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## SHAREHOLDER RIGHTS: MINORITY SHAREHOLDER PROTECTIONS IN STARTUPS AND UNICORNS

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**\*Ishu Sharma, Ms. Shivina Rathore**

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\*Corresponding Author: Ishu Sharma

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India.

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### ABSTRACT

As technology companies grow from early-stage startups to unicorns, minority shareholder rights undergo a transformation that may include modification and, in some cases, may even include strengthening. Traditional interpretations of minority shareholder protection do not adequately explain this phenomenon in the context of technology companies. In this scenario, minority shareholder protection is the result of a complex layer of contractual and governance mechanisms that include shareholder agreements, board rights, information rights, veto rights, anti-dilution rights, transfer rights, secondary sale provisions, and selective applications of statutory minority shareholder remedies. This research employs a combined doctrinal analysis and market assessment of contemporary business law and venture financing and unicorn data for the years 2025 and 2026 from WIPO, BVK, Carta, Cooley, Morrison Foerster, Blume Ventures, and other officially sourced legal data. The data demonstrates that the present market is more restrained than the 2021 valuation boom. Down rounds, pay-to-play provisions, and secondary sales have come to dominate the post-valuation landscape. The secondary market, unlike the venture market, provides liquidity to minority shareholders, employees, and angel investors. Finally, the mandatory governance of unicorns has begun to influence the design and governance of some startups. The modern regulatory framework emphasizes the need to include greater ex ante contracting and ex post remedies, to diminish information asymmetries, to clarify disclosure, to provide fairer exit mechanisms, and to provide greater governing rights.

**KEYWORDS:** Minority shareholders, startups, unicorns, venture capital, anti-dilution, drag-along rights, corporate governance, oppression remedies, shareholder agreements, exit rights.

## 1. INTRODUCTION

In the context of the startup ecosystem, the protection of minority shareholders is a more intricate issue than most of the privately owned companies. In a standard corporate law, the primary focus is on protection of minority shareholders. Here, the concern is if the majority, the board, or the management, are abusing their power in voting or using their information to gain an unfair advantage over the majority. In the context of a startup, that issue exists, but on top of that, there are the intricacies of the venture financing. Common shareholders, founders, employees that possess stock options, angel investors, seed investors, and preferred investors at a later stage, have their rights and relationships articulated and defined in the term sheets, investor rights agreements, voting agreements, bylaws, stock purchase agreements, side letters, and board reservation schedules. Therefore, the issue of minority shareholders in a startup is not essentially in the ability of the law to protect the minority shareholders from oppression. More importantly, it is the more complex issue of who is protecting which minority, from whom, and using which combination of law and agreements.

The valuation boom of 2020-2021 was nothing compared to how important 2025-2026 will be. 2025 saw venture capital jump by USD 149 billion in just 1 year, going from USD 320 billion in 2024 to USD 469 billion. Many deals were unfinished, yet funding in larger deals continued to rise (BVK, 2026).<sup>[1]</sup> 2025 also saw the valuation of the global unicorn market to increase with 1,290 unicorns estimated to be around USD 5.2 trillion, including nearly 100 new unicorns (WIPO, 2026).<sup>[2]</sup> Unicorns have increased by 3.5 times since 2010, but they are not a guarantee of protection for minority investors. The market bounce back actually means that investors are more selective, more conservative with deal valuations, and implement protective measures. More protective measures during times of market stress are higher restrictions on deal valuations and greater deal selectivity. Therefore, in a conservative investor market, minority investor protections are at the forefront of governance, rather than being a secondary contractual or structural corporate obligation.

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<sup>[1]</sup> Bundesverband Beteiligungskapital (BVK). (2026).

<sup>[2]</sup> World Intellectual Property Organization (WIPO). (2026, February 2). Global unicorn valuation reaches USD 5.2 trillion in 2025.

This paper aims to analyze and address issues regarding minority shareholders in Startups & Unicorns from both an economic and a legal point of view. It examines the minority-shareholder problem in the venture-capital industry and posits that phenomenon can be understood as a series of processes. At the Initial Seed Round Stage, there is a danger of misinformation, as well as the possible abusive use of the right to control by the founders. Concerning the Growth Stage and the Unicorn Stage, the concerns divide into control dichotomy of the Board, Reserved Matters, Anti-dilution, Pro rata Participation, Subscription Pre-emption, Transfer & Transferability restrictions. At the Unicorn Stage, liquidity coupling, Recaps, Late Preference Rounds, Secondary Sales, drag-alongs, Coercive and Strategic Exits add to the concerns. Thus, there arises the necessity to shift intra-class value in an uneven manner, whereby minority shareholders are under an excessive burden. For this reason, financing operations and legal layers need to be treated in conjunction.

## **2. Why minority protection is structurally difficult in startups and unicorns**

There are four primary factors that demonstrate the structural fragility of minority protection in venture capital firms. For starters, cash-flow rights and control rights are differentiated and awarded early to employees. Investors with preference entry often have the right to board membership, affirmative voting, information rights, veto rights, and protections against dilution. At the same time, the founders are able to keep substantial control rights and/or informal control over operational management, and employees and angel investors normally have control rights over financing or exit rights on the weak end of the continuum, such as standard equity or options. This means that protection of the minority interests cannot simply be evaluated in terms of the percent of equity ownership. A given control rights holder might be in the minority in regard to the percent of control rights, and a larger common equity holder might be otherwise uninfluential or, in some circumstances, uninfluential with respect to control rights. Secondly, in comparison to divided public companies, there is a lot more asymmetry of information in privately held firms than publicly traded companies. In public companies, different firms have different variations of their accounting, different forms of their assets, different levels of disclosure, and different levels of their own performance.

There is a lot of the company's value that is not disclosed to the outside, and that value is simply a reflection of expectation. Starting with the asymmetry of information, minority control owners have to cope with most if not all of the firm's management decisions and have to cope with the firm's management decisions and have to deal with the performance of the firm's management, and they have to cope with control decisions that are detrimental. The

same reasoning that directs access to books and records to Delaware's inspection right is the same reasoning that directs access to books and records to private firms not publicly traded.

Third, financing rounds cause conflicts between minorities. Shareholder disputes involve a majority squeezing a minority. Unlike traditional company law, minority groups can and do hold conflicting, minority positions. This means that those minority/group shareholders can, and do, hold conflicting positions. Would an employee group, for example, be in favor of a tender offer, while a founding group would oppose a clean common-heavy exit? Early employees milled around others for a clean exit, while later stage shareholders were preferred and wanted to protect their downside and 1-x and were, of course, in favor of a liquidity preference. More angels were happy to see their pro rata rights being preserved, while those who needed capital were, of course, negatively impacted. It is, therefore, possible for a growth stage recapitalization to be legally justifiable and, at the same time, distributivity unfair.

The case *In re Trados Inc. Shareholder Litigation*,<sup>[3]</sup> offers a strong example of the inner workings of structural conflicts among the minority classes. The case originated from a particular sale transaction where common stockholders got nothing while management and preferred stockholders were able to realize a payout. This case should be of particular concern to venture-capital financed companies as it indicates that law courts may be prevented from concluding, solely on one of the facets on the shareholding. Courts are likely to explore the possible factors on who directed the process on the board, if preferred investors were acting on self-interest, and if the common stockholders were disadvantaged in the transaction even if it exited with the liquidation preferences and structured exit preferences.

Fourth, even unicorns keep tensions. Recent studies on the governance of unicorns in India have shown that with the growth of a firm, governance becomes more professional, adding complexity, sophisticated capital structures, selective liquidity, and rights to an exit (Majumdar, 2025).<sup>[4]</sup> Governed unicorns do not have a policy of protecting minority shareholders through the private and public listing of companies. Instead, protecting minority shareholders has provisions to defend against opportunism in unregulated environments.

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<sup>[3]</sup> *In re Trados Inc. Shareholder Litigation*, 73 A.3d 17 (Del. Ch. 2013).

<sup>[4]</sup> Majumdar, A. B. (2025). The corporate governance of Indian unicorns. SSRN. <https://ssrn.com/abstract=5404045>

### 3. Core contractual protections in venture-backed companies

The first line of minority protection in startups is contractual. This is neither incidental nor arbitrary. In most venture-backed companies, the de facto distribution of power is not captured in a bare corporate statute. It is captured in shareholders agreements, investor rights agreements, voting agreements, and the founder's agreements that incorporate the negotiated rights. The most significant rights protections include preemption, subscription, and pro-rata participation rights, information rights, rights to appointment to the board, affirmative voting rights on reserved matters, drag-along rights, and tag-along rights, anti-dilution rights, liquidation preference terms, and restrictions on transfer.

India's Supreme Court caused a stir in shareholder arrangements with *V.B. Rangaraj v. V.B. Gopalakrishnan*, (1992) 1 SCC 160.<sup>[5]</sup> In deciding this case, it ruled that companies, and shareholders, cannot be bound by share transfer restrictions if the restrictions are not in the articles of association. For technology and internet startups, the ruling means that staying consistent is important. For example, if a decided arrangement is negotiated that includes the pre-emption rights, transfer restrictions, tagging along, dragging along, and others related to the article of association, these should be placed in the shareholders' agreements. Otherwise, the arrangement of the minority stakeholder will not be enforceable at a financing deal or an exit deal.

Information rights are the most significant rights in relation to minority shareholders as they operationalize every other right. A minority shareholder that is privy to the company's quarterly financial results, annual budget, and capitalization table and is notified of material transactions is in a better position to assess dilution and challenge the unfair process. Without this disclosure, having rights is essentially meaningless. Startups governance in India emphasizes the need for a direction of information and health of governance process as a way of retaining investor confidence and for the company's value. (Nishith Desai Associates, 2024).<sup>[6]</sup>

*KT4 Partners LLC v. Palantir Technologies Inc.*<sup>[7]</sup> showcases information rights in private tech companies. In a books-and-records case in 2019, the Supreme Court of Delaware ruled that in certain cases, inspection of records may extend to emails if the legal record, or the

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<sup>[5]</sup> *V.B. Rangaraj v. V.B. Gopalakrishnan*, (1992) 1 SCC 160.

<sup>[6]</sup> Nishith Desai Associates. (2024). Start-up governance essentials.

[https://www.nishithdesai.com/fileadmin/user\\_upload/pdfs/Research\\_Papers/Start-up-Governance-Essentials.pdf](https://www.nishithdesai.com/fileadmin/user_upload/pdfs/Research_Papers/Start-up-Governance-Essentials.pdf)

<sup>[7]</sup> *KT4 Partners LLC v. Palantir Technologies Inc.*, 203 A.3d 738 (Del. 2019).

minutes and the resolutions, or the records in the traditional sense are not adequate. This case is especially important in the context of technology startups, as the governance of the startups is done using emails, and, for example, investor newsletters. When minority shareholders are deprived of access to financial statements or information on share capital and dilutions, or are deprived of notice on amendments to governance documents and investor rights, or of transfer of shares, the rights of information, both statutory and in the contracts, are addressed to avoid hidden dilutions and selective governance.

Affirmative voting rights and reserved matters are equally important. These rights generally demand the assent of investors concerning matters related to the issuance of new securities, alterations to constitution, shifts in lines of business, borrowing above a specified threshold, approval of related party transactions, divestiture of significant assets, and undertaking a merger-related public listing. The most essential matter for minority protection is the calibration of the list. A narrower list would then result in minority investors suffering the consequences of opportunistic value transfers. In contrast, a broader list would result in a loss of operational flexibility for the company. Morrison Foerster's 2025 comparative VC terms report illustrates that the Asia region remains more investor-friendly due to a stronger emphasis on veto rights and redemption rights, in contrast to the United Kingdom and United States (Morrison Foerster, 2025).<sup>[8]</sup>

Tag-along rights protect minority investors from lock-up, allowing minority investors to exit on the same terms when founders or major investors exit the business. In contrast, drag-along rights have the opposite effect, as they impose an exit to all shareholders. There is a concern over the misuse of the drag-along clause, as it would result in the minority investors being forced to exit the business on terms and at a time preferred by the major controlling shareholders. Perceived lack of fairness will be critical in this case. There must be a minimum price integrity, and consideration should be symmetric, if not equal. There should be a futuristic balance concerning drag-along rights.

As reflected in *Halpin v. Riverstone National, Inc.*,<sup>[9]</sup> courts tend to be strict in regard to the procedural requirements of drag-along clauses. In this instance, the Delaware Court of Chancery refused to accept post-closing demand as the exercise of drag-along right as the agreement provided for actions concerning the proposed deal. This situation is particularly

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<sup>[8]</sup> Morrison Foerster. (2025). Global VC terms report (2025 edition).

<https://www.svca.org/sites/default/files/2025->

[11/MoFo%20Global%20VC%20Terms%20Report%202025.pdf](https://www.svca.org/sites/default/files/2025-11/MoFo%20Global%20VC%20Terms%20Report%202025.pdf)

<sup>[9]</sup> *Halpin v. Riverstone National, Inc.*, C.A. No. 9796-VCG (Del. Ch. Feb. 26, 2015).

relevant to startup/unicorn exits, because minority shareholders may be compelled to liquidate their positions only if the contractual notice, timing, approval, and disclosure requirements are all complied with.

Manti Holdings, LLC v. Authentix Acquisition Co., Inc., 261 A.3d 1199.<sup>[10]</sup> presents a meaningful case regarding the enforceability of exit waivers in private company agreements. The waivers were found to be enforceable, in this case, as the Delaware Supreme Court ruled in favor of the appraisal-rights waivers in the stockholders' agreement, which was affirmed to be sophisticated and counseled. For the unicorn shareholders, the case advocates the necessity to consider exit rights at the time the investment is made, not merely at the time the merger or sale is proposed. A minority shareholder who accepts a clear waiver or a drag-related duty may ultimately discover that the contractual agreement constrains his/her statutory exit rights. Anti-dilution clauses, as a minority protection mechanism, tend to be the most controversial, as they protect one minority group against the interests of others. In most developed venture capital markets, broad-based weighted-average anti-dilution is the standard, while full-ratchet protection is the exception and viewed as much more favorable to investors. Morrison Foerster's 2025 global comparison finds broad-based weighted-average protection as the standard position in the markets of the United States, Singapore, Hong Kong, the United Kingdom, Israel, and Germany, while full-ratchet provisions are still rare outside special circumstances (Morrison Foerster, 2025).<sup>[11]</sup> Chambers' 2025 India Venture Capital Guide finds that, in India, broad-based weighted-average anti-dilution is the general standard, even with full-ratchet clauses being expected in some cases. Severely anti-dilutive rounds are viewed in a very critical light, as they stand to substantially redistribute value among shareholders and, in particular, to employees.

A helpful case to understand dilution and control-shifting deals is the Supreme Court case of Needle Industries (India) Ltd. v. Needle Industries Newey (India) Holding Ltd., (1981) 3 SCC 333.<sup>[12]</sup> The case touches principally upon the role of rights issues and share allotment as a mechanism of control. The Court, in shaping the relief according to the actual prejudice proved, stated that a share issue as a device should not be aimed at putting in one's control/large/superior unfair/right control. For the case of venture financing, it backs the

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<sup>[10]</sup> Manti Holdings, LLC v. Authentix Acquisition Co., Inc., 261 A.3d 1199 (Del. 2021).

<sup>[11]</sup> Morrison Foerster. (2025). Global VC terms report (2025 edition).

<https://www.svca.org.sg/sites/default/files/2025-11/MoFo%20Global%20VC%20Terms%20Report%202025.pdf>

<sup>[12]</sup> Needle Industries (India) Ltd. v. Needle Industries Newey (India) Holding Ltd., (1981) 3 SCC 333.

position that if rights issues, down rounds, and anti-dilution adjustments are made, they should be backed by a sound corporate rationale, a fair/proper opportunity, and a demonstrable purpose.

#### **4. Statutory and remedial frameworks: from ex ante contract to ex post enforcement**

Contracts are the fundamental building blocks for minority protection in venture-backed companies. However, contracts alone are insufficient. When contracts break down, documents are interpreted in a selective manner, and insiders exploit their informational edge, there is no other option but to rely on statutory remedies. In the ongoing debates regarding the governance of startups, the legal systems of India, the UK, and Delaware remain the most pertinent. Each system provides a distinct framework of remedies.

In India, provisions under Section 241 and 244 of the Companies Act, 2013<sup>[13]</sup> allow members to file a complaint when the business of the company is conducted in a manner biased or oppressive to a member, or members, or prejudicial to the company. These provisions are subject to certain thresholds or waivers granted by the Tribunal. This provision is helpful for startups as it addresses the more nuanced issues of governance, beyond mere procedural irregularities. This is why the Indian remedy of oppression and mismanagement can be pertinent, as in many cases of venture equity, while the governance of startups may be formally documented, it is in substance unfair. Unfortunately, many startups would opt for a negotiated settlement over Tribunal litigation, especially when the startup is under time constraints in relation to its fundraising.

Dale and Carrington Investment Pvt. Ltd. v. P.K. Prathapan, (2005) 1 SCC 212<sup>[14]</sup> is an Indian case example, in which complainants can bring suits when shares are issued to new shareholders in a way that alters control. The Supreme Court took a selective allotment of shares to the managing director, who became a majority shareholder, and the complainant shareholders, who were then a minority, as a case of a lack of proper purpose and fair procedure. In case of startups, the principle can be applied to insider allotments, founder-friendly issuances, and recapitalizations, which would dilute angels, employees, or early investors, in the absence of bona fide corporate purpose and transparent process.

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[13] India Code. (2026). Section 241 of the Companies Act, 2013. [https://www.indiacode.nic.in/show-data?actid=AC\\_CEN\\_22\\_29\\_00008\\_201318\\_1517807327856&orderno=245&sectionId=49167&sectionno=241](https://www.indiacode.nic.in/show-data?actid=AC_CEN_22_29_00008_201318_1517807327856&orderno=245&sectionId=49167&sectionno=241)

[14] Dale and Carrington Investment Pvt. Ltd. v. P.K. Prathapan, (2005) 1 SCC 212.

The ruling from the Supreme Court of India in the case of *Tata Consultancy Services Ltd. v. Cyrus Investments Pvt. Ltd.*, (2021) 9 SCC 449<sup>[15]</sup> illustrates the boundaries of the remedy for oppression and mismanagement in relation to concerns described under Sections 241 and 242 of the Companies Act, 2013, which, in these scenarios, would be explained as the scope of the judiciary for the intercession of remedy, as regards to oppression and mismanagement. The court refrained from classifying every commercial conflict, diminished management position, loss of control, or conflict within the boardroom as oppression. The case also illustrates that for both startups and unicorns, the remedy for chief oppression cannot be based solely on dissatisfaction in relation to competitive strategies, valuation, and management transition, or the timing of the strategic exits. This clarifies the boundaries of litigation in order to resolve governance disputes within the context of the emergency in minority protection.

The topic of unfair prejudice is approached quite differently in the UK through Section 994 of the Companies Act 2006.<sup>[16]</sup> This is a particularly significant remedy in a private-company context, as the court can examine the unfairly prejudicial conduct of the company, and injunctions for buy-outs are a common remedy. In terms of clarity, the UK indicates to minority stakeholders of toddler firms that the issue is not as simple as rights being offended. For clarity of minority shareholders, the UK context looks at conduct, expectation, and prejudice. This is quite comprehensive for cases of management or information exclusion, and manipulation of the company's constitutional arrangement in partnership/quasi partnership or venture capital contexts. For minority shareholders of private firms, Delaware takes a more procedural and fiduciary stance. Shareholders can use their inspection rights under Section 220 of the Delaware General Corporation Law<sup>[17]</sup> to obtain the company's books and records for a proper purpose and can also use them to value the company's equity and to examine management. As such, Delaware's system of oppression is quite strong but not as strong as India and the UK.

English unfair-prejudice case law adds a necessary equitable dimension to startup minority protections. *Ebrahimi v. Westbourne Galleries Ltd.* [1973] AC 360<sup>[18]</sup>, established that strict legal rights may be modified by equitable considerations when a company functions as a

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<sup>[15]</sup> *Tata Consultancy Services Ltd. v. Cyrus Investments Pvt. Ltd.*, (2021) 9 SCC 449.

<sup>[16]</sup> Legislation.gov.uk. (2026). Companies Act 2006, section 994.

<https://www.legislation.gov.uk/ukpga/2006/46/section/994/data.html>

<sup>[17]</sup> Delaware Code Online. (2026). Title 8 corporations. <https://delcode.delaware.gov/title8/Title8.pdf>

<sup>[18]</sup> *Ebrahimi v. Westbourne Galleries Ltd.* [1973] AC 360.

quasi-partnership and a shareholder exclusion of participation has occurred, in contradiction to the context of mutual trust. *O'Neill v. Phillips* [1999] 1 WLR 1092<sup>[19]</sup>, argued further that unfairness and prejudice, in such contexts, occur in the scope of equitable principles as opposed to disappointment of, or breach of, informal expectations. The two cases have significant implications for founder-led startups, because early shareholders, in many cases, the only means they have of participation and the only means of informal assurances, rely on mutual trust, even when the company evolves to function on formal instruments of corporate governance.

The lesson learned should implement two-step logic for minority protections in startups. First, governance documents should articulate a substantial minimum. Second, law must protect against breaches or manipulations after the documents are created. Having either element is not enough. A strong law, absent disclosure rights, is costly. A shareholder agreement, lacking and a remediable law, is at risk of noncompliance.

## **5. What the latest market data reveals about minority-shareholder risk**

The most recent evidence suggests minority rights are influenced by law and financial conditions. Poor or turbulent market conditions favour down rounds, recapitalizations, and insider-led and/or selective liquidity transactions. A strong market may signal the absence of overtly negative deal terms, but increases governance asymmetry as the demand for governance outpaces the supply.

In 2025, the global VC showed growth in capital concentration. Total funding increased significantly, but the number of deals decreased. This signals the market supports only the perceived winners in the long-tail of VC funded companies. Capital concentration provides only marginal power as it puts weaker companies in a position of accepting term sheets with new and/or inside investors. The minority-protection problem is not a simple cyclical issue but changes depending on the financial conditions of the company in question.

Exposing the dangers of down rounds and Cooley's 2025 financing reports provide insightful commentary about the structure of downsides. 2025 saw improved round mix throughout the year. Up rounds rose to 79.7% from 73% in Q1, while down rounds fell from 21% to 12.8% in Q4. This period continued to showcase pay-to-play, redemption provisions, and preference terms. Q2 2025 reported pay-to-play reaching 10.1% of all reported deals, the highest in the reports' history, and Q3 figures remained just as high. Although liquidation preferences, in Q3, were company-friendly at 1x and non-participating, stress protection terms continued to

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<sup>[19]</sup> *O'Neill v. Phillips* [1999] 1 WLR 1092.

provide minority holders firm, weak-bargaining protection layers against selective value transfers.<sup>[20]</sup>

recapitalizations is In re Nine Systems Corp. Shareholders Litigation, 2014 WL 4383127 (Del. Ch. Sept. 4, 2014)<sup>[21]</sup>. The Court of Chancery looked into a recapitalization that diluted minority holders and called out the blatant lack of disclosure, routine meetings, and a transparent process. This case is significant in that it shows that a valuation alone does not equal fairness; even when a price is seemingly defensible, a process that is grossly inadequate and poor can instill concern in a fiduciary. This line of thinking is especially useful when discussing recapitalizations of a startup, insider-led financings, pay-to-play rounds, and monopolistic transactions whereby the minority investors would not be extended the same information as the insider investors.

Carta's 2025 Private Markets reports demonstrate that the market is tougher and, most importantly, slower. For Q1 2025, Series A dilution fell to 17.9% from a 20.9% year earlier. Carta is also reported a record 401 seed rounds for Q1 2025, a 28% year-on-year decline, and a record 2.8-year median period from Series A to B. In Q1, Carta defined success in a lower dilution/seed financing, a rare record. Minority protections firm, weak-bargaining layering. These protections are reflected in revealed value transfers.<sup>[22]</sup>

Liquidity data is just as significant. Carta estimates that from July 2024 and June 2025, VC secondaries will amount to USD 61.1 billion. During the same period, VC-backed IPOs will reach USD 58.8 billion. Secondaries will be the primary exit mechanism. Tender equality, information parity, and board oversight for pricing and conflicts of interest will be critical for balancing the interests of selling founders, selling employees, and buying employees. Secondaries reduce lock-ins, but without balance will result in an 'insider-first' selective liquidity market.<sup>[23]</sup>

The same is true for India, but in a different manner. In 2025, Blume Ventures reports that the issuances of 21 PE/VC backed IPOs generated liquidity (post listing trading value) of more than ₹76,000 crore on the exchanges, with a total value of ₹3.6 lakh crore (as of issue price)

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<sup>[20]</sup> Cooley LLP. (2025, May 9). Q1 2025 venture financing report; Cooley LLP. (2025, August 12). Q2 2025 venture financing report; Cooley LLP. (2025, November 3). Q3 2025 venture financing report; Cooley LLP. (2026, February 9). Q4 2025 venture financing report.

<sup>[21]</sup> In re Nine Systems Corp. Shareholders Litigation, 2014 WL 4383127 (Del. Ch. Sept. 4, 2014).

<sup>[22]</sup> Carta. (2025, May 13). State of private markets: Q1 2025. <https://carta.com/data/state-of-private-markets-q1-2025/>

<sup>[23]</sup> Carta. (2025, December 1). How VC secondaries became 'release valve' for startup liquidity pressures. <https://carta.com/data/vc-secondary-trends-q2-2025/>

on the listing date. This also indicates that IPOs are moving towards being liquidity events for the investors of the PE/VC firms rather than providing primary capital to the exchanges. This form of a partial liquidity event will place greater responsibilities on the Inter-Institutional Instable (III) in SEBI, and governance of the board and shareholders for the SEBI, to manage the balance in the exit sequences of the shareholders.<sup>[24]</sup>

## 6. Minority protection in the unicorn phase

The content of minority rights changes as firms progress from early rounds to later stages with "unicorn" valuations. In early stages, investors focus on governance rights and downside limits. In later stages, investors focus on treatment in proportion to size, liquidity, and control. New issues arise at this later stage.

The first issue is board institutionalization. As firms reach a "unicorn" valuation, informal control by founders cannot be justified. The number of stakeholders increases, the extent of employee equity increases, and the extent of regulatory oversight increases. Majumdar's studies of Indian unicorn firms found that scaling firms gradually argue that closed insider governance systems are mooted and that equity becomes diversified, managers are professionalized, and rights become more positive concerning managers. This is a constructive movement. However, in this case, improvement is likely to be incremental. Increased board independence is a necessary but not sufficient condition to ensure that lead investors, founders, and management relinquish their asymmetric advantages.<sup>[25]</sup>

The second issue is preference overhang. A unicorn firm can appear to be a success, but in the process, a number of successive rounds of financing can complicate the hierarchy of liquidation rights and cause a layering of participation legal clauses, pay-to-play conditions, and preemption rights. In that, the sale or merger of the company, a tender offer, or an IPO can create a different dissolution value to different classes. Therefore, preference overhang creates a presumption of minority oppression, establishing a preference for disclosure in the terms of exit versus dampening minority interests in preference for disclosure.

Preference overhang was also illustrated in the Delaware Court of Chancery case *In re Trados Inc. Shareholder Litigation*, 73 A.3d 17 (Del. Ch. 2013). In this case, the Court found that the merger consideration was structured in such a manner that the preferred stockholders and

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<sup>[24]</sup> Blume Ventures. (2026, February 2). India's exit environment in 2025: A structural change, not a cyclical spike. <https://blume.vc/reports/indias-exit-environment-in-2025-a-structural-change-not-a-cyclical-spike>

<sup>[25]</sup> Majumdar, A. B. (2025). The corporate governance of Indian unicorns. SSRN. <https://ssrn.com/abstract=5404045>

management received consideration, while the common stockholders received nothing. In that case, the venture-capital investors not only held preferred stock but also had influence over the board. Since a merger consideration was offered, the Court analyzed the potential conflicts of interest by applying the entire fairness test. The decision illustrated that an exit at the company level, while completing the goal of venture capitalists, was still not fair to the common minority stockholders with respect to management incentives, board conflicts, and preferences.<sup>[26]</sup>

The third problem is selective liquidity. Founder-led or investor-led secondaries are no longer rare exceptions. They have taken root as a structural element of the private market. While this can lead to positive market trends (retention improvements, the psychological effects of IPO-lust, and longer time horizon alignment), it raises a number of questions of fairness and, most importantly, inequality. The questions are almost endless: Who are the lucky ones who are granted permission to sell at all? Who are the lucky ones who are granted permission to sell at all, and who are the lucky ones who are granted permission to sell at all? What information is sold, and is sold, or is the disclosed information is (until at that moment, of course)? What is to be the order, and what is to be the order, and what is to be the order? It is really a case of a question of inequalities and, most importantly, inequality of inequalities, and inequalities of oppression at the stumps.

The fourth problem is the change in control. Some unicorns attempt to maintain the founder's control while also retaining the founder's vision through a dual class voting control structure, dual class voting control, and dual class voting control Guardian II Shareholder Agreements. Others rely on a change to an investor dominated control structure as an example of an investor dominant control structure. Worries of inequality do not bother us at all; on the contrary, they are a source of great satisfaction (control and investor unilateral control), and the lack of equality of control that can be tolerated depends on how transparent the inequality of control that can be tolerated is.

## **7. A functional protection framework for startups and unicorns**

A comprehensive framework for minority protection in startups and unicorns should be based on these six principles. First, there needs to be a fundamental recognition of information parity. At a minimum, material minority shareholders should be provided regular updates of financial information, updated versions of capitalization tables, be notified of major transactions, and timely updates of financing or secondary processes likely to materially alter

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<sup>[26]</sup> In re Trados Inc. Shareholder Litigation, 73 A.3d 17 (Del. Ch. 2013).

the shareholders' legal rights. Without information parity, substantive rights frequently remain unenforceable, which in practice nullifies rights and protections.

Second, exit arrangements should strike a balance of fairness and sensitivity toward the various classes of shareholders. This should not be understood to mean that all shareholders should receive the same exit return. The venture capital community continues to view risk and return as priorities. However, arrangements will earn legitimacy only if documented, and if substantive differences in treatment are accompanied by procedural correspondences. Drag-along arrangements will provide sufficient protections if the notice, disclosure, and procedural norms of the board are all satisfied. Adequate, equal, and anonymous eligibility rules should govern tenders.

Third, discipline is an increasing demand of the venture community on the anti-dilution clause. Broad-based, weighted-average protections provide an assured compromise on market failures, advocate for a fair environment for all, and, most importantly, do not alter the behavior of unfashionable entrepreneurs and investors. Where the community on the term of the anti-dilution clause is in favor of strong market protection, the lead parties should be committed and/or concerned about the effects of the innovation on the venture capital and long-term market sustainability's.

Fourth, the scope of reserved matters is a reflection of their materiality. Overall, minority protection will neither be enhanced if the scope is materially excessive, nor if it is materially deficient. A reserved-matters list is particularly meaningful as a protection against opportunistic structural changes. The balance in that case may be particularly positive if the list includes materiality thresholds and is governed by a time horizon coupled with a staged adjustment.

Fifth, ex post measures should be upheld and should not be waived to irrelevance. Shareholder agreements should not be written assuming disputes will be solved through private negotiations among sophisticated parties. Startups often have less sophisticated stakeholders, including employees and angels. In situations of acute governance failure, remedies of statutory rights, inspection rights, and derivative and unfair prejudice relief claims become important accountability measures.

This case law shows that ex post remedies ought to be readily available even when shareholders are perceived as sophisticated contracting parties. In *Manti Holdings, LLC v. Authentix Acquisition Co., Inc.*, 261 A.3d 1199 (Del. 2021), waivers of appraisal rights in a stockholders' agreement were upheld, but there still exists a broad line of cases in Delaware that review fiduciary duty in cases of alleged conflicts, disclosure deficits, or intentional

wrongdoing. For this reason, starting a draft of a startup agreement should avoid the attitude that all remedies of accountability can be privately contracted away. The draft should explain, at a minimum, what is being waived, what the approval process of the exit is, and what the minimum disclosure should be to the minority shareholders.<sup>[27]</sup>

Sixth, unicorn governance should incorporate logic of transitions. Governance rights should be updated as companies progress from seed to growth to unicorn status to IPO. While governance rights may be justified in early-stage companies, these rights can significantly disrupt large, late stage companies. Governance rights that are justified in early stage companies can be very disruptive in late-stage private firms. Conflict can be reduced and treatment of minority shareholders made more predictable through periodic governance resets, which are updated by the board and made public to the shareholders.

## 8. Tables and charts

The recent tables and graphs integrate the latest market and legal indicators on the protection granted to minority shareholders in the contexts of startups and unicorn firms. Each table and graph has an accompanying short commentary intended to fuse the data with the legal reasoning articulated previously.

**Table 1. Comparative venture-market protections affecting minority holders in key jurisdictions. (2025 position)**

Protection issue	United States	United Kingdom	Singapore / wider Asia	India
Redemption rights	Rare; typically special situations only	Rare; optional in model docs but unusual in practice	Rare in standard VC financings; more investor-favourable in some Asian markets	Commonly negotiated in India, but usually time-bound and heavily negotiated; often linked to specific events
Anti-dilution standard	Broad-based weighted average is market standard	Broad-based weighted average is market standard; full ratchet rare	Broad-based weighted average customary	Broad-based weighted average generally accepted standard; full ratchet sought but less typical
Protective provisions/ vetoes	Reserved matters common but usually calibrated	Reserved matters common, more company-balanced	Greater veto power more common than in US/UK	Affirmative rights over financing, charter changes, borrowings, and exit actions are common

<sup>[27]</sup> Manti Holdings, LLC v. Authentix Acquisition Co., Inc., 261 A.3d 1199 (Del. 2021).

Transfer protection	ROFR, co-sale, drag/tag rights common	Pre-emption and drag/tag widely used	ROFR/co-sale common; pre-IPO restrictions stronger in some markets	Pre-emption, tag-along, drag-along, and transfer restrictions commonly embedded in SHA/AOA
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**Interpretation:** The comparative picture suggests that minority protection in venture capital backed firms varies considerably across jurisdictions. In the US and UK there’s an overall reluctance to accept strong redemption rights and full-ratchet terms as a standard in deals. In parts of Asia, however, the legal stance is more pro-investors. India’s comparative model is that standard legal venture capital documents contain significant rights to investors. However, recent practices favor weighted-average anti-dilution, rather than the more extreme protection. This is indicative of the fact that the protection of startup minorities is a function of both provisions and negotiated contractual practices.<sup>[28]</sup>

**Table 2. US venture-financing downside terms and round quality across. 2025**

Quarter	Up rounds	Down rounds	Deals with pay-to-play	1x liquidation preference	Non-participating preferred	Redemption provisions
Q1 2025	73.0%	21.0%	8.8%	94%	95%	2.8%
Q2 2025	72.4%	20.5%	10.1%	98%	95%	4.2%
Q3 2025	76.6%	19.9%	10.1%	95%	97%	—
Q4 2025	79.7%	12.8%	6.3%	98%	96%	1.8%

**Interpretation:** By the end of 2025, the trend was improving so-called healthier rounds, whereby up rounds were increasing and down rounds were decreasing. Nevertheless, caution must be exercised in interpreting minority-friendliness. For the first half of the year, pay-to-play was high, and the discipline of liquidation preference did not manage to relieve the pressure against the weaker shareholder classes. Selective stress terms and headline recovery seem to describe the market. Minority shareholders in the most precarious firms have high asymmetric bargaining power.<sup>[29]</sup>

<sup>[28]</sup> Morrison Foerster. (2025). Global VC terms report (2025 edition).

<https://www.svca.org.sg/sites/default/files/2025-11/MoFo%20Global%20VC%20Terms%20Report%202025.pdf>

<sup>[29]</sup> Cooley LLP. (2025, May 9). Q1 2025 venture financing report; Cooley LLP. (2025, August 12). Q2 2025 venture financing report; Cooley LLP. (2025, November 3). Q3 2025 venture financing report; Cooley LLP. (2026, February 9). Q4 2025 venture financing report.

**Table 3. Latest scale indicators for the startup and unicorn economy.**

Indicator	Latest figure	Source
Global unicorn ecosystem, 2025	1,290 active unicorns	WIPO 2026
Global unicorn valuation, 2025	USD 5.2 trillion	WIPO 2026
New unicorns in 2025	Close to 100	WIPO 2026
US active unicorns	718	WIPO 2026
China active unicorns	158	WIPO 2026
India active unicorns	66	WIPO 2026
Global VC funding, 2025	USD 469 billion	BVK 2026
Global VC deals, 2025	Around 29,500	BVK 2026

**Interpretation:** The data shows minority-shareholder issues are not limited to small private companies anymore. Unicorns encompass a large private value pool, and venture markets continue to concentrate significant resources to a small number of firms. Thus, poor governance in this area has a substantial impact on employee wealth, institutional investment, and the validity of private capital markets.<sup>[30]</sup>

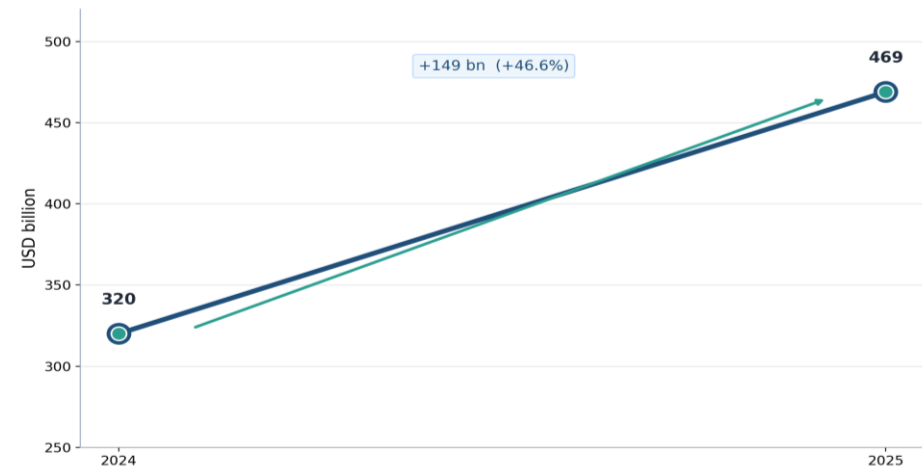
**Table 4. Liquidity, dilution, and financing selectivity: current indicators affecting minority holders.**

Indicator	Latest figure	Source
Series A dilution (Q1 2024 to Q1 2025)	20.9% to 17.9%	Carta 2025
Seed rounds closed in Q1 2025	401	Carta 2025
Median wait from Series A to Series B	2.8 years	Carta 2025
VC secondary transaction value, Jul 2024-Jun 2025	USD 61.1 billion	Carta 2025
VC-backed IPO value, Jul 2024-Jun 2025	USD 58.8 billion	Carta 2025
India PE/VC-backed IPO issue value in 2025	₹52,514 crore	Blume 2026
India PE/VC-backed liquidity in 2025	₹76,000+ crore	Blume 2026

**Interpretation:** The market members that represent deals have ambiguous information about the value of their Series A deals. If they have a successful series a raise, founders and common holders benefit from less dilution as a result of the Series A caps. However, founders and common holders lose from the drop-in series seed activity and the longer waiting period until a series B, as a result of less accessible successful deals. The secondaries now value deals at a higher rate than what a VC backed IPO would be valued at, meaning

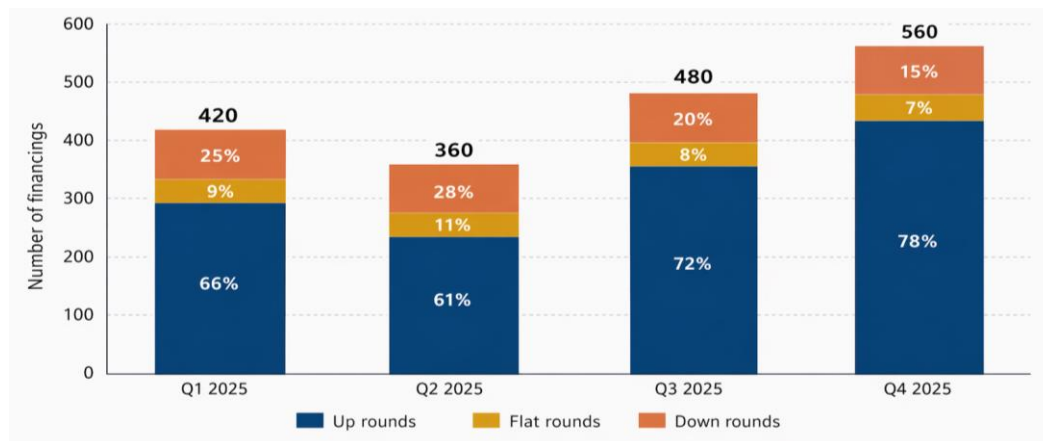
<sup>[30]</sup> World Intellectual Property Organization (WIPO). (2026, February 2). Global unicorn valuation reaches USD 5.2 trillion in 2025; Bundesverband Beteiligungskapital (BVK). (2026). 2025 Global venture capital: Entering the next growth cycle.

that minority protection needs to accommodate private market liquidity designs and not be restricted to an IPO or a sale at the end.<sup>[31]</sup>



**Chart 1. Global venture capital funding, 2024-2025.**

**Interpretation:** The increase from USD 320 billion to USD 469 billion shows that capital availability had a strong recovery in 2025. However, the recovery should not be interpreted as a broad-based easing of governance risk. When capital is focused in a smaller number of companies, investors have a greater advantage over weaker issuers, and minority protections in companies that are not among the top tier become more substantial.<sup>[32]</sup>



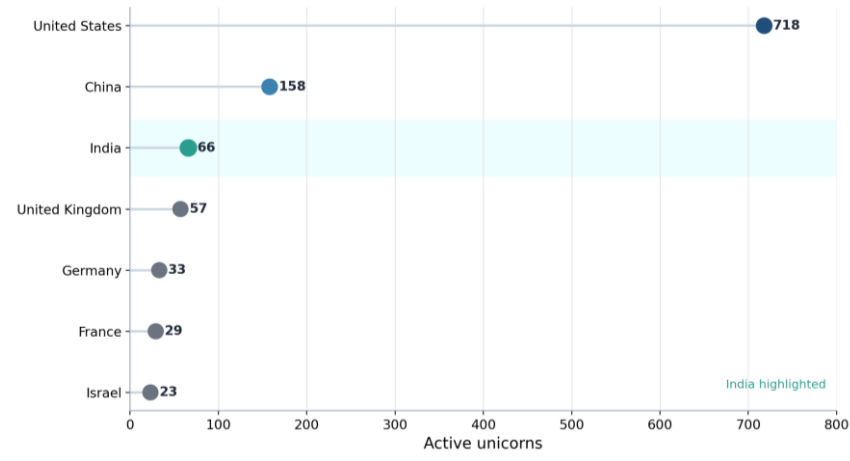
**Chart 2. US venture financing round mix across 2025.**

<sup>[31]</sup> Carta. (2025, May 13). State of private markets: Q1 2025; Carta. (2025, December 1). How VC secondaries became ‘release valve’ for startup liquidity pressures; Blume Ventures. (2026, February 2). India’s exit environment in 2025.

<sup>[32]</sup> Bundesverband Beteiligungskapital (BVK). (2026). 2025 Global venture capital: Entering the next growth cycle.

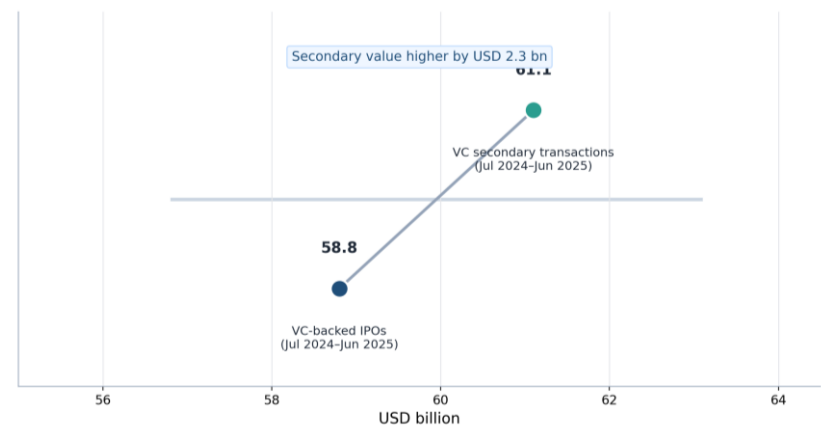
[https://www.bvkap.de/files/content/Studien/Studien%202026/20260126\\_BVK%20Global%20Venture%20Capital%20report%202025\\_FINAL.pdf](https://www.bvkap.de/files/content/Studien/Studien%202026/20260126_BVK%20Global%20Venture%20Capital%20report%202025_FINAL.pdf)

**Interpretation:** Q4 shows an increase in both financing activity and the share of up rounds. Q2 indicates the weakest performance, characterized by lower overall deal activity and a higher share of down rounds. The year-end pattern demonstrates rising market confidence.<sup>[33]</sup>



**Chart 3. Leading economies by active unicorn count in 2025**

**Interpretation:** Minority protection is concerned with the distribution of unicorns across geographies. As it stands today, in counting active unicorns, the US, China, and India lead and the relative governance structures of a handful of jurisdictions define the treatment of private-market wealth for the majority of players. As a result, minority protection in these ecosystems is of great importance.<sup>[34]</sup>



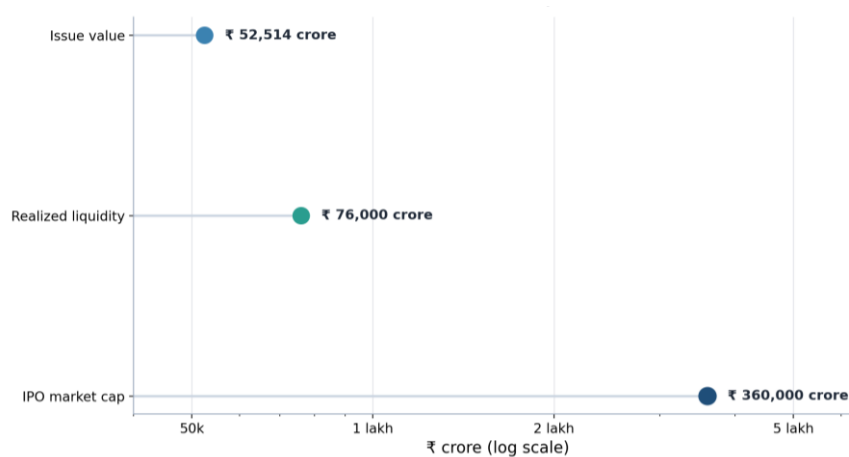
**Chart 4. Private-market liquidity channels available to startup holders.**

<sup>[33]</sup> Cooley LLP. (2026, February 9). Q4 2025 venture financing report: Up and flat rounds increased; recapitalization, pay to play and redemption decreased.

<https://www.cooley.com/news/insight/2026/2026-02-09-q4-2025-venture-financing-report>

<sup>[34]</sup> World Intellectual Property Organization (WIPO). (2026, February 2). Global unicorn valuation reaches USD 5.2 trillion in 2025. <https://www.wipo.int/en/web/global-innovation-index/w/blogs/2026/global-unicorn-valuation-2025>

**Interpretation:** That secondary transaction value surpassed VC-backed IPO value during the timeframe demonstrates that private-market liquidity is a dominating governance arena. As such, protection of minority shareholders must encompass the specifics of secondary transaction rights regarding tender equality, sales, transparency compliance, and management of conflicts of interest.<sup>[35]</sup>



**Chart 5. India PE/VC-backed public-market exit indicators, 2025**

**Interpretation:** India's 2025 indicators show public markets re-establishing themselves as liquid channels for venture-backed firms. However, the huge imbalance between issue price and overall market capitalization highlights the repercussions that conditional power over timing, offer-for-sale, and shareholder sequencing can have on minority holders<sup>[36]</sup>

## 9. CONCLUSION

The protection of minority shareholders in startups and unicorns has emerged as a prominent field and is important to how most modern innovative companies distribute power, gather investment, and convert farcical paper valuations into real world money. The current market environment explains why this has become important, as venture funding has returned, unicorn valuations have again risen, exit channels have become available, and still, capital continues to be concentrated and liquidity selective. In this environment, minority risk does not go away, even with company growth, and instead, it changes. The company law question of majority oppression is increasingly important, especially in India and the UK. Yet, the

<sup>[35]</sup> Carta. (2025, December 1). How VC secondaries became ‘release valve’ for startup liquidity pressures. <https://carta.com/data/vc-secondary-trends-q2-2025/>

<sup>[36]</sup> Blume Ventures. (2026, February 2). India’s exit environment in 2025: A structural change, not a cyclical spike. <https://blume.vc/reports/indias-exit-environment-in-2025-a-structural-change-not-a-cyclical-spike>

distinct challenge in venture-backed companies is that most decisive protection mechanisms tend to be contractual and procedural in nature, as opposed to purely statutory. The minority rights are defined by information rights, governance rights, and rights that relate to the mechanisms of the creation of the capital, the formation and the configuration of the board, the assignments of the shares, and the timing and the order of the liquidity events. This is the reason why a legal analysis of the rights is not enough. To have an impact, one must combine elements of corporate law, venture market, and governance.

The optimal protection model is hybrid. It relies on ex ante contracting to mitigate avoidable harm and ex post contracts to remedy abuse caused by fraudulent reconstruction or procedural collapse. It is acceptable for different categories of shareholders to have differing economics, provided this is done transparently and fairly. It should seek to design greater liquidity not just for insiders and, tellurically, treat unicorn transition as a governance phenomenon, rather than a valuation milestone. Protective principles are necessary for minority shareholders of startups and unicorns to become protected agents of contributors in the innovation economy, rather than exposed economically vulnerable participants.

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