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How AI start-ups perceive governance – A comparative analysis

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Abstract: Data privacy in the European Union (EU) has been a topic of contention ever since it went into force in 2018. The rapid proliferation of Artificial Intelligence (AI) over the past five years has fostered a dynamic global ecosystem of AI start-ups. But the emergence of regulatory frameworks, such as the EU AI Act, presents a complex landscape for nascent ventures as against the ones that are relatively mature. This paper investigates how start-up founders perceive and navigate regulatory obligations, specifically examining whether these perceptions vary based on organisational maturity and resource availability. Focusing on Munich, which is considered among the top start-up hubs in Germany, this study employs semi-structured interviews with founders to explore their interpretive approaches to compliance. Our findings reveal that while early-stage start-up founders often view regulation as an ambiguous constraint, mature-stage start-ups increasingly leverage governance as a "unique selling proposition" (USP) to enhance market legitimacy. The study concludes that AI governance in start-ups is not a static legal requirement but an evolving process shaped by stakeholder expectations and operational scale, suggesting a need for more situated, technically grounded regulatory guidance.

Keywords: AI, artificial intelligence, regulation, governance, entrepreneurship, EU AI Act.

1 Introduction

The emergence of European Union (EU) AI Act introduces a new level of accountability, following the regulation of the General Data Protection Regulation (GDPR) and the

Digital Services Act. Call it a need or evolving process, the law sets conditions for companies and start-ups and classifies rules for AI systems based on the level of risks (*EU AI Act: first regulation on artificial intelligence*, 2023). Challenges persist from privacy, data security, job loss, bias, and (Wirtz, Weyerer and Sturm, 2020). Often viewed from the lens of "dark side", there is a need for evaluating such challenges with a framework (Sun, Li and Yu, 2022). In a global context, (Butcher and Beridze, 2019) concluded that "AI governance is an unorganized area," citing the number of stakeholders in the technology's global landscape. There are varying definitions for start-ups or entrepreneurship, depending on the scale of business, the opportunity being provided, and the timing for an appropriate idea. Such interpretations have been further modified with the launch of ChatGPT (*Introducing ChatGPT*, 2024), prompting start-ups to base their applications on Large Language Model (LLM) and opening a window to an artificial intelligence world yet to be fully explored. This was also evident in the AI Index Report 2025 (Maslej *et al.*, 2025), stating the increasing affordability of AI models over the past decade. LLM inference prices saw a massive decline per year, according to the report. Suffice it to say, the nomenclature has somehow changed from start-ups to AI start-ups. They are further divided into different stages with respect to their journey (Pollman, 2019). Still, various researchers have defined stages differently with distinctive success stages. In an effort to simplify this, we have defined start-ups as "early" and "mature". This paper defines AI start-ups as "early" and "mature", considering (i) the number of years (ii) the number of employees, and (iii) the geographical scope. Unlike big technology companies, start-ups operate under time and resource constraints (Pollman, 2019). Therefore, governance considerations often lag behind technological adoption.

Although there are several research papers on start-ups and AI, a gap remains in the context relating to start-up founders and governance. Existing literature addresses the "who, what, when, and how" while researching governance (Batool, Zowghi and Bano, 2025) or a narrower range of the industry's AI research (Ahmed *et al.*, 2026); responsible artificial intelligence adoption (Alshibani *et al.*, 2025); and empirical data on dark sides of AI and its impact on employees (Papagiannidis *et al.*, 2023). Such perspectives provide valuable insights into the respective topics, however, they may be limited in their ability to explain how the start-up founders understand governance. The arrival of rules and regulations, like the EU AI Act, tries to foster an environment where the new technology fosters and, like a gatekeeping mechanism, builds a mechanism to ensure Responsible AI use. How AI start-up founders perceive such laws, follow Responsible AI practices, and navigate AI governance in practice remains unclear. This study is grounded on a systematic literature review on AI startups, AI-related challenges and startup performance in order to identify key themes and research gaps.

Hence, our objectives in this paper are as follows: a) explore the governance strategies employed by AI startup founders; b) understand the factors motivating their commitment to responsible AI practices. We have described it as a novelty, considering the dearth of research on the topic. Since founders are the ultimate decision makers, the focus remains on them. Moreover, the research is narrowed to Munich, as it is one of the top start-up hubs in Germany, home to top-tier tech universities and a growing entrepreneurial ecosystem(Herzog, Mason and Hruskova, 2024; Research, 2025). The findings suggest that a contrast remains between the two-stage start-ups when it comes to dealing with the EU AI Act.

2 Theoretical knowledge

This study draws on sensemaking theory to explain how start-up founders interpret governance and responsible AI practices, given the nascent nature of the regulatory framework. The theory helps us to find out the perspective of founders, particularly when legal compliance and investment pressure collide.

2.1 Nature of AI start-ups

Our inquiry into the AI start-ups begins with understanding its definition, which is defined by a strong relationship between proprietary data and venture capital funding (Bessen *et al.*, 2022). Consequently, it also depends on the kind of algorithms used by start-ups. The journey of a start-up from scratch to scale up and then the corporation is "long and risky" (Rezazadeh *et al.*, 2025), further adding nuances to its definition. The way organisations deal with AI governance is linked to their size and maturity, with big companies having a more sophisticated approach compared to the more adaptable method of start-ups (Pollman, 2019). All in all, these perspectives indicate that AI start-ups are defined not only by technological innovation but also by high uncertainty, resource dependency, and evolving governance needs.

2.2 AI governance

AI governance has become crucial to ensure accountability and responsible use of AI systems, as their societal and economic impact expands. Existing research suggests that governance frameworks remain fragmented, as algorithmic transparency and oversight seldom entail the governance of AI systems to ensure accountability and responsible AI practice (Batool, Zowghi and Bano, 2025). The GDPR is considered to be the first rule book for start-up founders to comply with. In contrast, (Batool, Zowghi and Bano, 2025), while reviewing the literature, noted a lack of attention to ethical and responsible AI principles in existing governance efforts, which otherwise could harm concerns like "fairness, transparency, and inclusiveness." At the same time, they highlighted the dearth of human oversight in the governance approaches and described it as a "challenge." Users are entitled to ask for personal data being provided to a service provider and its subsequent transfer to another provider under the GDPR ("Art. 20 GDPR – Right to data portability,"). But they might not feel incentivised to exercise their data privacy rights (Graef and Prüfer, 2021), probably because of a lack of awareness or complexity. The case is different for data-driven market firms, as they are incentivised to have such data. But while data governance is important for AI governance, it is not sufficient (Mäntymäki *et al.*, 2022). Ethical frameworks, accountability for algorithms, and regulatory compliance are a must for fair use of AI technologies, according to the study.

It merits mentioning here that this paper was written at a time when the implementation of the EU AI Act followed a phased approach, with most of its provisions becoming applicable from August 2 2026, as outlined in Article 113, with certain exceptions such as Article 6(1), ("Implementation Timeline | EU Artificial Intelligence Act,").

2.3 Responsible AI practices

The foremost aspect of responsible AI practices is regulation, which for some governments might seem to be a restriction on innovation, followed by accountability and transparency (Butcher and Beridze, 2019). Frameworks such as the GDPR and emerging policy initiatives like the EU AI Act reflect efforts to ensure risk mitigation, safety, legal compliance, and building trust. Consequently, this might have increased the optimism in Germany by 10% since 2022 among countries skeptical of AI (Maslej *et al.*, 2025). At the same time, organisations differ in how they interpret and implement governance, however, they agree on putting the guardrails on the technology to establish legal and ethical boundaries for AI deployment. There are diverse considerations among firms for the scope of AI governance, for example, data governance specifies frameworks for managing the data on which the AI systems depend (Mäntymäki *et al.*, 2022). But the work on determining the contours of responsible AI is still in progress, as organisations and researchers are trying to furnish more detailed conceptualisations (Wu, Huang and Gong, 2020). Suffice it to say, governments have also switched to regulations catering to the dynamics of AI and its wide scope.

Multiple institutional frameworks converge on similar principles while dealing with responsible AI. In June 2018, the European Commission appointed a group of experts to provide advice on its artificial intelligence strategy (*High-level expert group on artificial intelligence | Shaping Europe's digital future*). An independent expert body – the High-Level Expert Group on Artificial Intelligence (AI HLEG) – has suggested 33 recommendations to guide trustworthy AI towards sustainability, growth, competitiveness, and inclusion. Although the word responsible around AI is still evolving, it can be interpreted in various ways. The AI HLEG aims to promote trustworthy AI through three important components that should be met throughout its lifecycle: the system in question should be (1) lawful, complying with all applicable laws and regulations; (2) ethical, ensuring adherence to ethical principles and values; and (3) robust, having the ability to withstand and navigate environmental stressors through the adaptive alignment of both technical infrastructures and social frameworks. A recent Harvard report highlighted 38 similar corporate and group efforts (Fjeld *et al.*, 2020) while underscoring that there "AI for good" was being negotiated among higher echelons, professionals, and those most impacted by the technology, and the organisations that represent their interests. The International Organization for Standardization also defines responsible AI on the same wavelength while highlighting that it should benefit society and minimise the risk of negative aspects (*Building a responsible AI: How to manage the AI ethics debate*). Apart from advancing capabilities, it was also about addressing ethical concerns and tackling issues, particularly misuse of personal data, biased algorithms, and risk of exacerbating existing inequalities, according to the ISO. It calls for building trustworthy AI systems that align with human values. The organisation is of the view that the use of AI should increase transparency, leading to a responsible AI system. Overall, responsible AI can be understood as a developing field where shared principles exist, but practical implementation is still fragmented and context-dependent.

2.4 How founders navigate uncertainty

Sensemaking is defined as the cognitive and social process through which individuals interpret ambiguous environments to facilitate subsequent action (Weick, 1995). Within the artificial intelligence sector, startup founders engage in continuous sensemaking as they navigate the complexities of their burgeoning technological ecosystems. These strategic trajectories are subjective and mediated by the founders' professional trajectories and idiosyncratic orientations toward risk (Weick, Sutcliffe and Obstfeld, 2005).

Building on sensemaking theory, this study focuses on how AI start-up founders interpret and respond to laws related to governance, particularly the EU AI Act. The available literature remains fragmented and focused on large organisations, law, and compliance mechanisms despite growing focus on AI governance. Addressing the gap, the present study aims to examine the way start-up founders perceive, understand, and operationalise.

Hence, the study investigates: "How do AI start-up founders approach governance, and what drives their responsible AI practices?"

3 Methodology

Through interviews, public documents, and relevant literature, this study explores and answers the research question.

3.1 Research context

Entrepreneurial activity is largely a local phenomenon that is embedded in place. Hence, geographical context can either enable or constrain entrepreneurship, resulting in significant geographical variations in entrepreneurial activity. For the past decade, Munich has ranked first in the 'stock market league' of German cities, based on market capitalisation. The city is recognised globally as a rising entrepreneurial ecosystem, ranking as the 37th most successful start-up hub in the world and seventh in Europe (Herzog, Mason and Hruskova, 2024). The city offers various programmes for college students to build their own ventures right from when they are students.

3.2 Data collection and screening

More than one academic database, including ProQuest, Web of Science (WOS), and Google Scholar, were accessed to retrieve pertinent publications pertaining to AI, start-ups and governance. This was done to augment literature access to peer-reviewed research papers, journal articles, editorials, white papers, reports, and academic publications within the aforementioned disciplines. Google Scholar was used to access relevant and peer-reviewed academic literature, while WOS was used to support the first step. ProQuest was used to access interdisciplinary academic literature relevant to AI governance and start-ups.

The first stage of the search entailed searching in the Google Scholar database, which comprises a filterable online search database (year, relevance, types, and citations). It not

only helped in conducting a search but also enabled the researcher to refine search results using the filters provided. This search was conducted on November 23, 2025, without any publication year limitations. Keywords used for primary search were ("Artificial intelligence" OR "AI") AND (regulation OR governance) AND system preferred keywords to retrieve all pertinent literature. The retrieved data included studies which had varied degrees of relevance, while primary searches included all studies relevant to AI governance and start-ups. The relevance of studies was based on the titles and abstracts of retrieved articles.

In addition, the snowballing technique was used to enhance the coverage of academic literature on the subject. Selected articles' reference lists were screened for locating other academic papers relevant to the research. Finally, selected papers were used for the research.

As a consequence, a wide array of literature was initially reviewed before a selection of studies that focused on the topic of start-ups, AI governance and responsible AI was made. After further review, a total of about 18 to 20 papers were considered in the study. This approach helped in capturing the academic and policy-oriented literature.

3.3 Interview sample and recruitment

Participants, which this research refers to here as "Founders" from Munich-based start-ups that leverage AI in their systems, were recruited to conduct the research. The following criteria were used to identify start-ups: (1) they operate primarily in Munich, Germany, (2) they are in the early or growth stage, and (3) they implement AI systems as a core component of their product or service. Interviews were focused on awareness, compliance and the need for these AI start-up founders to fall under the governance of the EU, primarily with the EU AI Act. In total, seven semi-structured interviews across seven start-ups were conducted. Within purposive sampling, the study followed a sequential sampling approach, meaning the sample evolved throughout the research process rather than being predetermined at the outset (Bell, Bryman and Harley, 2019).

The start-ups varied in their level of maturity, however, the research focused on start-up founders as our unit of analysis, which also ensured comparability among participants who belonged to the executive roles. All potential participants were contacted via email and LinkedIn, with an invitation outlining the purpose of the study and ensuring voluntary participation. They were sent links via Google Meet after confirming a time with them. Sampling continued until additional interviews no longer produced new themes or insights and similar patterns began to recur across the data. Our respondents defined themselves as early or mature depending on their experience in the start-up ecosystem, the number of ventures they had previously worked in, the number of employees in their current start-up, and whether they had operations not restricted to just Munich.

The subsequent data analysis involved iterative analysis loops of moving back and forth between the empirical evidence and established findings from the literature. The coding of the interview data was undertaken as a thematic analysis, which has proven to work

with research questions about the representation and construction of specific phenomena in particular contexts and different types of data (Braun and Clarke, 2014).

3.4 Interview design

The interviews followed a semi-structured approach with open-ended questions, allowing each interviewee to share their perspectives and experiences freely (Bell, Bryman and Harley, 2019). In addition to this, a protocol was followed where interviewees were informed about the research work, its purpose, the area, and the duration of the interview. Prior to each session, the interviewees presented the interview procedure, confidentiality measures, and consent to record in alignment with (Bell, Bryman and Harley, 2019), and assured responses would solely be used for research purposes. Moreover, follow-up questions were frequently asked to explore specific viewpoints in greater depth, which occasionally led the discussions in slightly different directions (Bell, Bryman and Harley, 2019).

A detailed summary of interviews is presented in the table below:

Table 1 Summary of interviews

Serial Number	Pseudonym	Title	Domain	Interview date	Language	Mode	Time stamp
F1	Aryan	Co-founder and CEO	Ed-tech	Dec 16, 2025	English	Online (Google Meet)	8:28:00 AM
F2	Bandhu	Co-founder	Fintech	Dec 14, 2025	English	Online (Google Meet)	6:31:00 AM
F3	Catherine	Co-founder	Ed-tech	Dec 22, 2025	English	Online (Google Meet)	8:22:00 AM
F4	David	Co-founder	AI Solutions service provider	Dec 19, 2025	English	Online (Google Meet)	3:30:00 AM
F5	Eli	Founder and CEO	B2B service provider	Dec 22, 2025	English	Online (Google Meet)	10:57:00 AM
F6	Felix	Co-founder	Med-tech	Jan 2, 2026	English	Online (Google Meet)	12:46:00 AM
F7	Graham	Co-founder	AI Consulting	Dec 20, 2025	English	Online (Google Meet)	10:26:00 PM

3.5 Public documents

To enhance the robustness of the analysis, data from the interview were triangulated with insights from the literature review, relevant policy frameworks, and public documents to provide contextual support and strengthen the credibility of the findings (Bowen, 2009). We complemented the interview data with a targeted collection of publicly available documents from each startup. These documents included website content, LinkedIn posts, privacy policies, and blog articles. Their purpose was to provide background information prior to the interviews and to clarify how each startup publicly frames its activities, products, and use of AI. Furthermore, employing triangulation through public documents

(Denzin, 2012)(Denzin, 2012; Carter et al., 2014) enriched the findings by complementing perceptions from interviews. This approach provided a more holistic understanding of the empirical setting and enabled the identification of governance practices that may not have emerged in interviews, as well as the cross-checking of reported practices, thereby broadening the study's empirical foundation (Denzin, 2012; Carter *et al.*, 2014; Bell, Bryman and Harley, 2019). In the following table, an overview of data sources can be found.

Table 2 Overview of public documents

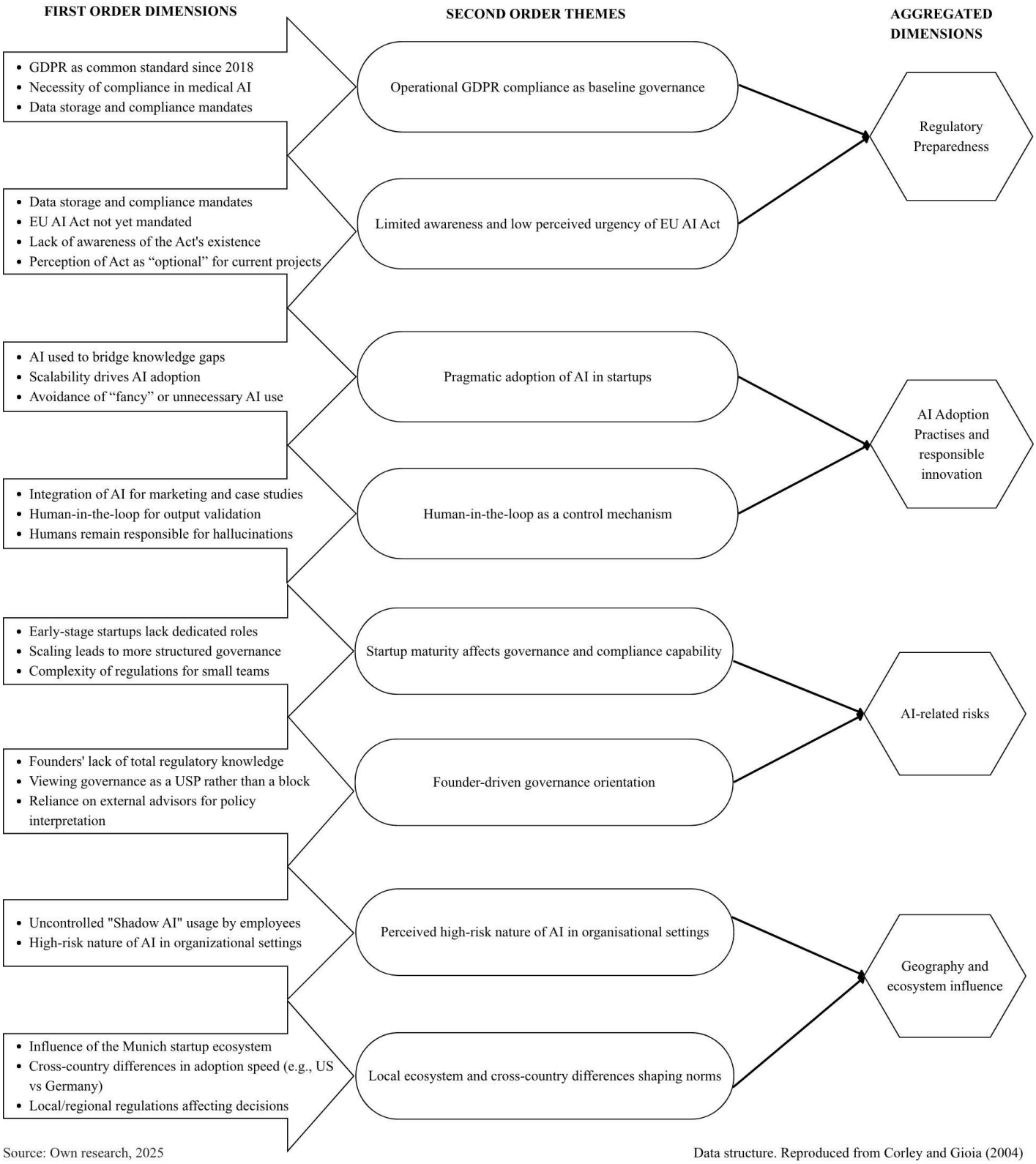
Serial number	Public documents	Number of documents
1	Social media (LinkedIn)	9
2	Website	7
3	Privacy policies	2
4	YouTube videos	1
5	Blog posts	2
Total		21

Data analysis

All interviews were audio-recorded and transcribed verbatim by the researchers. The three authors reviewed each transcript against the audio to ensure accuracy and consistency (Bell, Bryman and Harley, 2019). In the next step, initial open codes were generated through systematic coding of the transcripts. These codes were then organised into preliminary themes, which were subsequently reviewed for coherence in relation to both the coded extracts and the dataset as a whole (Gioia, Corley and Hamilton, 2013).

Although participant anonymity and the exploratory nature of the study were emphasised, respondents may still have framed their answers in ways they considered appropriate or expected (Bell, Bryman and Harley, 2019), as the study focuses on start-ups operating under EU-wide regulatory conditions, the findings are likely transferable to similar contexts beyond Munich. But the study's relevance may diminish if the regulatory environment undergoes significant change because it also addresses the broader relationship between regulation and governance. Precisely, the findings may hold relevance in comparable settings regardless of geography.

Consequently, to effectively highlight similarities and differences across the data, a thematic analysis was conducted, involving systematic coding and the identification of recurring patterns across cases (Braun and Clarke, 2014; Bell, Bryman and Harley, 2019). The thematic analysis process followed the outline presented by (Braun and Clarke, 2014). In the final phases, we refined and defined the themes, assigned clear labels, and selected illustrative extracts to relate findings to the research question and literature, illustrated in the diagram below (Gioia, Corley and Hamilton, 2013).



Source: Own research, 2025

Data structure. Reproduced from Corley and Gioia (2004)

4 Findings and Analysis

The following section addresses the research question of how AI start-up founders perceive and navigate AI governance in practice, and how they interpret the regulatory compliance within the context of Munich.

Three of the seven start-up founders we interviewed were in the mature stage and were well aware of the EU AI Act, while the four start-up founders in their nascent stages said they did not work on projects where the Act was seen as a pre-requisite or that they cared about it.

"Maybe with the GDPR, but not with the EU AI Act. I had to go through it once, but it's too complicated to really, you know, all of it. How my friends and I, who are founders, go through it is basically we specify the use case and then go into the Act based on the use case. Like, what are the relevant sections? And then we go through it. We're not really constantly aware because it keeps on changing too rapidly. (F2)."

"Its too many regulations, and it's a big problem too, because most people find it really confusing. Especially if they don't know the law, the rules. There's way too much conflict in the rules sometimes, and people get very confused. (F2)."

"Lots of people I know are not aware. I can say that they did not even know, like their first response was, "We are not even aware of such an act. (F5)."

"There are some regulations that everyone needs to comply with, but most of the founders don't know about this. (F5)."

"We didn't have the projects where we really had to care so much about the EU AI act so far. (F6)."

"It depends on the stage of the start-up. With bigger companies, the regulations are very strictly enforced. They go and do safety checks, follow the validation protocols. (F2)."

Meanwhile, the mature stage start-up founders spoke about regulation like a feature or a USP, rather than a roadblock.

"You should not look at something that blocks you. You should actually see it as a feature of your platform, so it becomes my USP these days rather than actually the challenges that they have. (F5)."

"This observation [view] was reaffirmed in the triangulation method where one of the founders' social media posts stated: 'Regulation isn't a roadblock'. (F5)."

"That's happening that every founder is dealing with differently. Regulations are appreciated a lot here because of the improvements that it will bring. (F5)."

"The EU AI Act is not mandated yet, so you don't have to [comply]. It's kind of optional, but you know, it's whenever people say, 'Hey, buy one get one free.' One is optional, but you take it, so it's basically to show more certification on your website that 'hey, we have EU AI combined as

well, but it's not mandated like GDPR. Even ISO is not mandated, but it just shows trust in your platform and how you build trust with the other businesses. (F1)."

However, every start-up founder we spoke to was aware of data protection and the GDPR as an unavoidable regulation. As part of our triangulation, we even saw it on the company's websites.

During the triangulation, we found that a start-up founder's website said that they were 100% GDPR compliant, and that their ISO certification was "in preparation". We also found that AI start-ups that handle sensitive data and operate in highly regulated industries, such as med-tech spaces, generally prioritised formal AI governance practices from an early stage.

"GDRP compliance is the first stage, even before the EU, that you have to follow. (F1). "

"The GDPR has been very, very common since 2018. First, it was being pushed back then with lots of amendments. All of that, then it became what it is today and basically it. It collected fines of around 4 billion Euros. It was a huge amount of funds that was collected. (F5)."

"It's as [if] we are in this very much regulated area of medical AI. For us, topics like data processing, data protection, GDPR are important when we are just two or now when we are 40. (F7)."

"We just use it [data] instantly and just delete it. So that has always been the case. So I kind of learned from all of that, like how they handle data security. Yeah, most of them have a very robust mechanism. (F2)."

"Okay, so, but then that again is GDPR compliant, because that's storing data to some extent. (F4)."

Human-in-the-loop mechanism

All start-up founders, regardless of their stage, were aware of the high risks of complete automation and said it was necessary at all points for humans to step in, at any point their clients needed assistance. One start-up founder stated that his start-up was working on a feature where he would make a 'hotline' available.

"You cannot really automate the entire process. And because of that, we are providing some sort of human supervision on the loop, we call it 'human in the loop' we call it. You always can, like, stop it, pause it, cancel it, or like, go in and change the inputs or outputs. (F1). "

"So, if you were not sure about an answer, I'm creating another hotline where you can actually, like, you know, call, get a clarification or be connected to a human agent right away. (F1)."

"And if we see that, actually, our approaches are not good enough, that, uh, it's actually hallucinating. And when it's okay, it doesn't work well then. And there's a specific campaign. We

understand, okay, we need, uh, to intervene and change the campaign on our own. I would say so for now it's with the human envelope. (F6)."

"In the end, humans are always responsible. (F4)."

Regulatory preparedness

Regardless of what stage the startup founders were in, all ventures had some regulation in place, and were prepared in terms of compliance and the risks that come along with leveraging AI.

"Regulations are appreciated a lot here because of the improvements that it will bring. You have to actually make sure that AI works for sustainability. That your AI is also sustainable. (F5)."

"We have like an extended team looking at German policies to always help with our adaptation that has the knowledge. (F3)."

AI-related risks

Start-up founders were well aware of the risks that come along with complete automation when they leverage AI in their systems.

"You have all these employees in the company who are just using it as they want. They're not allowed to use it. They will just use a private [account]. There is a term for a reference 'Shadow AI'. It's when people use AI tools without approval in a corporate context. And then the residents already handled that. It's a cultural issue. It's a legal issue. (F2)."

"AI is generally high risk because there's nobody who can take responsibility for that, except the human, who reviews that. (F6)."

"Even if it's just a recommendation, it still has a risk if its foundation is wrong. (F2)."

5 Discussion

The current study adds to the emerging research on the governance of AI among start-ups through exploring perceptions towards the regulatory framework. Such studies suggest that governance can enhance legitimacy and trust, thereby supporting market positioning and innovation rather than constraining it (Alshibani *et al.*, 2025). A key observation made during the research was the difference in awareness and considerations regarding the regulatory requirements among founders of different maturity levels of start-ups. It was observed that mature start-ups had higher levels of awareness of the EU AI Act and took into account the regulatory framework during product development and business planning.

The current observations are consistent with previous research indicating that governance skills develop along with organisational growth. For example, (Pollman,

2019) states that startups, especially in the earlier phases of development, experience numerous challenges in terms of resource limitations and uncertainty. In light of this, the insufficient attention paid to the EU AI Act by nascent startups can be seen as part of prioritisation in favour of survival and product development over regulatory requirements.

The early stage start-up founders in our sample were often of the view that the laws are "ambiguous and confusing," in addition to the resource-constraints they faced while still in their nascent stage. Previous literature states that start-ups are innovation-driven yet resource-constrained, facing high uncertainty and limited capacity to manage governance burdens (Pollman, 2019).

The results of the research, however, indicate that the role of regulation in legitimising the products of start-ups is consistent with previous literature. The participants representing later stages of company development perceived the regulatory framework, including the EU AI Act, not as an additional requirement but as an opportunity to build credibility and improve their market position. The findings of the research support the view that governance can enhance innovation rather than inhibit it.

The findings of the study also show that current regulation is still not sufficient for supporting innovation and development effectively. The founders from nascent startups described the existing regulations and requirements regarding AI as "ambiguous and confusing." Such an observation is consistent with previous literature highlighting difficulties associated with comprehending complex AI governance rules. In light of this, it is clear that governance needs to evolve further into an adaptive and cooperative approach to regulation, as argued by (Ayres and Braithwaite, 1995).

Furthermore, the results of the research extend the knowledge about the dynamics of governance among startups. Prior research highlights that larger and more mature stage start-up companies are able to incorporate governance into their operations, which is not the case with start-ups (Mäntymäki *et al.*, 2022). Nevertheless, it has been found that governance evolves incrementally according to the needs of start-ups, including stage of development, resources, and level of risk faced by the entrepreneur (Pollman, 2019).

The results of the study, however, show some discrepancy from previous research focused on human oversight in AI governance. Specifically, previous works indicated the low level of human involvement in the existing regulatory framework for AI as the biggest challenge of such systems (Batool, Zowghi and Bano, 2025). But no similar concerns were expressed by entrepreneurs interviewed during the current research.

Overall, the results of the study highlight the importance of multiple aspects of governance for innovativeness of startups. Following the sensemaking perspective, the participants of the study were found to perceive regulatory environment in light of their resources, opportunities, and experiences, which affected their approach to governance.

The paper makes an important contribution to studies related to AI governance by showing that while the process of governance cannot be explained merely by the set of formal regulatory requirements, it is greatly influenced by the interpretation of such

requirements and their implementation by decision-makers and complete automation would come with its own risks.

The current research expands previous research dedicated to studies of start-up governance (Pollman, 2019; Mäntymäki *et al.*, 2022) and shifts focus from the structural to the interpretative perspective on governance. Based on the principles of sensemaking, it can be argued that governance is followed by the founders' interpretations and regulatory awareness rather than an automated system.

6 Limitations and scope for future research

Despite its contributions, this study has several limitations that simultaneously indicate directions for future research. Firstly, given the exploratory nature of the study and broad scope of the research questions, there were no pre-established themes in the interview. Instead, the themes were identified after analysing the data gathered.

Secondly, because of the fast-evolving regulatory framework that surrounds AI technology, perceptions of AI start-up founders may vary in the future once the EU AI Act comes into force.

Furthermore, as noted earlier, the reliance on the peer-reviewed database might have limited the ability of this study to include the most recent or emerging trends in AI research. In addition to this, the specific geographical focus of this study to Munich is valuable, yet it may not allow for generalisation. Still, the results of this study may be transferable to different geographies considering the similarity of rules, but further studies can be done where the regulatory framework differ.

Lastly, the sample size was relatively small to draw statistical or generalised conclusions to the larger population of AI start-up entrepreneurs. But this limitation is inherent in any qualitative exploratory research.

7 Conclusion

Overall, the findings of this research show that there is variability in the way AI start-up founders perceive and engage with governance frameworks, which is significant for the analysis of the regulation. In terms of GDPR, which came into force in 2018, all of the founders in the study demonstrated awareness and compliance with the regulation. But perceptions of the EU AI Act—not yet set in stone— were highly dependent on organisational maturity. Thus, the early-stage start-ups viewed the EU AI Act as not so urgent in terms of applicability and as more difficult to understand in relation to their organisation's needs. It was linked to stringent laws around data protection and artificial intelligence on the continent. In contrast to the mature startups, which identified the framework as more important. To conclude, the level of start-up maturity shapes how founders perceive the regulations, as early-stage start-ups view governance as "ambiguous and confusing" while mature ventures frame governance as an asset that boosts legitimacy, builds "USP", and helps in the long run.

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