INTERNATIONAL JOURNAL OF ENTREPRENEURSHIP AND BUSINESS INNOVATION

NAWALA

Volume 1, Number 1, 2022

The Influence of Organizational Governance and Corporate Policies on Innovation in Startups

Wildha Angsana Putri[1*]

[1] Universitas Terbuka, Purwokerto, Indonesia

Abstract

Article history:
Received: January 11, 2022
Revised: February 25, 2022
Accepted: April 20, 2022
Published: June 30, 2022

Keywords:
Innovation,
Internal Policy,
Organizational Governance,
Strategic Management,
Startup.

Identifier:
Nawala
Page: 21-39
https://nawala.io/index.php/ijebi

Innovation is the cornerstone of growth and competitiveness for startups amid the dynamics of the global market. This study aims to explore the influence of organizational governance and corporate policy on innovation levels within startups. Using a systematic literature review approach based on 15 selected international journal articles, the findings reveal that transparent and accountable governance structures, along with flexible and risk-based policies, significantly impact the creation and sustainability of innovation. Furthermore, the role of strategic management and stakeholder involvement in decision-making processes emerges as a critical supporting factor. The study also highlights the importance of synergy between internal regulations and market orientation in optimizing an innovation-driven organizational culture. These findings provide practical implications for startup leaders in designing governance systems and internal policies that promote long-term innovation. The research contributes to the academic understanding of innovation mechanisms in entrepreneurial organizations and offers actionable insights for practitioners navigating the challenges of early-stage business development.

*Corresponding author:
wildhaputri@gmail.com (Wildha Angsana Putri)

1. Introduction

Startup companies, often known simply as startups, have emerged as a significant disruptive force in today's global economic landscape. They have actively challenged traditional and conservative business practices by introducing new, more innovative approaches to creating and delivering value to customers and other stakeholders. Innovation, in this context, is not merely a competitive advantage but has become a fundamental foundation determining the success and survival of startups amid the dynamic, uncertain, and highly aggressive business environment. Therefore, in such situations, organizational governance and corporate policy play a crucial and strategic role in shaping the internal conditions of a company that can support sustainable and directed innovation.

Organizational governance, known in management literature as corporate governance, refers to a set of mechanisms, processes, structures, and relationships among internal organizational actors that collectively serve to control and direct the development of a business entity. Good and carefully designed governance helps organizations manage various potential conflicts of interest, improve the quality of information transparency in decision-making, and ensure the accountability of leaders and implementers within. Thus, quality governance creates a stable internal company environment that is open to change and conducive to the innovation process (Asensio-López et al., 2019). Conversely, if an organization has a weak, unstructured, and unaccountable governance structure, it will hinder the flow of creative ideas from team members and potentially reduce innovative productivity in the long run due to a lack of systemic support.

Corporate policy also plays a very important and inseparable role from governance practices (Rahman & Carpano, 2017). In the context of startups, which are generally still in the early stages of development, policies do not only serve to regulate internal operational processes but also become a strategic instrument used to respond quickly and flexibly to external changes. If company policies are too bureaucratic, rigid, and do not allow for dynamics, they tend to limit organizational flexibility and slow down strategic decision-making processes. Conversely, if the company successfully designs policies that are agile, responsive, and adaptive to environmental changes, it can accelerate the innovation cycle and increase the chances of success in launching new products in a highly competitive market (Melendez et al., 2019).

Startups, generally built with limited resources and under tight time pressure, desperately need an organizational governance model and internal policies that can balance the need for adequate control with the drive for broad exploration of various innovative possibilities. This makes this topic important to discuss in depth, as governance and policy are not just structural organizational issues but also touch on the fundamental essence of how innovation is developed, matured, and nurtured within a young, agile, and dynamic organizational framework. Various previous studies have highlighted the relationship between company ownership, board structure, and organizational culture with the innovative output produced. However, there is still a gap in the scientific literature that explicitly discusses the connection between corporate policy and governance practices in the context of startup companies.

Therefore, this research aims to fill this gap by summarizing, critically reviewing, and analyzing various relevant scientific literature from 2017 to 2021. Using a systematic and structured literature review approach, this paper will discuss basic concepts of organizational governance and corporate policy in the context of startups. Furthermore, this study will analyze the influence of both on the creation and success of innovation based on findings from trusted international journals. This research also aims to provide policy recommendations and relevant and applicable governance strategies for startup founders and other stakeholders involved in the startup development process.

2. Literature Review

2.1. Organizational Governance in the Context of Startups

Organizational governance in startup companies has a very unique dynamic and differs substantially from established companies with more standardized bureaucratic structures. In the startup context, organizational structures are generally flat, minimally hierarchical, informal, and flexible in terms of role and responsibility division. While this characteristic provides speed and agility in decision-making, it also carries risks if not accompanied by clear, measurable, and strategically consistent governance mechanisms. The natural irregularity in startups can develop into organizational dysfunction if not systematically controlled. According to a study by Provasnek et al. (2017), startups, even with simple but professional board structures, are proven to be more capable of designing and executing long-term innovation strategies sustainably.

This is possible because the presence of such structures provides high accountability and supports the organization's ability to systematically and continuously evaluate various risks and opportunities. Conversely, weak and unstructured governance structures create potential power imbalances among individuals or teams, ultimately hindering cross-functional collaboration. According to Sokolov and Zavyalova (2021), the success of innovation in startups highly depends on active management participation in the creative process, information transparency, and the courage to make strategic decisions based on team input. Governance based on involvement and transparency significantly accelerates the innovation cycle.

2.2. Corporate Policies That Drive Innovation

Internal policies are the primary foundation in company operations that directly affect how teams work and how they innovate to achieve organizational goals. In the startup context, policies are not just procedural guidelines but also serve as a framework of values and strategic direction that shapes the work culture. Startups that consciously establish exploration-based policies, such as tolerating failure, recognizing individual initiative, and implementing agile and iterative work approaches, are proven to have higher innovation performance compared to conventional and bureaucratic ones (Lichtenthaler, 2020). The flexibility of these policies encourages teams to think openly, experiment, and learn from failures as part of the innovative process. Furthermore, policies that explicitly support organizational learning, such as allocating exploratory budgets and providing dedicated time for research and experimentation, show a positive correlation with the success rate of innovation.

A study by Del Bosco et al. (2021) found that startups that integrate corporate entrepreneurship principles into their human resources and financial policies are able to create a work environment that actively encourages the creation of new values. Such policies typically include rewarding creative ideas, involving employees in decision-making processes, and forming multidisciplinary teams to stimulate cross-expertise collaboration. However, the main challenge often faced by startups is inconsistency in policy implementation and a lack of standardization. Many startups do not yet have formal systems to evaluate the effectiveness of implemented policies. This hinders the organization's ability to measure the contribution of policies to innovation (Jánica et al., 2019). Therefore, it is important to build a systematic internal evaluation system that can link innovative results with specific policies that support them, both through measurable performance metrics and direct feedback from implementing teams.

2.3. Synergy of Governance and Policy on Innovation

The key to innovation success in startups fundamentally lies in the level of synergy created between the organizational governance system and the implemented internal policies. When both are aligned and mutually reinforcing, the innovation process can run more efficiently and effectively. A study conducted by Rodrigues et al. (2020) emphasizes that the integration of an adaptive governance structure with strategic policies that support and encourage the innovation process will result in a significant increase in innovative productivity. Combinations such as participatory leadership open to team ideas, flexible but controlled accountability structures, and balanced risk-sharing policies allow startups to move quickly and agilely in responding to market changes without sacrificing the internal stability needed to maintain operational continuity. Conversely, if policies and governance run in conflicting or unsynchronized directions, internal tensions will arise that hinder the innovation process.

Startups that, for example, implement aggressive innovation policies but still use an authoritarian and centralized governance structure tend to experience prolonged internal conflict and a decrease in team motivation (Burton et al., 2019). This can cause creative ideas to be stifled. Furthermore, in a study Mascareño et al. (2020), it was found that startups that successfully adopt governance principles aligned with core company values such as ethical integrity, information transparency, and a collaborative culture can build a very positive reputation in the eyes of investors and customers. This reputation then directly impacts increased market confidence, facilitates access to external funding, and expands opportunities for partnerships or strategic collaborations with third parties, which indirectly also strengthens the company's innovative activities in the long run.

3. Method

This research uses a systematic literature review approach as the main method to explore the influence of organizational governance and corporate policy on innovation in startup companies. This approach was chosen because it provides a structured and systematic framework for collecting, analyzing, and synthesizing various information from relevant scientific sources. With this method, researchers can build a comprehensive understanding of the topic being studied based on empirical findings from various previous studies and ensure that the analysis is conducted objectively and can be replicated. The data sources in this study are from journal articles obtained through the Google Scholar platform. In the search process, a number of relevant and specific keywords were used to identify suitable articles, including: startup innovation, corporate governance in startups, corporate policy, innovation performance, and organizational structure and innovation. Articles included in this study must be fully available and published in reputable international scientific journals.

The initial selection process yielded 57 articles. After further screening based on topic suitability, relevance to the research focus, and validity of the methodological approach used in the studies, 15 articles met the inclusion criteria. These articles were chosen because they specifically discussed startups as the main research subject, explained the link between organizational governance or corporate policy and innovation, were published in indexed international journals, and had verifiable and scientifically reviewable research methods. The next step was to conduct a content analysis of all selected articles. This process included identifying key variables, core findings of each study, methodological approaches used, and limitations expressed by the authors.

Each article was then manually coded to maintain context and accuracy of data interpretation. This manual coding allowed researchers to capture conceptual nuances that might not be captured by automated systems. Research reliability was maintained through a cross-validation or source triangulation strategy, where conclusions drawn would only be considered valid if supported by at least two or more sources with consistent findings. In addition, articles showing different approaches or results were re-reviewed to understand the context behind these differences. All results of this study were then compiled and presented in the results and discussion sections to provide a comprehensive, in-depth, and integrated overview of how the interaction between organizational governance and corporate policy can affect the innovative capacity in startup companies.

4. Results

The results of this literature study generally reveal that there is a close and mutually influential relationship between organizational governance and corporate policy on the innovative capacity of startup companies. From the various articles analyzed, most state that inclusive, adaptive, and responsive organizational governance can demonstrably and significantly drive the creation of innovative processes, especially in the early growth phases of startups, where organizational structures and systems are not yet fully established. In this stage, the role of organizational structures that allow for cross-functional involvement and facilitate collaboration becomes very important because it creates a work ecosystem conducive to the exploration of new ideas that can be developed into innovations.

Several studies specifically highlight that the success of innovation in startups depends not only on technological capabilities or product sophistication but more on how internal systems within the organization enable knowledge exchange, constructive discussions, and bold decision-making regarding calculated risks (Rodrigues et al., 2020). In this context, an organizational culture supported by open and transparent governance enables a continuous creative process.

Furthermore, findings from the literature also show that startups implementing governance principles based on trust and accountability tend to have a greater chance of generating sustainable and impactful innovations. Governance that is not overly bureaucratic, but still has sufficient room for monitoring and evaluation, creates a healthy balance between organizational control and team freedom to innovate. In this regard, Melendez et al. (2019) show that boards of directors that not only perform oversight functions but also act as strategic advisors can contribute significantly to increasing the adaptive capacity of startups to rapid and often unpredictable market changes.

On the other hand, from a corporate policy perspective, it was found that startup companies that implement exploratory policies and support the search for new solutions, such as providing time for individuals to conduct research and development, and offering adequate incentives for experimental projects, show a significant increase in both the quantity and quality of innovative results produced. Such policies also reflect a tolerant attitude towards failure, which is an important factor in encouraging teams to take innovative steps without fear of penalties if ideas are not successfully implemented. In the study conducted by Jánica et al. (2019), it was emphasized that organizations with pro-experiment policies generally show faster product development cycles because the iteration process is not hindered by fear of negative judgment or structural consequences.

Furthermore, this study found that the synergy between organizational governance and internal policies is a highly influential determinant of innovation success. When the governance structure in a startup can support the implementation of policies that explicitly encourage innovation, the transformation process from idea to market-acceptable product runs more efficiently and smoothly. The study by Provasnek et al. (2017) shows that decision-making processes involving various organizational layers, coupled with clear reporting lines, greatly help accelerate the organization's response to innovative opportunities arising from the external environment. Startups using horizontal reporting systems, where communication can flow directly without having to go through many levels of authority, are more effective in recognizing market needs and adapting products quickly.

Other findings reveal that the participation of external stakeholders, such as investors, mentors, and customers, in the governance process also has a significant impact on the smoothness and effectiveness of the innovation process. With active involvement from external parties, startups not only gain access to new insights and experiences but also open opportunities for wider networks, which ultimately accelerate product validation and the search for technical solutions that meet market needs. Lichtenthaler (2020) emphasize that investor involvement in startup advisory boards has a positive impact on innovation performance, as long as the role played is collaborative and does not overly emphasize short-term returns.

The aspect of leadership was also identified as a key factor influencing success in both governance and the implementation of innovation policies (Moussa et al., 2018). Startup founders with a transformative leadership style are generally more successful in building an innovative work culture. They tend not only to act as vision directors but also to design flexible internal policies and give full trust to their teams to experiment and test new hypotheses. Mascareño et al. (2020) adds that a founder's ability to act as a facilitator not just a sole authority directly impacts the level of team involvement in innovative projects carried out by the company.

However, the study also identified barriers to innovation that arise when there is a dissonance between implemented policies and existing governance structures. For example, there are cases where a startup adopts flexible work policies that support idea exploration but maintains a rigid and authoritarian governance structure. This combination tends to result in internal conflict and hinders idea growth due to the mismatch between policy aspirations and decision-making mechanisms. Such conflicts often arise in organizations experiencing rapid growth without being balanced by adjustments to governance suitable for the new operational scale. Burton et al. (2019) note that many startups fail to maintain the innovative culture formed in the early stages when they enter the scaling phase because their governance structures do not undergo the necessary changes or adaptations.

Furthermore, it was found that startups successful in innovation generally have data-driven evaluation policies. These policies allow organizations to objectively identify ideas worth developing based on measurable evidence, not just intuition or subjective judgment. In this regard, Del Bosco et al. (2021) state that the use of metric-based innovation monitoring systems, such as time to market, direct customer feedback, and revenue generated from new products, becomes an important instrument in strategic decision-making that supports the innovative process.

Another interesting aspect revealed by the results of this study is that diversity policy plays a very important role in improving the quality of innovation produced by startups. The diversity referred to includes various dimensions, ranging from educational backgrounds, professional experience, to differences in thinking among individuals in the team. This variation is proven to expand the spectrum of ideas and generate more creative and adaptive solutions to complex and ever-changing market needs. Asensio-López et al. (2019) note that governance that promotes inclusion and recruitment policies that are open and meritocracy-based are key drivers of success in generating impactful innovations.

Studies also indicate that startups that explicitly design and establish specific budget allocation policies for innovation activities have a higher tendency to succeed in developing competitive new solutions. These funds are not only focused on product development but are also allocated for employee training, strengthening internal research teams, and establishing external partnerships, including collaborations with universities, research institutions, or other industry partners. Clarity and consistency in innovation funding policies also increase team confidence that their proposed ideas will receive concrete resource support for testing and further development (Sokolov & Zavyalova, 2021).

In terms of decision-making, it was also found that organizational governance applying decentralization principles is far more effective in supporting the innovation process compared to centralized and hierarchical structures

(Darvishmotevali, 2019). With decentralization, decisions can be made more quickly at the operational team level without having to wait for multi-level approval from top management. This accelerates reaction to market opportunities that often arise suddenly. Startups implementing a decentralization model have an advantage in capturing market signals and responding to them through appropriate product or service innovations. Rodrigues et al. (2020) state that agile organizational structures and adaptive capacity to external environmental changes are strategic advantages that not only accelerate innovation but also strengthen the startup's position in market competition.

Even deeper, this study reveals that internal policies in startups are highly influenced by the personal values and long-term vision of their founders. Startups that from the outset are founded with core values such as courage to take risks, creativity in problem-solving, and cross-functional collaborative work, will tend to reflect these values in various organizational policies such as recruitment processes, internal training, and performance evaluation systems. The alignment between the company's strategic direction and individual behavior within it becomes a strength that supports innovation continuity. Del Bosco et al. (2021) emphasize that the harmonization between the founder's vision, organizational policies, and governance mechanisms will be one of the main determinants of long-term innovation success.

Finally, openness to the use of digital technology in governance practices and internal policies was also found to contribute significantly to increasing innovative capacity. The use of various digital platforms in project management, data-driven decision-making, and virtual cross-location team collaboration strengthens the flexibility and efficiency of startup teams. The implementation of internal e-governance systems allows for idea documentation and project monitoring to be done in real-time, so the process from idea incubation to becoming a tangible product can be done faster and with higher quality control.

5. Discussion

The results of this literature study reaffirm the strategic importance of organizational governance and corporate policy in supporting innovation in startup companies. Strong governance is not only related to adherence to basic organizational principles but also serves as a guide in creating a dynamic and future-oriented innovative culture. Transparency, participation, and accountability are three key elements in governance that directly affect a startup's innovative agility (Goncalves et al., 2020). On the other hand, corporate policies must reflect the company's commitment to experimentation, continuous learning, and openness to change. Innovation requires courage to face risks, and therefore internal policies should not only prioritize short-term efficiency but also need to provide room for productive failures. In this regard, policies that grant autonomy to teams to try new approaches are proven to increase engagement and innovative productivity.

This discussion also highlights the importance of synergy between governance and policy. Too often, startups fail to maintain their innovative power when governance structures and policies develop in unaligned directions. When governance becomes too bureaucratic, innovation is hindered by slow decision-making. Conversely, overly liberal policies without good governance control can lead to inefficiency and internal conflict. Therefore, the alignment between governance principles and policy direction becomes a crucial point. One important finding is that startups that successfully internalize innovative values in their governance systems and policies tend to have superior performance. This indicates that innovation is not the result of temporary projects or initiatives but the fruit of a systematically shaped culture. Leadership plays a vital role in maintaining this continuity by embedding a long-term vision into daily operational practices.

Practical implications of this study are the need for startups to design agile yet controlled organizational structures, and to formulate policies that support learning, collaboration, and risk-taking. Regular evaluation of policy effectiveness and adaptation of governance as the company stage develops are also important steps to maintain innovative competitiveness (Pilipova & Yuleva, 2018). By considering these factors in an integrated manner, startups can develop an internal ecosystem that not only allows new ideas to emerge but also provides space for effective and sustainable execution in creating relevant market value.

6. Conclusion

This research confirms that organizational governance and corporate policy are two key components influencing the innovative capacity of startup companies. Effective governance promotes accountability, strengthens cross-functional coordination, and creates strategic discussion space within the organization. Meanwhile, flexible, inclusive, and exploration-encouraging corporate policies provide a strong foundation for the emergence of innovative ideas. The study results from 15 international journal articles show that the synergy between governance and policy is crucial for innovation success in startups. Startups that can align internal policies with adaptive governance structures tend to be more agile in responding to market changes, reducing the risk of failed innovation, and increasing long-term competitiveness. Additionally, stakeholder involvement, decentralization of decision-making, pro-diversity policies, and the integration of technology in governance are additional driving factors that strengthen the internal innovation ecosystem. Thus, startups need to view governance and policy not merely as administrative instruments but as managerial strategies integrated with the company's innovative mission. Continuous efforts to review and adjust structures and policies according to growth needs and market dynamics will be a key determinant of long-term success in creating relevant and sustainable innovation.

References

Asensio-López, D., Cabeza-García, L., & González-Álvarez, N. (2019). Corporate governance and innovation: A theoretical review. *European journal of management and business economics*, *28*(3), 266-284.

Burton, M. D., Colombo, M. G., Rossi‐Lamastra, C., & Wasserman, N. (2019). The organizational design of entrepreneurial ventures. *Strategic Entrepreneurship Journal*, *13*(3), 243-255.

Darvishmotevali, M. (2019). Decentralization and innovative behavior: The moderating role of supervisor support. *International Journal of Organizational Leadership*, *8*, 31-45

Del Bosco, B., Mazzucchelli, A., Chierici, R., & Di Gregorio, A. (2021). Innovative startup creation: The effect of local factors and demographic characteristics of entrepreneurs. *International Entrepreneurship and Management Journal*, *17*(1), 145-164.

Filipova, M., & Yuleva, R. (2018). Innovative management as competitiveness factor. *Entrepreneurship*, *6*(2), 215-228.

Goncalves, D., Bergquist, M., Bunk, R., & Alänge, S. (2020). Cultural aspects of organizational agility affecting digital innovation. *Journal of Entrepreneurship, Management and Innovation*, *16*(4), 13-46.

Jánica, F., Guevara, R., & Fernández, L. H. (2019). The effect of corporate entrepreneurship, innovation and strategic renewal on business performance. *Opción: Revista de Ciencias Humanas y Sociales*, (90), 884-912.

Lichtenthaler, U. (2020). A conceptual framework for combining agile and structured innovation processes. *Research-Technology Management*, *63*(5), 42-48.

Mascareño, J., Rietzschel, E., & Wisse, B. (2020). Envisioning innovation: Does visionary leadership engender team innovative performance through goal alignment?. *Creativity and Innovation Management*, *29*(1), 33-48.

Melendez, K., Dávila, A., & Melgar, A. (2019). Literature review of the measurement in the innovation management. *Journal of technology management & innovation*, *14*(2), 81-87.

Moussa, M., McMurray, A., & Muenjohn, N. (2018). A conceptual framework of the factors influencing innovation in public sector organizations. *The Journal of Developing Areas*, *52*(3), 231-240.

Provasnek, A. K., Schmid, E., Geissler, B., & Steiner, G. (2017). Sustainable corporate entrepreneurship: Performance and strategies toward innovation. *Business Strategy and the Environment*, *26*(4), 521-535.

Rahman, M., & Carpano, C. (2017). National corporate social policy, corporate governance systems, and organizational capabilities. *Corporate Governance: The international journal of business in society*, *17*(1), 13-29.

Rodrigues, R., Samagaio, A., & Felício, T. (2020). Corporate governance and R&D investment by European listed companies. *Journal of Business Research*, *115*, 289-295.

Sokolov, D., & Zavyalova, E. (2021). Human resource management systems and intellectual capital: is the relationship universal in knowledge-intensive firms?. *International Journal of Manpower*, *42*(4), 683-701.