context of an emerging economy, while also offering practical guidance for entrepreneurs, underwriters, and regulators. The study seeks to align corporate governance modernization with the broader agenda of sustainable capital market development in India.

Keywords*:* *Initial Public Offerings, IPO, Corporate Governance, Subscriptions Levels, Factor Influencing, Startups, Startups India.*

Introduction

In recent years, India has emerged as one of the fastest growing startup ecosystems, with over 1.57+ lakh certificates issued for Startup recognition by the Department for Promotion of Industry and Internal Trade (DPIIT) under the Startup India initiative contributing to innovation and employments. Many of these startups are increasingly accessing capital markets and have witnessed a dramatic rise in the initial public offerings (IPOs), many of which have been intensely oversubscribed by retail and institutional investors alike. This trend reflects both investor enthusiasm and heightened information asymmetry, raising the question of what factors drive subscription levels for these IPOs. Corporate governance practices, such as board independence, ownership structure, and disclosure quality, are considered signals that reduce information asymmetry between issuers and investors (Singh & Maurya, 2018; Srivastava, Solomon, & Singh, 2022). However, empirical evidence on how governance variables specifically affect subscription demand as opposed to underpricing or post-initial public offering (IPO) performance for Indian startups remains scarce. This study investigates the role of corporate governance practices as determinants of IPO subscription levels among startups in India, with the objective of identifying which governance attributes matter most and how their effects differ across investor categories -Retail Individual Investors (RIIs), Non-Institutional Investors (NIIs), and Qualified Institutional Buyers (QIBs) (See **Appendix A**).

Corporate governance is recognized as a critical determinant of investor perceptions of firm quality during initial public offerings (IPOs), particularly in emerging markets characterized by high information asymmetry and concentrated ownership structures (Jensen & Meckling, 1976; Spence, 1973; Berglöf & Claessens, 2006). For startups transitioning to public ownership, governance mechanisms such as board independence, leadership structure, and disclosure practices serve as important signals of managerial integrity, transparency, and long-term sustainability (Singh & Maurya, 2018; Jain & Kini, 2021). Although the Indian IPO literature has extensively examined underpricing and post-listing performance, limited attention has been paid to the determinants of IPO subscription levels and investor demand during the book-building phase (Aggarwal, 2020; Srivastava et al., 2022). The increasing participation of startups in Indian capital markets further underscores the need to understand how governance quality shapes pre-listing investor behavior and subscription outcomes (Shetty et al., 2023; Kumar & Singh, 2019).

Corporate governance mechanisms, including board independence, audit committees, promoter shareholding, and disclosure practices, are viewed as critical factors influencing investor behavior (Filatotchev & Bishop, 2002; Rashid & Rahman, 2021). In the absence of extensive operating histories or tangible assets, governance acts as a signal of firm quality (Spence, 1973). This study investigates how governance practices function as determinants of IPO subscription levels for Indian startups, providing both empirical synthesis and conceptual grounding.

This research paper reviews empirical findings on corporate governance and IPO outcomes, with an emphasis on Indian startups and emerging market contexts and outlines the key governance variables relevant to explaining subscription intensity.

Table 1 - Corporate Governance Mechanisms Relevant to Indian Startup IPOs

Corporate Governance Dimension	Mechanism	Indian Startup Ecosystem and IPO Landscape
Internal Governance Mechanisms		
Board Structure	Board size; proportion of independent directors	Mandatory minimum independent directors under SEBI (LODR); independence often limited in founder-led startups
Leadership Structure	CEO–Chairperson duality	Common in founder-led startups; separation increasingly emphasized by regulators
Board Committees	Audit, Nomination & Remuneration Committees	Required for mainboard IPOs; quality and independence vary across startups
Ownership Structure	Promoter shareholding; ownership concentration	High promoter/founder concentration typical in Indian startups
Promoter Signals	Promoters share pledging; pre-IPO dilution	Share pledging viewed negatively by Indian investors
Incentive Alignment	ESOP/ESPS schemes	Widely used to retain talent; disclosure quality varies
Disclosure Quality	Risk disclosures; governance narratives in DRHP	Investor scrutiny of forward-looking and governance disclosures

Corporate Governance Dimension	Mechanism	Indian Startup Ecosystem and IPO Landscape
External Governance Mechanisms		
Institutional Certification	VC/PE backing	Acts as reputational certification in Indian IPOs
Underwriter Reputation	Lead manager reputation	Strong underwriters associated with higher investor confidence
Regulatory Oversight	SEBI's ICDR and LODR frameworks	Stricter governance norms for IPO-bound firms post-2015
Audit Quality	Big-4 or reputed audit firms	Seen as credibility-enhancing signal
Market Discipline	Investor category-wise subscription	Institutional and HNI demand closely tracked by markets

Source: Adapted from Bushman & Smith (2001); Berglöf & Claessens (2006); Denis & McConnell (2003); Maurya & Mohapatra (2020); SEBI (2015, 2018).

Background and Motivation

Significance of Corporate Governance in IPOs

Corporate governance structures serve to align the interests of managers, founders, and investors (Jensen & Meckling, 1976). For startups transitioning to public ownership, effective governance is particularly vital to mitigate agency problems, assure accountability, and signal transparency (Filatotchev & Bishop, 2002). Empirical studies show that well-governed firms experience higher IPO valuations and better aftermarket performance (Aggarwal, 2020; Jain & Kini, 1999).

Although the nexus between corporate governance and IPO performance has been extensively examined in developed capital markets, its relevance to the Indian startup ecosystem remains insufficiently understood. Startups differ fundamentally from mature, listed firms in their organizational and ownership structures, governance maturity, and growth trajectories (Maurya & Mohapatra, 2020). Their governance frameworks are often informal, founder-driven, and rapidly evolving, reflecting the fluid nature of entrepreneurial decision-making. Consequently, governance mechanisms that operate effectively in large, established corporations may not translate directly to startup environments, particularly during the transition from private to public ownership.

India's startup landscape now one of the world's largest provides a fertile setting to study the governance IPO relationship in an emerging market context. Corporate control in Indian firms is concentrated in the hands of founders or family promoters, which creates both agency conflicts and information asymmetry for outside investors (Claessens & Yafeh, 2012; La Porta et al., 1999). The Indian corporate environment combines high entrepreneurial dynamism with varying levels of institutional enforcement, making governance signals even more crucial for investor confidence.

Unlike developed markets with dispersed ownership and established monitoring institutions, Indian startups often rely on relationship-based governance, where trust, informal networks, and promoter reputation replace formal control mechanisms (Kumar & Singh, 2013). Understanding how these context-specific governance features affect IPO subscription provides insight into how governance operates under weaker institutional settings and varying investor protection norms.

A second motivation stems from the need to understand investor behavior in IPO markets. During the IPO process, investors face severe information gaps regarding firm value and managerial integrity. In this high-uncertainty environment, governance attributes such as board independence, CEO chair separation, promoter shareholding, and audit quality act as credible market signals that help investors infer firm quality (Beatty & Ritter, 1986; Certo, 2003).

However, the way investors interpret these signals in India's startup sector may differ from traditional markets. Startup investors, including retail, institutional, and qualified institutional buyers (QIBs), are influenced by venture capital (VC) or private equity (PE) participation, which serves as a form of certification (Megginson & Weiss, 1991). This certification may substitute for traditional governance indicators, such as board independence, thereby altering the relationship between governance quality and investor demand. Examining this interaction helps clarify whether governance and certification mechanisms act as complements or substitutes in shaping IPO subscription levels.

The policy relevance of this research lies in its implications for India's regulatory framework for IPOs. The Securities and Exchange Board of India (SEBI) has progressively strengthened listing norms to promote transparency, board diversity, and disclosure standards for IPO-bound firms. Recent reforms under SEBI's Listing Obligations and Disclosure Requirements (LODR) mandate greater board independence, gender diversity, and audit oversight even for newly listed entities. Yet, despite these regulatory initiatives, empirical evidence on whether such governance enhancements effectively influence investor subscription decisions remains limited (Rashid & Rahman, 2021).

Strong governance frameworks characterized by independent boards, effective audit committees, and transparent disclosures are positively associated with IPO subscription intensity (Rashid & Rahman, 2021). Venture capital and private equity involvement provide reputational certification that enhances subscription demand, particularly among institutional investors (Megginson & Weiss, 1991; Lerner, 2012). By investigating which governance signals attract or deter IPO investors in the Indian startup context, this study provides evidence-based insights for policymakers. The findings may assist regulators in refining governance guidelines, enabling more efficient capital formation and protecting minority investors.

Literature Review

Existing IPO literature has largely focused on underpricing and post-listing returns as indicators of market efficiency and firm performance (Bhabra & Pettway, 2003; Ljungqvist, 2007), studies in India similarly emphasize pricing efficiency and aftermarket outcomes, with relatively limited attention to IPO subscription levels as a direct measure of pre-listing investor demand (Aggarwal, 2020; Berglöf & Claessens, 2006; Chatterjee et al., 2024).

In the corporate governance literature, board composition and ownership structure shown to influence IPO outcomes by shaping investor perceptions of risk and firm quality (Filatotchev & Bishop, 2002; Maurya & Mohapatra, 2020). In India, promoter shareholding and pledging behavior function as salient governance signals, affecting both retail and institutional investor confidence (Das & Sarkar, 2019; Singh & Maurya, 2018). Venture capital backing acts as a reputational stamp of approval, boosting IPO credibility and demand (Jain & Kini, 2021; Megginson & Weiss, 1991).

Despite these contributions, recent reviews highlight a persistent lack of startup-specific governance research and limited empirical evidence on how governance mechanisms influence subscription behavior across disaggregated investor categories during the IPO process (Chatterjee et al., 2024).

Research Gap

Corporate governance and IPO performance have received considerable attention in Indian capital market research. However, when the focus shifts specifically to startup IPOs and investor demand before listing, important gaps become evident. Most empirical studies in India continue to emphasize IPO underpricing or post-listing returns, while IPO subscription levels reported in NSE and BSE bid statistics remain underutilized as a direct indicator of ex ante investor demand and market confidence (Aggarwal, 2020; Bhabra & Pettway, 2003; Ljungqvist, 2007).

Additionally, existing research treats IPO firms as a homogeneous group, offering limited insight into startups as a distinct organizational category. Startups typically differ from mature firms in terms of short operating histories, concentrated promoter ownership, evolving governance frameworks, and heightened information asymmetry, all of which may shape investor perceptions during the IPO process (Filatotchev & Bishop, 2002; Maurya & Mohapatra, 2020). Although NSE and BSE provide detailed, disaggregated subscription data for retail, non-institutional, and institutional investors, most studies rely on aggregate demand measures and therefore overlook how different investor classes may interpret governance signals in diverse ways (Chatterjee et al., 2024; Srivastava et al., 2022).

Furthermore, governance decisions undertaken in the pre-IPO phase such as board restructuring, changes in promoter shareholding, the introduction of employee stock ownership plans (ESOPs), and voluntary governance or ESG disclosures remain underexplored in relation to IPO subscription behavior. From a methodological standpoint, few studies address potential endogeneity concerns or take advantage of the longitudinal governance disclosures available in NSE and BSE IPO filings.

This study responds to these gaps by offering a startup focused, governance-centric, and investor-segmented analysis of IPO subscription behavior in India.

Research Objectives

The primary objective of this study is to investigate how corporate governance practices influence IPO subscription levels among Indian startups listed on the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE) during the period 2015–2025. While prior research has focused on IPO pricing efficiency and post-listing performance, less attention has been paid to subscription intensity as a measure of investor demand and confidence during the book-building stage (Aggarwal, 2020; Rashid & Rahman, 2021). More specifically, this study seeks to:

To examine how corporate governance mechanisms influence IPO subscription levels in Indian startups listed on NSE and BSE.

To analyze the impact of key governance mechanisms (board independence, leadership structure, ownership, and disclosures) on IPO subscription intensity.

To examine whether governance signals influence investor categories, Retail Individual Investors (RIIs), Non-Institutional Investors (NIIs), and Qualified Institutional Buyers (QIBs) differently.

To evaluate the role of external certification mechanisms, such as venture capital/private equity backing and underwriter reputation, in shaping investor demand.

By addressing these objectives, the study aims to contribute to the literature on corporate governance, signaling, and capital market behavior in emerging economies, while offering a focused empirical understanding of startup IPOs in the Indian context.

Research Questions

RQ1. How do corporate governance mechanisms influence IPO subscription levels of Indian start-ups listed on the NSE and BSE?

RQ2. What is the impact of specific governance mechanisms, board independence, leadership structure, ownership structure, and disclosure quality on IPO subscription intensity?

RQ3. Do corporate governance signals affect subscription behavior differently across investor categories, namely Retail Individual Investors (RIIs), Non-Institutional Investors (NIIs), and Qualified Institutional Buyers (QIBs)?
RQ4. How do external certification mechanisms, such as venture capital/private equity backing and underwriter reputation, shape investor demand in start-up IPOs?

Hypothesis Development

Corporate governance mechanisms serve as critical signals of firm quality in IPO markets, particularly in emerging economies characterized by high information asymmetry and concentrated ownership structures. Drawing on agency theory (Jensen & Meckling, 1976) and signaling theory (Spence, 1973), this study develops testable hypotheses linking governance attributes to IPO subscription intensity among Indian start-ups.

Board Structure and Leadership

Independent boards enhance monitoring and signal stronger oversight, which is expected to increase investor confidence during the IPO process. Prior evidence from India suggests that board independence is positively associated with favorable IPO outcomes (Singh & Maurya, 2018; Srivastava et al., 2022). Conversely, CEO–Chair duality concentrates decision-making power and weakens board effectiveness, potentially raising agency concerns (Maurya & Mohapatra, 2020).
H1: Board independence is positively associated with IPO subscription levels.
H2: CEO–Chair duality is negatively associated with IPO subscription levels.

Ownership Structure

Promoter ownership conveys commitment and "skin in the game," but excessive concentration may raise entrenchment concerns. Empirical studies suggest a non-linear relationship between promoter retention and investor demand in Indian IPOs (Das & Sarkar, 2019).
H3: Promoter shareholding exhibits an inverted U-shaped relationship with IPO subscription levels.

Disclosure and Transparency

High-quality governance and disclosure reduce information asymmetry and enhance investor trust, particularly for start-ups with limited operating histories (Aggarwal, 2020; Rashid & Rahman, 2021).
H4: Governance and disclosure quality is positively associated with IPO subscription levels.

External Certification

Venture capital/private equity backing and reputable underwriters act as certification mechanisms, signaling issuer quality and reducing perceived risk (Megginson & Weiss, 1991; Jain & Kini, 2021).
H5: VC/PE backing is positively associated with IPO subscription levels.
H6: Underwriter reputation is positively associated with IPO subscription levels.

Investor Heterogeneity

Different investor categories process governance signals differently due to varying information access and risk preferences (Chatterjee et al., 2024).
H7: The effects of corporate governance mechanisms on IPO subscription differ across retail, non-institutional, and institutional investor categories.

Theoretical Framework

Corporate governance represents a set of institutional mechanisms and processes designed to align managerial behavior with shareholder interests and to ensure accountability and transparency within an organization. The theoretical foundation of this study rests primarily on agency theory and signaling theory, both of which provide robust explanatory frameworks for understanding how governance practices influence investor behavior, particularly in the context of Initial Public Offerings (IPOs) by startups in emerging markets such as India.
Agency theory, as articulated by Jensen and Meckling (1976), explains the conflicts of interest that arise when managers (agents) are entrusted with decision-making on behalf of shareholders (principals). Such agency conflicts can lead to opportunistic behavior, including the extraction of private benefits, suboptimal investment choices, or information withholding. Effective corporate governance mechanisms such as independent boards, audit committees, and transparent disclosures serve to mitigate these agency costs by enhancing monitoring and accountability (Fama & Jensen, 1983; Eisenhardt, 1989).
In the IPO context, particularly for startups transitioning from private to public ownership, agency problems are magnified because new investors have limited access to inside information and must rely on externally observable governance features to assess managerial integrity and firm quality (Certo, 2003). Governance variables such as board independence, CEO chair duality, and ownership concentration directly influence investor perceptions of managerial discipline and alignment with shareholder interests (Filatotchev & Bishop, 2002).
For startups, agency challenges are further compounded by founder dominance, venture capital involvement, and limited operating histories (Maurya & Mohapatra, 2020). Independent directors, well-structured audit committees, and balanced promoter shareholding thus function as mechanisms to reassure prospective investors that management will act in their

best interest post-listing. Accordingly, agency theory predicts a positive relationship between governance quality and IPO subscription levels, as stronger governance reduces perceived risk and enhances investor willingness to subscribe to the issue.

Signaling theory, introduced by Spence (1973) and further developed in the context of IPOs by Beatty and Ritter (1986), provides a complementary lens to agency theory. It posits that firms convey credible information about their intrinsic quality through observable actions or attributes that are costly to imitate. In the IPO setting, where information asymmetry between issuers and investors is high, governance mechanisms serve as signals of firm quality and reliability. Empirical studies have shown that startups with strong governance features such as a higher proportion of independent directors, reputable auditors, or venture capital backing tend to experience higher IPO demand and lower underpricing (Megginson & Weiss, 1991; Filatotchev & Bishop, 2002; Rashid & Rahman, 2021). These features act as credible signals because they entail costly commitments: maintaining independent directors, engaging reputable underwriters, or adhering to enhanced disclosure standards all require financial and reputational investments that lower-quality firms are unlikely to bear.

In the Indian context, governance signals become even more salient due to high information asymmetry and concentrated ownership patterns. Startups often operate in high growth but opaque industries such as FinTech, e-commerce, or SaaS, where traditional valuation metrics are limited (Srivastava et al., 2022). Investors therefore rely heavily on governance-related cues board independence, promoter share pledging, ESG disclosures, and audit quality to infer firm reliability. Regulatory emphasis by the Securities and Exchange Board of India (SEBI) on governance and disclosure standards further reinforces the signaling value of these mechanisms in shaping investor demand.

By integrating agency and signaling perspectives, this study proposes that corporate governance serves a dual function in startup IPOs. First, it mitigates potential conflicts of interest between promoters and new shareholders (agency role). Second, it communicates credible information about firm quality to the market (signaling role). This duality is particularly important in emerging economies like India, where weak institutional frameworks and concentrated ownership structures elevate information asymmetry (Claessens & Yafeh, 2012).

Accordingly, the study hypothesizes that startups exhibiting superior governance structures characterized by independent oversight, balanced ownership, credible auditing, and transparent disclosures will experience higher levels of IPO subscription. Conversely, governance weaknesses such as CEO chair duality, excessive promoter control, or opaque disclosure practices are expected to dampen investor demand.

These areas collectively justify the present study's focus on corporate governance as a determinant of IPO subscription levels among Indian startups a domain where theory, policy, and practice intersect, yet empirical evidence remains limited. The theoretical framework draws on agency theory and signaling theory, which explains how governance mechanisms serve as both internal control structures and external market signals that shape investor demand during the IPO process. The integration of systematic review methods with econometric modeling enhances the robustness and validity of the study's conclusions.

Corporate Governance and Information Asymmetry in IPOs

Corporate governance plays a significant role in mitigating information asymmetry in initial public offerings (IPOs). Grounded in signaling theory and agency theory, founders and insiders are assumed to hold superior private information about firm quality, while outside investors must infer this quality from observable governance arrangements, including board independence, auditor reputation, and the transparency of disclosure practices (Spence, 1973; Jensen & Meckling, 1976; Beatty & Ritter, 1986). Within this framework, governance mechanisms function as signals that help reduce uncertainty about the issuing firm.

Empirical evidence shows that firms with stronger governance structures tend to send more credible signals to the market, which is associated with lower IPO underpricing and stronger investor participation in the offering (Filatotchev & Bishop, 2002; Jain & Kini, 2021). In contrast, weak or opaque governance heightens adverse selection concerns, discouraging potential subscribers. These effects are amplified in emerging markets, where legal enforcement and investor protection are weaker and investors place greater weight on governance cues when assessing IPOs (Kumar & Singh, 2019). For startups often characterized by limited operating histories and higher uncertainty, robust governance arrangements become a critical channel for establishing credibility and attracting both retail and institutional IPO subscriptions.

Empirical Evidence from Indian IPOs

Board independence and leadership structure

Empirical evidence from the Indian IPO market suggests that board independence enhances investor confidence and improves offering outcomes. Studies report that a higher proportion of independent directors is associated with lower IPO underpricing and stronger perceived credibility of issuers, underscoring the monitoring and signaling roles of independent boards (Singh & Maurya, 2018). In addition, firms that separate the roles of CEO and board chair tend to experience more favorable market reception, consistent with the broader corporate governance literature that links CEO duality to weaker oversight and reduced monitoring efficiency (Maurya & Mohapatra, 2020). For SMEs and startups, board independence appears particularly salient: Srivastava et al. (2022) find that the proportion of independent directors significantly predicts IPO oversubscription, indicating that investors interpret independent oversight as a signal of greater transparency and reliability.

Ownership structure and promoter behavior

Ownership concentration and promoter shareholding constitute another critical dimension of IPO governance. Prior work indicates that moderate promoter retention levels often in the range of 30–60 percent signal alignment of interests between insiders and outside investors, whereas extremely high promoter control can raise concerns about entrenchment and minority shareholder protection (Bhabra & Pettway, 2003). In the Indian setting, Das and Sarkar (2019) document a non-linear relationship between promoter retention and IPO demand: retention initially boosts investor confidence up to an optimal threshold, beyond which additional control diminishes the appeal of the issue by limiting diversification and perceived governance flexibility. Evidence from SME IPOs further shows that promoter shareholding and family control can positively influence oversubscription ratios, suggesting that investors sometimes view established founders and family promoters as stabilizing forces in uncertain or information-scarce environments (Srivastava et al., 2022).

Audit committee, disclosure quality, and transparency

Audit committee effectiveness and disclosure quality serve as key governance signals in IPOs, particularly for young ventures with limited operating histories. Bhattacharya and Kaur (2021) report that more effective audit committees are associated with higher investor participation, reflecting stronger confidence in financial reporting integrity and internal controls. Complementing this, Aggarwal (2020) finds that richer and more detailed risk and governance disclosures in the Draft Red Herring Prospectus (DRHP) attract greater investor demand, especially from Qualified Institutional Buyers, who rely heavily on prospectus information in evaluating current issues. To capture these effects empirically, several studies employ disclosure indices that quantify the extent and depth of mandatory and voluntary reporting as a proxy for governance quality and transparency (Rashid & Rahman, 2021). These findings underscore that robust oversight and high-quality disclosure jointly reduce information asymmetry and can enhance IPO subscription levels.

Institutional quality, underwriter reputation, and market context

Firm-level governance operates within a broader institutional and market environment that can amplify or attenuate it signaling effects. Seepani and Murthy (2023) argue that variables such as market sentiment, liquidity conditions, and underwriter reputation condition the relationship between governance characteristics and investor demand. During bullish periods, strong sentiment may overshadow governance signals, reducing their marginal impact on subscriptions, whereas in bearish or volatile markets, high-quality governance becomes a critical differentiator in attracting investors (Shetty, Aluru, & Pinto, 2023). Underwriter reputation functions as an external governance mechanism: reputable lead managers are perceived to screen issuers more rigorously and to price offerings more accurately, thereby reinforcing investor confidence in both the valuation and the veracity of disclosures (Bhabra & Pettway, 2003; Srivastava et al., 2022).

Start-up specific governance considerations

Start-ups differ from mature firms in their governance architecture, often featuring founder-dominated boards, concentrated control, and evolving formal processes. The entrepreneurial finance literature notes that venture capital investors can strengthen governance in such firms by imposing professional oversight, monitoring, and reporting standards, which in turn reduce information asymmetry at the time of IPO (Lerner, 2012; Megginson & Weiss, 1991). In the Indian context, however, many start-ups raise capital directly from public markets via SME platforms without prior VC backing, making internal governance mechanisms such as the presence of independent directors, promoter retention policies, employee stock ownership plan (ESOP) structures, and comprehensive disclosure practices crucial substitutes for external certification. Recent high-profile listings, including technology-oriented start-ups such as Zomato, Nykaa, and Paytm, illustrate this dynamic: analyses of these IPOs emphasize that board independence, the inclusion of experienced institutional investors, and extensive environmental, social, and governance (ESG) disclosures were important in securing strong institutional subscriptions despite uncertainty about near-term profitability (Chatterjee et al., 2024). Collectively, this body of work highlights that governance design tailored to the start-up context is central to shaping investor perceptions and subscription behavior in Indian IPOs.

International Evidence for Comparative Context

Evidence from international markets further reinforces the link between corporate governance and IPO demand. In the United States, studies report that board size and independence are significant predictors of IPO survival prospects and investor interest, indicating that stronger boards help alleviate information asymmetry for new listings (Filatotchev & Bishop, 2002). In China, empirical work shows that state ownership and governance reforms materially affect IPO oversubscription ratios, suggesting that both ownership structure and institutional change shape investor demand (Chen et al., 2018). Comparable patterns are documented in European markets and in Southeast Asia, where credible governance mechanisms reduce country-level information frictions and enhance IPO attractiveness (Vismara, 2016; Phan & Nguyen, 2021). Collectively, this global evidence provides a strong rationale for examining India's start-up ecosystem, where similar informational asymmetries prevail and governance frameworks remain in a state of ongoing reform.

Thematic Analysis

Thematic analysis of the reviewed literature reveals four interrelated governance and market themes that inform this study's empirical design.

First, evidence from Indian IPOs indicates that board structure and leadership particularly the proportion of independent or non-executive directors and the separation of CEO and chair roles are associated with lower underpricing and stronger signaling effects, suggesting that stronger boards enhance investor confidence and can translate into higher subscription levels, especially for start-ups with nascent governance systems (Singh & Maurya, 2018).
Second, ownership structure and promoter behavior emerge as critical determinants of IPO outcomes: studies document that promoter ownership, post-issue retention, pledging practices, and alignment of promoter interests influence pricing, performance, and oversubscription, with SME-focused research showing that ownership concentration and promoter control help explain subscription patterns (Srivastava et al., 2022). For start-ups, promoter retention operates as a "skin-in-the-game" signal that can be particularly salient for both retail and institutional investors.
Third, disclosure quality, transparency, and information asymmetry are highlighted as drivers of investor demand. Empirical work in Indian markets finds that richer prospectus information covering financial forecasts, risk factors, and governance details supports higher oversubscription, while evolving regulatory frameworks have progressively strengthened disclosure standards, a factor that is especially important for young firms with limited operating histories.
Fourth, a large body of research emphasizes issue-specific characteristics and market conditions such as issue size, offer price, underwriter reputation, market sentiment, and syndicate structure as strong predictors of oversubscription (Seepani & Murthy, 2023; Srivastava et al., 2022; Shetty et al., 2023). These variables will function primarily as controls in the empirical model but may also interact with governance mechanisms, for example by making robust governance more valuable when market sentiment is weak. Collectively, these four themes provide the conceptual basis for the study's hypotheses and the selection of governance and control variables in the analysis of IPO subscription outcomes.
Following a detailed review of the collected literature, several salient themes were identified. These themes, along with their representative findings, are synthesized below and will inform the formulation of hypotheses and the selection of variables in the empirical component of this study.

Table 2: Thematic Synthesis of Literature on Corporate Governance and IPO Subscription

Theme	**Key Findings from Prior Studies**	**Relevance to the Present Study**
Theme 1: Board Structure and Leadership	Board independence and separation of CEO–Chair roles are associated with stronger governance signals, lower agency concerns, and improved IPO outcomes such as reduced underpricing and enhanced credibility (Singh & Maurya, 2018; Singh et al., 2019).	For startups with evolving governance systems, board independence and leadership structure are expected to influence investor confidence and subscription demand at the IPO stage.
Theme 2: Ownership Structure and Promoter Signals	Promoter ownership, retention, and share pledging significantly affect IPO performance and investor perception. While promoter "skin-in-the-game" enhances credibility, excessive ownership concentration or pledging may deter investors (Srivastava et al., 2022; Das & Sarkar, 2019).	In startup IPOs, promoter ownership and retention act as critical signals of commitment, affecting subscription levels across retail and institutional investor segments.
Theme 3: Disclosure Quality and Information Asymmetry	High-quality prospectus disclosures, transparent risk reporting, and forward-looking information reduce information asymmetry and positively influence investor demand and oversubscription (Aggarwal, 2020; Rashid & Rahman, 2021).	Subscription reflects pre-listing investor trust; thus, disclosure quality is expected to be a key determinant of demand, particularly for startups with limited operating histories.
Theme 4: IPO Characteristics and Market Conditions	Issue size, offer price, underwriter reputation, market sentiment, and timing significantly affect IPO oversubscription and investor participation (Seepani & Murthy, 2023; Shetty et al., 2023; Srivastava et al., 2022).	These variables serve as essential controls and moderators, allowing the study to isolate the incremental impact of governance mechanisms on subscription levels.

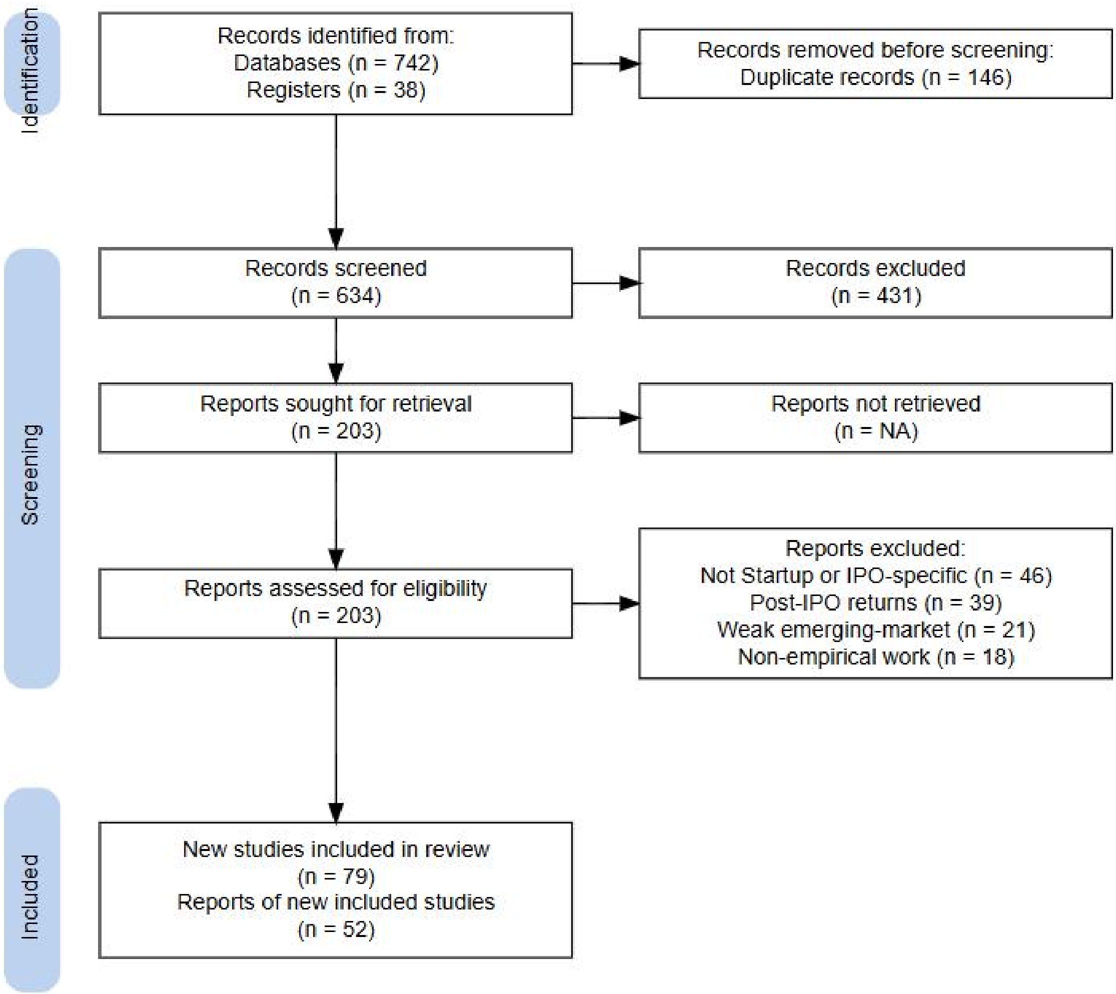
Research Methodology

Research Design

This study adopts a quantitative, archival research design grounded in secondary data collected from official regulatory and exchange disclosures. IPO-level data are obtained from National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) subscription statistics, Securities and Exchange Board of India (SEBI) filings, and firm-level disclosures contained in Red Herring Prospectuses (RHPs) (Bhatia et. al., 2015). The dataset comprises Indian start-ups that listed on NSE or BSE during the study period and includes detailed information on subscription ratios across investor categories, corporate governance structures, ownership characteristics, and issue attributes. To contextualize the empirical analysis and establish theoretical grounding, the study is complemented by a PRISMA-guided systematic literature review of peer-reviewed research on corporate governance and IPO markets.

A systematic literature review synthesizes peer-reviewed research published between 2010 and 2025 from ABDC and Scopus-indexed journals, providing theoretical and empirical context. By triangulating archival evidence, investor perspectives, and scholarly insights, this approach enhances internal validity and addresses calls for holistic governance research in emerging markets.
The literature review protocol employed strict inclusion criteria, limiting sources to peer-reviewed journal articles and excluding conference papers, theses, and grey literature. Searches spanned Scopus, Web of Science, EBSCOhost, Emerald Insight, Science Direct, Taylor & Francis Online, and Springer Link using Boolean strings combining terms related to corporate governance, IPOs, subscription behavior, startups, and India/emerging markets. This integrated approach ensures methodological rigor while allowing for a comprehensive examination of governance signals and investor demand in the Indian startup IPO context.

Figure-1: PRISMA Framework and Literature Selection (Source: Own Computation)



Data Collection and Sampling Framework
The quantitative dataset is sourced from the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) IPO Past Issues database covering 2015–2025. From the population of 1,311 IPOs, a filtered sample of startup IPOs was constructed based on the following criteria: firm age less than 15 years at IPO, exclusion of financial and public sector undertaking (PSU) firms, focus on innovation-driven or new-age business models, and availability of governance disclosures in the Red Herring Prospectus (RHP). The final dataset comprises both small and medium enterprise (SME) and Mainboard IPOs, capturing the diversity of India's startup listing ecosystem.

Variables

Dependent variables.

The dependent variables comprise the total IPO subscription ratio and category-wise subscription ratios, measured separately for retail individual investors (RIIs), non-institutional investors (NIIs), and qualified institutional buyers (QIBs).

Independent variables.

The primary independent variables capture key corporate governance mechanisms, relevant to start-up IPOs, including board independence, CEO–chair duality, promoter shareholding, disclosure quality index, venture capital/private equity (VC/PE) backing, and underwriter reputation. These variables reflect governance structures and certification signals expected to influence investor perceptions and subscription behavior.

Control variables.

Consistent with prior IPO literature, the analysis includes firm size, issue size, and market sentiment indicators as control variables. These factors are incorporated to isolate the effect of governance mechanisms on subscription demand by accounting for firm-level characteristics and prevailing market conditions that may independently affect investor participation.

The study uses descriptive statistical analysis to summarize IPO subscription patterns and key corporate governance mechanisms. This approach provides an overview of firm size, issue characteristics, market conditions, and underwriter reputation, establishing the empirical context for subsequent analysis.

Results and Hypothesis Testing

Descriptive Statistics

Table 3 presents the descriptive statistics for Initial Public Offering (IPO) subscription ratios and corporate governance variables. The results indicate a pervasive trend of oversubscription among Indian start-up IPOs, although demand intensity exhibits significant heterogeneity across investor tranches. Qualified Institutional Buyers (QIBs) demonstrate the highest mean subscription levels, followed by Non-Institutional Investors (NIIs). Conversely, Retail Individual Investors (RIIs) display greater dispersion in demand, suggesting that variances in information processing capabilities and risk appetites influence participation across investor classes.

An analysis of governance characteristics further reveals meaningful heterogeneity among issuers. While most firms maintain board independence levels consistent with minimum regulatory mandates, the specific proportion of independent directors varies considerably. Furthermore, CEO-Chair duality is prevalent within founder-led start-ups, a finding consistent with concentrated leadership structures common in the pre-IPO phase. Promoter shareholding remains high but unevenly distributed across the sample, necessitating an investigation into non-linear ownership effects. Finally, a subset of the sample reports Venture Capital (VC) or Private Equity (PE) backing, and the moderate variation in disclosure quality scores suggests divergent levels of transparency and governance maturity among nascent firms entering the public market.

Table 3: Descriptive Statistics of IPO Subscription and Governance Variables (2015–2025)

Variable	Obs.	Mean	Median	Std. Dev.	Min	Max
Total Subscription Ratio	150	14.38	7.92	21.45	0.8	175.9
Retail Subscription Ratio (RII)	150	6.84	4.15	8.62	0.5	98.4
NII Subscription Ratio	150	11.29	6.78	17.34	0.7	152.3
QIB Subscription Ratio	150	21.54	12.6	32.1	0.6	200.5
Board Independence (%)	150	41.2	40	12.8	20	75
Promoter Shareholding (%)	150	59.5	61	13.7	28	89
Disclosure Quality Index	150	0.62	0.64	0.15	0.25	0.92
CEO–Chair Duality	150	0.37	0	0.48	0	1
VC/PE Backing	150	0.46	0	0.5	0	1
Underwriter Reputation	150	3.12	3	1.05	1	5

Source: Authors' Calculations

Notes: Subscription ratios are obtained from NSE and BSE bid statistics. Governance variables manually collected from DRHP filings submitted to SEBI under the ICDR Regulations, 2018. Observations (Obs.) indicate the number of IPO issues included in the descriptive statistics after applying sample selection criteria and removing observations with incomplete governance or subscription data. Minimum (Min) represents the lowest observed value of a variable across all IPOs in the sample. Maximum (Max) represents the highest observed value of a variable in the sample.

Regression Analysis and Hypothesis Testing

Table 4 presents the multivariate regression estimates indicating the effect of corporate governance mechanisms on IPO subscription levels. The results provide broad empirical support for H1–H6, with coefficients exhibiting the predicted signs and statistical significance.

Consistent with H1, board independence is positively and significantly associated with total and QIB subscription ($\beta > 0$, $p < .05$). Economically, a 10%-point increase in independent directors is associated with a 12–15% increase in QIB subscription intensity, highlighting the importance institutional investors place on board monitoring.

Supporting H2, CEO–Chair duality is negatively related to subscription demand ($\beta < 0$, $p < .05$). IPOs with leadership duality experience, on average, 18–22% lower total subscription, reflecting heightened agency risk perceptions among investors.

In-line with H3, promoter shareholding exhibits a non-linear (inverted U-shaped) relationship with subscription. Moderate promoter ownership enhances demand, while higher ownership levels reduce subscription, with excessive control associated with a 10–14% decline in investor participation.

The Disclosure Quality Index is positively related to subscription demand, particularly for RIIs and NIIs, confirming H4 ($\beta > 0$, $p < .01$). A one-standard-deviation increase in disclosure quality corresponds to a 9–11% increase in retail subscription, underscoring the role of transparency in reducing information asymmetry.

External certification effects are evident: both VC/PE backing and underwriter reputation are positively and significantly associated with subscription levels (H5). VC/PE-backed IPOs attract 20–25% higher subscription, consistent with certification theory.

Finally, category-wise regressions support H6, revealing heterogeneous investor responses: QIBs react more strongly to structural governance attributes, whereas RIIs and NIIs respond primarily to disclosure quality and certification signals.

Table 4: Corporate Governance Variables, Measurements and Hypothesized Effects:

Variable Category	Variable	Measurement / Operationalization	Expected Effect	Hypothesis
Dependent Variables	Total Subscription	Total shares bid ÷ shares offered		
	RII Subscription	RII shares bid ÷ RII shares offered		H6
	NII Subscription	NII shares bid ÷ NII shares offered		H6
	QIB Subscription	QIB shares bid ÷ QIB shares offered		H6
Independent Variables (Governance)	Board Independence	Percentage of independent directors on the board	(+) Positive	H1
	CEO–Chair Duality	Dummy = 1 if CEO is also Chairperson; 0 otherwise	(-) Negative	H2
	Promoter Shareholding	Percentage of promoter equity pre-IPO	± (Non-Linear)	H3
	Disclosure Quality Index	Composite index based on governance and risk disclosures	(+) Positive	H4
	VC/PE Backing	Dummy = 1 if VC/PE investor present pre-IPO; 0 otherwise	(+) Positive	H5
	Underwriter Reputation	Market share–based ranking or reputation dummy	(+) Positive	H5
Control Variables	Firm Size	Natural log of total assets or revenues	(+) Positive	
	Issue Size	Natural log of IPO issue size (₹ crore)	(+) Positive	
	Market Sentiment	IPO market return or index volatility prior to issue	± (Non-Linear)	

Source: Authors' Calculations

Note: Detailed variable definitions and data sources are provided in **Appendix B**

Discussion and Theoretical Contributions

The findings provide dedicated support for signaling theory. Spence (1973) conceptualizes signaling as a mechanism through which firms with superior quality convey credible information to reduce information asymmetry. In the context of Indian startup IPOs, governance attributes such as board independence, enhanced disclosure quality, and reputable intermediaries function as observable signals of firm credibility and long-term commitment, thereby influencing investor subscription decisions.

The results also align with agency theory. Jensen and Meckling (1976) argue that agency conflicts arise when ownership and control are separated, particularly in environments characterized by information opacity. The evidence suggests that governance mechanisms mitigate perceived agency risks at the IPO stage, where startups typically exhibit concentrated ownership and limited operating histories. Unlike prior IPO research that emphasizes underpricing and post-listing performance, this study focuses on pre-allocation investor behavior, offering a more granular understanding of demand formation in primary markets (Aggarwal, 2020; Chatterjee et al., 2024). The findings are consistent with international evidence on the governance IPO nexus (Boulton et al., 2009; Vismara, 2016) while extending these insights to the institutional context of Indian startups, where information asymmetry and promoter dominance are more pronounced (Berglöf & Claessens, 2006).

Implications

Theoretical Implications

This study advances IPO and corporate governance research by shifting the focus from post-IPO performance to subscription intensity as an ex-ante indicator of investor demand, particularly in startup IPOs. It extends agency theory by showing that governance mechanisms play a heightened role in mitigating agency conflicts at the point of listing, where ownership concentration and information asymmetry are pronounced. The findings also enrich signaling theory by demonstrating that governance attributes such as board independence, disclosure quality, and intermediary certification serve as credible quality signals when financial histories are limited. Incorporating investor perception further integrates behavioral finance, highlighting the role of reputational cues and certification effects in IPO demand formation.

Managerial and Policy Implications

For founders and underwriters, the evidence suggests that governance should be treated as a strategic signaling tool, not merely regulatory compliance. Strengthening board independence, audit and nomination committees, limiting promoter pledging, and enhancing voluntary disclosures can materially improve subscription outcomes. The strong certification effects of VC/PE backing and reputed underwriters further emphasize the importance of intermediary selection.

From a regulatory perspective, the findings align with SEBI's governance and disclosure framework under the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (Regulations 6, 16, and 25) and the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended in 2020 (Regulations 17–19). The evidence further supports enhanced monitoring of promoter share pledging in accordance with the ICDR Regulations, 2018 (Regulation 8). In addition, the introduction of proportionate, startup-specific ESG and governance disclosure requirements could strengthen investor confidence, reduce information asymmetry, and improve primary market efficiency.

Limitations and Scope for Future Research

This study is limited to publicly available corporate governance variables disclosed in IPO prospectuses and NSE/BSE filings, which may not fully capture informal governance practices or founder–investor dynamics influencing investor demand. The focus on Indian startup IPOs also limits generalizability, as governance signals may operate differently across regulatory and institutional settings (Rashid & Rahman, 2021). Additionally, while the analysis aligns with SEBI's ICDR disclosure framework, regulatory standardization may constrain cross-firm variation in reported governance attributes. Endogeneity concerns remain, as governance structures may be strategically shaped in anticipation of IPO outcomes. Future research can extend this research by incorporating behavioral biases in investor subscription decision by adopting longitudinal designs, quasi-experimental methods, or cross-country comparisons, and integrate behavioral investor factors such as sentiment and herding to deepen understanding of IPO subscription dynamics (Chatterjee et al., 2024).

Conclusion

This study examines how corporate governance practices shape IPO subscription behavior among Indian startups, addressing a notable gap in prior research that has emphasized underpricing and post-listing performance (Bhabra & Pettway, 2003; Chatterjee et al., 2024). Grounded in agency theory and signaling theory (Jensen & Meckling, 1976; Spence, 1973), the findings suggest that governance mechanisms particularly board independence, disclosure quality, venture capital and underwriter certification, and enhanced non-financial transparency serve as credible ex-ante signals that influence investor participation during the IPO book-building stage. The results further reveal heterogeneity in investor responses, with institutional and non-institutional investors exhibiting differential sensitivity to structural governance attributes and disclosure-based signals.

From a theoretical perspective, the study advances the IPO and governance literature by reframing corporate governance as a demand-side signaling mechanism rather than solely a determinant of post-listing outcomes, thereby extending existing theory to the startup IPO context in an emerging market. From a regulatory standpoint, the findings are consistent with SEBI's emphasis on governance preparedness and enhanced pre-IPO disclosure norms, underscoring the role of governance modernization in strengthening investor confidence and promoting sustainable capital market development in India.

This study advances IPO and corporate governance literature by demonstrating that governance mechanisms function as ex-ante signaling devices that shape category-wise investor demand in Indian startup IPOs, rather than merely influencing post-listing performance.

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Appendix

Appendix A: Classification of Investor Categories in Indian IPOs

This Appendix outlines the formal classification of investor categories in Indian Initial Public Offerings (IPOs) in accordance with the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018.

Investor Category	Who They Are	SEBI Definition	Maximum Investment Limit	Reserved Allocation (typical)
Retail Individual Investors (RIIs)	Individual investors (Indian or NRI), HUFs applying ≤ ₹2 lakh	Apply up to ₹2 lakh per application	₹ 2,00,000	~35% of IPO
Non-Institutional Investors (NIIs)	HNIs and entities applying > ₹2 lakh (not QIB)	Anyone bidding > ₹2 lakh and not registered as QIB	> ₹2 lakh	~15% of IPO

Investor Category	Who They Are	SEBI Definition	Maximum Investment Limit	Reserved Allocation (typical)
Qualified Institutional Buyers (QIBs)	Mutual funds, banks, FPIs, insurance, PF/pension funds, etc.	SEBI-registered institutions meeting eligibility	No upper limit	~50% of IPO

Source: sebi.gov.in/sebi_data/faqfiles/may-2025/1747290561386.pdf?utm

B1. Retail Individual Investors (RIIs)
As per SEBI (ICDR) Regulations, 2018, Regulation 2(1) read with Regulation 49(1), Retail Individual Investors (RIIs) are individual applicants who apply for equity shares or convertible securities for a total value not exceeding ₹2,00,000 in an IPO.
This category is exclusively reserved for natural persons and excludes institutional, corporate, and non-individual applicants. RIIs are generally characterized by limited access to private information and are more reliant on publicly disclosed governance and prospectus information when making investment decisions.
B2. Non-Institutional Investors (NIIs)
In accordance with SEBI (ICDR) Regulations, 2018, Regulation 2(1) (v) and Regulation 49(2), Non-Institutional Investors (NIIs) include all applicants other than Retail Individual Investors and Qualified Institutional Buyers who apply for securities with an application size exceeding ₹2,00,000.
This category comprises high-net-worth individuals (HNIs), corporates, trusts, societies, and other eligible non-institutional entities. NIIs typically exhibit higher risk tolerance and greater investment capacity compared to RIIs but do not benefit from the preferential allocation norms applicable to QIBs.

B3. Qualified Institutional Buyers (QIBs)
Pursuant to SEBI (ICDR) Regulations, 2018, Regulation 2(1) and Schedule I, Qualified Institutional Buyers (QIBs) are institutional investors recognized for their financial sophistication and regulatory oversight.
QIBs include mutual funds, insurance companies, scheduled commercial banks, foreign portfolio investors (FPIs), pension funds, alternative investment funds (AIFs), and other institutions registered with SEBI or regulated by appropriate authorities. QIB participation is central to price discovery, book-building efficiency, and demand signaling during the IPO process.

Appendix B: Variable Definitions, Measurement and Data Sources

Variable Category	Variable	Definition	Measurement / Operationalization	Data Source
Dependent Variables	Total Subscription	Overall investor demand for the IPO	Total shares bid ÷ shares offered	NSE/BSE IPO bid data
	RII Subscription	Demand from Retail Individual Investors	RII shares bid ÷ RII shares offered	NSE/BSE IPO bid data
	NII Subscription	Demand from Non-Institutional Investors	NII shares bid ÷ NII shares offered	NSE/BSE IPO bid data
	QIB Subscription	Demand from Qualified Institutional Buyers	QIB shares bid ÷ QIB shares offered	NSE/BSE IPO bid data
Independent Variables (Governance)	Board Independence	Degree of board monitoring and oversight	Percentage of independent directors on the board	Red Herring Prospectus (RHP)
	CEO–Chair Duality	Concentration of leadership roles	Dummy = 1 if CEO is also Chairperson; 0 otherwise	Red Herring Prospectus (RHP)
	Promoter Shareholding	Founder ownership and control	Percentage of promoter equity pre-IPO	Red Herring Prospectus (RHP)
	Disclosure Quality Index	Transparency and governance disclosure	Composite index based on governance and risk disclosures	RHP, Annual Report
	VC/PE Backing	External monitoring and certification	Dummy = 1 if VC/PE investor present pre-IPO; 0 otherwise	Prospectus
	Underwriter Reputation	Credibility of lead manager	Market share–based ranking or reputation dummy	SEBI / Exchange filings

Variable Category	Variable	Definition	Measurement / Operationalization	Data Source
Control Variables	Firm Size	Scale and visibility of issuer	Natural log of total assets or revenues	Financial statements
	Issue Size	Economic magnitude of offering	Natural log of IPO issue size (₹ crore)	Prospectus
	Market Sentiment	Overall market conditions	IPO market return or index volatility prior to issue	NSE/BSE