RESOLVING SALES AND LEGAL CONFLICT IN INDIAN STARTUPS

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ABSTRACT

When a startup is ready to close a deal, a legal objection can appear to threaten the very growth it is meant to protect. This article examines why sales and legal can repeatedly disagree over contractual commitments and what a chief executive can change. Drawing entirely on secondary research, it integrates scholarship on incentives, organisational authority, conflict, contracting and working capital with Indian legal and institutional sources. It argues that the appropriate response depends on the source of disagreement: missing information, conflicting incentives, a legal or resource constraint, or limited bargaining power. These problems require different responses; escalating every disputed clause to the founder can conceal rather than resolve them. The article proposes proportionate review, explicit trade-offs and responsibility beyond signature. Its contribution is a diagnostic framework connecting the cause of conflict to the intervention, with three propositions for further evaluation. The framework seeks to preserve useful legal challenge while reducing avoidable friction. It does not establish how frequently such conflict occurs or demonstrate that the proposed approach improves startup performance.

Keywords: Indian startups; sales and legal; deal closure; contractual risk; organisational conflict; secondary research.

Introduction

Consider a hypothetical service startup approaching a customer's signing deadline. Sales has negotiated the price and sees a valuable account. Legal objects to open-ended liability and payment dependent on customer acceptance. The founder is asked to choose between closing the deal and protecting the company. Yet the apparent choice conceals several questions: what can realistically go wrong, can the startup carry the exposure, and would further negotiation change the customer's position?

This article asks how Indian startups can reconcile sales urgency with legal risk assessment without excessive delay or commitments they cannot manage. Bagley's legal astuteness framework treats collaboration with counsel as a managerial capability.[1] Proactive law similarly connects contracting with prevention and relationship development.[2] These perspectives support cooperation, but cooperation alone does not specify what to do when the teams remain reasonably divided.

The argument is that recurring disagreement should be diagnosed before it is escalated. An information gap, conflicting incentives, a binding constraint and customer bargaining power require different interventions. The contribution is to connect those causes with proportionate responses and their limitations. The focus is private startups negotiating business contracts, particularly service and technology suppliers; sector licensing, consumer contracts and insolvency require separate analysis.

Research approach

This integrative conceptual review draws on Jaakkola's approach to theory synthesis[3] and Snyder's account of literature reviews.[4] Searches and verification on 9 October 2026 covered publisher records, university repositories and official Indian portals. Queries concerned organisational authority, contractual governance, conflict, trade credit, MSMED delayed payments and RBI TReDS Directions. Exact-title searches checked references and located

[1] Constance E. Bagley, *Winning Legally: The Value of Legal Astuteness*, 33 Acad. Mgmt. Rev. 378 (2008).
[2] Helena Haapio & Gerlinde Berger-Walliser, *From Concept to Practice: A Snapshot of Proactive Law After 25 Years*, 15 TalTech J. Eur. Stud. 3 (2025).
[3] Elina Jaakkola, *Designing Conceptual Articles: Four Approaches*, 10 AMS Rev. 18 (2020).
[4] Hannah Snyder, *Literature Review as a Research Methodology: An Overview and Guidelines*, 104 J. Bus. Rsch. 333 (2019).

accessible author versions.

The 40-source set comprises 29 scholarly works, two international governance publications and nine Indian official sources. English-language sources were selected purposively for relevance, without a publication-year exclusion; duplicate versions and unsourced business commentary were excluded. The synthesis compares mechanisms, evidence and applicability. Original texts and accessible author versions support the central analysis; abstract-only evidence is limited to expressly reported claims. Statutes and judgments establish legal boundaries, while empirical associations and conceptual arguments inform the proposed explanations. No interviews, employment experiences or company records were used. Illustrations are hypothetical. This is neither an exhaustive systematic review nor evidence of the prevalence of conflict in Indian startups.

Why the same disagreement returns

A signature can settle an argument without resolving its cause. Fama and Jensen distinguish initiating and implementing decisions from ratifying and monitoring them, while recognising that small organisations may combine these functions.[5] Aghion and Tirole distinguish formal authority from effective control: information, overload and urgency influence whose recommendation prevails.[6] A founder who approves an exception without understanding its assumptions supplies formal permission, but limited substantive scrutiny. Requiring founder approval for every deviation can reproduce this problem at a larger scale.

Incentives supply another explanation. Agency theory examines choices made by agents who do not bear all their consequences.[7] Holmström's discussion of multitasking[8] and Baker's performance-measurement analysis[9] explain why rewarding a visible output can neglect less measurable objectives. Applied to deal closure, a sales target based only on bookings may underweight collection and delivery costs. Conversely, judging legal solely by the absence of exceptions may encourage excessive caution. These are theoretical mechanisms, not measured

[5] Eugene F. Fama & Michael C. Jensen, *Separation of Ownership and Control*, 26 J.L. & Econ. 301, 303–08 (1983).
[6] Philippe Aghion & Jean Tirole, *Formal and Real Authority in Organizations*, 105 J. Pol. Econ. 1, 1–5, 25–26 (1997).
[7] Michael C. Jensen & William H. Meckling, *Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure*, 3 J. Fin. Econ. 305 (1976).
[8] Bengt Holmström, *Pay for Performance and Beyond*, Nobel Prize Lecture (Dec. 8, 2016) (discussing multitasking and performance measurement).
[9] George P. Baker, *Incentive Contracts and Performance Measurement*, 100 J. Pol. Econ. 598 (1992).

characteristics of Indian startups. Their implication is that instructions to cooperate can fail when departmental success is defined differently.

The teams may also lack a shared account of the transaction. Carlile distinguishes transferring information from translating meanings and transforming knowledge where interests differ.[10] "Payment after acceptance" can mean an invoicing arrangement to sales, a funding gap to finance and an undefined trigger to legal. Exchanging another marked-up draft may not resolve that difference. The useful intervention is to identify who confirms performance, what evidence triggers payment and how the company funds the interval.

The diagnostic distinction matters. Missing facts call for clarification; competing incentives call for explicit trade-offs. A legal prohibition requires redesign or refusal. A resource constraint requires a feasible funding or delivery response. Customer refusal to negotiate creates a choice among remaining alternatives. Treating all five situations as legal being difficult directs managerial effort at the wrong problem.

When legal challenge helps and when it delays

Disagreement is not automatically productive. De Dreu and Weingart's meta-analysis finds negative associations between both task and relationship conflict and team performance.[11] Edmondson links psychological safety with team learning, supporting the ability to raise concerns without personal blame.[12] Neither study demonstrates that unrestricted debate improves contract approvals. A useful challenge names the consequence and the decision it could change. Repeated objections without new information, a feasible alternative or an identified decision owner can instead prolong the discussion.

Nor does contractual detail necessarily undermine trust. Poppo and Zenger find complementarity between formal contracts and relational governance in information service exchanges.[13] Schilke and Lumineau's survey of 171 alliances finds contrasting effects

[10] Paul R. Carlile, *Transferring, Translating, and Transforming: An Integrative Framework for Managing Knowledge Across Boundaries*, 15 Org. Sci. 555 (2004).
[11] Carsten K. W. De Dreu & Laurie R. Weingart, *Task Versus Relationship Conflict, Team Performance, and Team Member Satisfaction: A Meta-Analysis*, 88 J. Applied Psychol. 741 (2003).
[12] Amy Edmondson, *Psychological Safety and Learning Behavior in Work Teams*, 44 Admin. Sci. Q. 350 (1999).
[13] Laura Poppo & Todd Zenger, *Do Formal Contracts and Relational Governance Function as Substitutes or Complements?*, 23 Strategic Mgmt. J. 707 (2002).

associated with control and coordination provisions, mediated by conflict.[14] Different provisions serve different purposes; their observational findings do not establish that more drafting uniformly improves performance. Schepker and colleagues identify coordination and adaptation alongside safeguarding,[15] while Lumineau distinguishes control from coordination and trust from distrust.[16]

For a CEO, this changes the question from how many clauses legal changes to which changes help the transaction work. An acceptance procedure can clarify delivery and payment; an indemnity can transfer exposure. Both deserve review, but for different reasons. Legal should explain a material objection in operational terms and offer feasible alternatives. Sales should provide the commercial consequence of delay. Review should concentrate on uncertainty that can affect the decision, rather than require perfect drafting before every signature.

The deal continues after signature

"We trust the customer" can be relevant without answering every contractual question. Banerjee and Duflo's Indian software-industry research shows that reputation can matter to contractual outcomes.[17] Ryall and Sampson examine formal contracts where relational enforcement also exists.[18] These studies support considering relationships alongside written allocation, rather than choosing one exclusively. They do not establish current startup behaviour.

Contractual learning offers a response to repeated friction. Mayer and Argyres examine how provisions develop within one continuing computer-industry relationship.[19] Argyres, Bercovitz and Mayer find complementarity between task description and contingency planning in 386 IT services contracts.[20] Argyres and Mayer locate contracting capability across

[14] Oliver Schilke & Fabrice Lumineau, *The Double-Edged Effect of Contracts on Alliance Performance*, 44 J. Mgmt. 2827 (2018).
[15] Donald J. Schepker et al., *The Many Futures of Contracts: Moving Beyond Structure and Safeguarding to Coordination and Adaptation*, 40 J. Mgmt. 193 (2014).
[16] Fabrice Lumineau, *How Contracts Influence Trust and Distrust*, 43 J. Mgmt. 1553 (2017).
[17] Abhijit V. Banerjee & Esther Duflo, *Reputation Effects and the Limits of Contracting: A Study of the Indian Software Industry*, 115 Q.J. Econ. 989 (2000).
[18] Michael D. Ryall & Rachelle C. Sampson, *Formal Contracts in the Presence of Relational Enforcement Mechanisms: Evidence from Technology Development Projects*, 55 Mgmt. Sci. 906 (2009).
[19] Kyle J. Mayer & Nicholas S. Argyres, *Learning to Contract: Evidence from the Personal Computer Industry*, 15 Org. Sci. 394 (2004).
[20] Nicholas S. Argyres et al., *Complementarity and Evolution of Contractual Provisions: An Empirical Study of IT Services Contracts*, 18 Org. Sci. 3 (2007).

managers, engineers and lawyers.[21] The practical deduction is to agree realistic positions before repeated negotiations and revise them using subsequent delivery and collection experience. A template cannot compensate for missing operational knowledge.

Payment terms illustrate why closing is only one stage of a deal. Petersen and Rajan analyse trade credit as a financing relationship;[22] Afrifa's UK SME study makes cash availability relevant to working capital investment.[23] Baker and colleagues report a nonlinear association between trade credit and profitability in large Indian listed companies, while cautioning against generalisation.[24] These studies justify examining funding costs and collection uncertainty, without establishing an optimal startup payment period.

In the opening illustration, clearly defining customer acceptance may resolve an information problem. It will not necessarily finance the startup's payroll before payment. Conversely, finance may confirm that a longer payment period is affordable, allowing legal to record the permitted exposure instead of repeatedly arguing for a preferred term. A signed contract can therefore be commercially sensible despite a concession, provided its consequences are understood and manageable.

What Indian law changes

The startup label does not establish entitlement to every small-business protection. DPIIT recognition uses startup eligibility criteria, while MSME classification uses investment and turnover criteria revised from April 2025.[25,26] The categories may overlap. SIDBI's 2025 study covers 2,097 MSMEs across 19 sectors and reports financing and payment constraints; its survey uses the earlier classification.[27] This supplies context for resource pressure, not a

[21] Nicholas Argyres & Kyle J. Mayer, *Contract Design as a Firm Capability: An Integration of Learning and Transaction Cost Perspectives*, 32 Acad. Mgmt. Rev. 1060 (2007).
[22] Mitchell A. Petersen & Raghuram G. Rajan, *Trade Credit: Theories and Evidence*, 10 Rev. Fin. Stud. 661 (1997).
[23] Godfred A. Afrifa, *Net Working Capital, Cash Flow and Performance of UK SMEs*, 15 Rev. Acct. & Fin. 21 (2016).
[24] H. Kent Baker et al., *Trade Credit and Firm Profitability: Empirical Evidence from India*, 27 Int'l J. Fin. & Econ. 3934 (2022) (publisher abstract consulted).
[25] Dep't for Promotion of Indus. & Internal Trade, *DPIIT Recognition and Benefits*, Startup India, https://www.startupindia.gov.in/content/sih/en/startup-scheme.html (last visited Oct. 9, 2026).
[26] Ministry of Micro, Small & Medium Enterprises, Notification S.O. 1364(E), Gazette of India, Extraordinary, pt. II, sec. 3(ii) (Mar. 21, 2025) (effective Apr. 1, 2025).
[27] Small Industries Development Bank of India, Understanding Indian MSME Sector: Progress and Challenges 11, 21–25, 28–29, 368–71 (unabridged ed. June 2025).

representative measure of sales–legal conflict among recognised startups.

The Indian Contract Act separates lawful agreement, compensation and agency. Sections 10 and 23 concern enforceability and lawful consideration or object; sections 73–74 address compensation; sections 186–188 and 237 concern authority and the principal's conduct.[28] Founder approval cannot make an unlawful object lawful, and an internal approval matrix does not automatically defeat an external claim based on authority or representations. The CEO must distinguish negotiable exposure from mandatory law and internal permission from the authority that can bind the company.

Nabha Power limits the implication of terms, including terms contradicting express wording.[29] Kailash Nath explains reasonable compensation under section 74.[30] The implications for closure are specific: critical acceptance and payment conditions should be expressed, and a stipulated damages amount should not be assumed to provide automatic recovery or a universal cap. Remedies, indemnities and exclusions still require examination together.

For eligible suppliers, sections 15–18 of the MSMED Act establish payment obligations, interest and a facilitation mechanism; section 24 gives specified provisions overriding effect.[31] An agreed payment period cannot exceed 45 days from acceptance or deemed acceptance under section 15. Startup recognition alone does not establish eligibility, and a recovery right does not ensure immediate cash. The final RBI TReDS Directions of June 2026 require an unconditional buyer commitment for an accepted factoring unit and financing without recourse to the seller.[32] Financing depends on eligibility, acceptance and an actual transaction; it cannot be assumed for a disputed invoice. Directors' duties and board powers under sections 166 and 179 of the Companies Act frame valid delegation for incorporated startups.[33] Every agreement does not automatically require board approval.

[28] Indian Contract Act, No. 9 of 1872, §§ 10, 23, 73–74, 186–88, 237 (India).
[29] *Nabha Power Ltd. v. Punjab State Power Corp. Ltd.*, (2018) 11 SCC 508, ¶¶ 49–50 (India) (judgment delivered Oct. 5, 2017).
[30] *Kailash Nath Assocs. v. Delhi Dev. Auth.*, (2015) 4 SCC 136, ¶ 43 (India).
[31] Micro, Small and Medium Enterprises Development Act, No. 27 of 2006, §§ 2(n), 15–18, 24 (India).
[32] Reserve Bank of India, *Trade Receivables Discounting System Directions, 2026*, ¶¶ 15(i), 17–20 (June 23, 2026).
[33] Companies Act, No. 18 of 2013, §§ 166, 179(1) (India) (subject to applicable amendments and exemptions).

What the CEO should change

The proposed response begins with diagnosis. Kaplan and Mikes distinguish preventable, strategic and external risks, supporting different responses to different exposures.[34] Before escalation, the teams should identify the disputed term, its consequence, the missing information and the available alternatives. If additional review could establish whether performance is feasible, it is useful. If the customer has definitively refused amendment, another drafting cycle may add little; the decision becomes whether the remaining lawful bargain is commercially sustainable.

Second, define the trade-off. Kahneman and Tversky show how framing gains and losses can affect preferences; March and Shapira examine managerial risk perceptions.[35,36] "Lose the customer" and "accept unlimited risk" can each distort discussion when used without context. Sales should explain value and credible urgency; legal should explain exposure and safeguards; finance and operations should assess funding and deliverability. Unknown probabilities should remain explicit. A plausible adverse scenario and the cost of delay are more useful than unsupported numerical precision.

Third, match review effort to consequences. Routine deals within agreed positions should have delegated routes. Material exceptions should reach an authorised approver with enough information to decide. Triggers should consider exposure, customer concentration, reversibility and capacity, alongside contract value. OECD principles support informed oversight, while the IIA's Three Lines Model distinguishes management responsibility, specialist challenge and independent assurance.[37,38] Their application requires adaptation to startup scale. A small team need not create a committee; it needs access to the relevant knowledge and a decision owner.

Fourth, carry the decision beyond signature. The exception record should identify the concession, commercial rationale, safeguards, approver and implementation owner. Monitoring should cover acceptance evidence, invoicing, disputed balances and conditions

[34] Robert S. Kaplan & Anette Mikes, *Managing Risks: A New Framework*, Harv. Bus. Rev., June 2012, at 48.
[35] Daniel Kahneman & Amos Tversky, *Prospect Theory: An Analysis of Decision Under Risk*, 47 Econometrica 263 (1979).
[36] James G. March & Zur Shapira, *Managerial Perspectives on Risk and Risk Taking*, 33 Mgmt. Sci. 1404 (1987).
[37] Organisation for Economic Co-operation and Development, G20/OECD Principles of Corporate Governance 2023 ch. V (2023).
[38] Institute of Internal Auditors, The IIA's Three Lines Model princs. 2–3 & Applying the Model (2020, updated Sept. 2024).

requiring escalation. Lumineau and Malhotra connect contract structure with dispute-resolution processes; subsequent scholarship examines changing control and trust dynamics.[39,40] Those insights support revisiting arrangements as circumstances change. Repeat exceptions should inform revised contractual positions, rather than become precedent merely because a previous deal was signed.

Performance measures should consequently examine approval time together with the quality of information, collection and implementation. A faster signature achieved by moving unresolved problems downstream is not necessarily an improvement. Equally, a process that repeatedly rejects affordable, lawful concessions can impose an avoidable growth cost.

Propositions and limitations

Three propositions follow. First, diagnosing the source of disagreement before escalation should reduce repeated approval cycles compared with escalating every contested clause, provided the diagnosis is accurate. Second, assessing sales opportunity alongside financial and delivery consequences should improve informed exception acceptance, provided the approver has timely access to that information. Third, converting accepted exceptions into implementation responsibilities should reduce preventable collection and delivery failures, provided the record is proportionate and used. These are deductions for evaluation, not findings.

Published cases or archived secondary records could examine approval cycles, delays, exception rationales and subsequent implementation, accounting for deal complexity and selection effects. The review lacks a representative Indian startup dataset, exhaustive coverage and independent screening. Much of the empirical literature concerns established firms or international relationships. The proposed approach cannot create bargaining power, funding or expertise that the startup lacks. A powerful customer or founder retaining all decisions may limit its effects. Its contribution is a diagnosis linked to an intervention, not proof of a universally superior approval system.

[39] Fabrice Lumineau & Deepak Malhotra, *Shadow of the Contract: How Contract Structure Shapes Interfirm Dispute Resolution*, 32 Strategic Mgmt. J. 532 (2011).
[40] Fabrice Lumineau et al., *Rethinking Control and Trust Dynamics in and Between Organizations*, 60 J. Mgmt. Stud. 1937 (2023).

Conclusion

The CEO's objective should be a workable deal whose consequences the startup can manage. Sales–legal disagreement can identify a real problem, but repeated conflict can also reveal missing information, misaligned incentives or a review process that cannot distinguish an objection from a decision. Responding requires diagnosis before escalation, proportionate scrutiny and accountability after signature.

The article's answer is therefore conditional: clarify information gaps, make competing objectives explicit, respect mandatory constraints and decide knowingly where bargaining options are limited. Indian law sharpens these distinctions because internal permission differs from external authority, payment protections depend on eligibility, and recovery or financing does not guarantee immediate liquidity. Returning to the opening illustration, the founder should decide whether the actual bargain is permissible, funded and deliverable. This connects growth with legal protection through the design of the decision, rather than expecting either department to win every argument.