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AI Governance – A Future-Me Problem?

A Qualitative Study of How Swedish AI Startups Perceive and Navigate AI Governance and Its Implications for Innovation

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Abstract

This thesis examines how Swedish AI startups perceive and navigate AI governance, and how they experience tensions between regulatory compliance and innovation. Motivated by ongoing debates around the EU AI Act and its implications for startups developing and deploying AI systems, the study adopts an exploratory, abductive qualitative research design based on a multiple-case study. Empirical material consists of semi-structured interviews, complemented by public documents, and analysed through thematic analysis. The findings show that AI startups operate under regulatory ambiguity, global competitive pressure, resource constraints, and industry-specific differences in data sensitivity and risk. These conditions shape how AI startups perceive AI governance, which is often understood as a compliance obligation, a source of commercial legitimacy, or as important but deferrable until later growth stages, often simultaneously. These perceptions influence the AI governance practices that AI startups develop, including governance-by-design choices, human oversight in AI workflows, reliance on external infrastructure providers, internal documentation and certification, and contractual responsibility-shifting. These practices emerge as pragmatic strategies for managing uncertainty while maintaining development speed, but they also generate perceived tensions between compliance and innovation through resource allocation burdens, product development constraints, and competitive disadvantages. At the same time, some startups reported that regulation can support innovation by providing guidance and competitive differentiation. The study contributes to literature by showing that governance in AI startups is a context-dependent and interpretive process, and by proposing a conceptual model that captures this interplay.

Keywords: AI Governance, Innovation, AI Startups, EU AI Act, Regulatory Compliance, Regulatory Uncertainty

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1. Introduction

Artificial intelligence (AI) has rapidly become a core strategic capability, reshaping how organisations create value, make decisions, and innovate (Calvano and Calzolari, 2025; Jarrahi, 2018). At its core, AI can be defined as algorithms that learn from data to perform tasks traditionally requiring human judgment (Faraj, Pachidi, and Sayegh, 2018). Firms increasingly integrate AI into products, services, and internal operations to improve efficiency, competitiveness, data-driven decision-making, and large-scale personalisation (Brynjolfsson and McAfee, 2017; Taeihagh, 2021; Taeihagh, 2025; Weber, Beutter, Weking, Böhm and Krcmar, 2022). At the same time, AI has opened new entrepreneurial opportunities, enabling the creation of ventures built around novel value propositions, as reflected in the rapid growth of startups that position AI at the core of their offerings (Chalmers, MacKenzie and Carter, 2021; Obschonka and Audretsch, 2020).

The speed and scale of AI development have intensified concerns related to ethics, accountability, and control, sparking debate over how to govern AI responsibly (Cihon, Schuett and Baum, 2021; Taeihagh, 2025). Growing societal and academic concerns about the risks associated with AI, such as bias, discrimination, privacy violations, and misinformation (Akbarighatar, 2024; Taeihagh, 2025) have fuelled calls for the ethical and responsible governance and use of AI systems (Cath, 2018; Morley et al., 2020; Mäntymäki, Minkkinen, Birkstedt and Viljanen, 2022; Papagiannidis, Mikalef and Conboy, 2025). In this study, *AI governance* is understood in line with prior literature and is defined as the rules, practices, and processes that guide the responsible development, deployment, and monitoring of AI systems, ensuring they operate safely, ethically, and in line with organisational objectives (Schneider, Abraham, Meske and Vom Brocke, 2023; Papagiannidis, Mikalef and Conboy, 2025).

Unlike earlier information technologies (IT), AI systems evolve, adapt, and behave in ways that cannot be fully predicted or controlled, making traditional, top-down static IT governance approaches insufficient (Calvano and Calzolari, 2025; Lee and Petts 2013; Taeihagh, 2021). Governance is further complicated by the fact that actors involved in developing and regulating AI operate with different objectives and contextual constraints, resulting in differing perceptions of risks (Lee and Petts, 2013). These dynamics have led scholars to call for more flexible and adaptive governance frameworks that can evolve

alongside technological change (Calvano and Calzolari, 2025; Schneider et al., 2023; Taeihagh, 2025), a challenge that becomes particularly pronounced in entrepreneurial settings.

Startups are innovation-driven yet resource-constrained, facing high uncertainty and limited capacity to manage governance burdens (Pollman, 2019). Their emphasis on speed, rapid growth and experimentation may conflict with the more procedural and formal demands of governance systems (Lee, Kim and Vaquero Ivan, 2024; Van de Poel, 2020). Under competitive pressures, this tension can intensify into what scholars describe as an AI race, where firms may incentivise cutting corners in governance and compliance in favor of speed and growth (Calvano and Calzolari, 2025; Cave and ÓhÉigeartaigh, 2018; Erdelyi and Goldsmith, 2022). At the same time, emerging studies suggest that governance can enhance legitimacy and trust, thereby supporting market positioning and innovation rather than constraining it (Alshibani, Korayim, Mehrotra and Agarwal, 2025). Together, this reveals a potential tension where governance is necessary for ethical AI, yet may also constrain the agility central to startups' innovation efforts.

This tension is amplified at the regulatory level. Smuha (2021) argues that the global race to develop AI is mirrored by a race to regulate it in which states and regulatory bodies compete to shape the emerging rules of AI governance. Faced with uncertainty about both the societal effects of AI and the risks of acting too early or too late, policymakers operate in a regulatory landscape that requires constant balancing between innovation and protection (Calvano and Calzolari, 2025; Smuha, 2021). The EU AI Act exemplifies this dynamic. Entering into force in 2024 and to be fully implemented by 2027, it represents the first comprehensive framework for trustworthy and safe AI (Cantero Gamito and Marsden, 2024; Marcelin and Killmayer, 2025). Yet, its requirements have sparked concerns regarding its potential to impose disproportionate burdens on smaller developers and startups, potentially stifling innovation and weakening Europe's competitiveness (Calvano and Calzolari, 2025).

Concerns about regulatory burdens on smaller firms are reinforced by evidence from earlier data regulation. Jia, Jin and Wagman (2018), examining the short-run effects of the General Data Protection Regulation (GDPR) on venture investment, demonstrated that younger firms are particularly affected by data regulation, experiencing declines in investment volume, number of deals, and funding per deal. Given that AI development is inherently

data-intensive, startups may face similar vulnerabilities under the EU AI Act, raising questions about how startups will navigate these pressures in practice. This highlights an unresolved question about how AI startups in Sweden perceive and navigate AI governance and how they experience tensions between regulatory compliance and innovation. The research is accordingly guided by the following research question:

> *How do AI startups perceive and navigate AI governance in practice, and how do they perceive tensions between regulatory compliance and innovation within the Swedish context?*

Sweden offers a particularly relevant empirical setting for exploring AI governance in an entrepreneurial context as the country is experiencing a rapidly expanding AI startup ecosystem, described as a "Swedish AI boom" (Hansson Brusewitz and Ek, 2025:1). At the same time, the implementation of the EU AI Act has raised concerns among startup founders, investors, and policymakers, including the Swedish Prime Minister Ulf Kristersson, who warn that the associated compliance burdens may slow innovation or deter investment (Ek, 2025; Schildt et al., 2025). Sweden, therefore, exemplifies the broader governance–innovation tension, offering a compelling context for investigating how AI startups perceive and navigate governance practices amid evolving regulatory demands.

Although research on AI governance is expanding, much of it remains concentrated on regulatory and high-level policy perspectives (Buiten, 2019; Erdélyi and Goldsmith, 2018; Dafoe, 2018). As a result, there is still limited understanding of how AI governance is interpreted and put into practice within startups at the organizational level (Alshibani et al., 2025). Therefore, the study adopts a qualitative approach to empirically explore how AI startups perceive and navigate AI governance demands in practice. We further employ an adbuctive approach to address a gap in the existing literature, and to contribute with new insights. The study shows that AI governance is not simply a top-down compliance function, but something startups actively negotiate in response to contextual factors such as shifting regulations, market expectations, and their own resource limitations. In doing so, the study contributes to emerging literature on AI governance, extending the understanding of AI governance in organisational, specifically startup settings. Furthermore, the study informs broader debates on regulating emerging technologies with focusing on how AI startups navigate the EU AI Act. Finally, we extend the growing body of research on AI and

entrepreneurship by exploring how AI startups interpret and implement AI governance while seeking to innovate quickly and responsibly in an evolving technological and regulatory environment.

To answer the research question, the report is organised into six main chapters. Chapter 1 introduces the background, relevance, and objectives of the study. Chapter 2 reviews existing literature, establishing the academic foundation on which the study is built. Chapter 3 outlines the methodology, detailing the research design, data collection procedures, and measures taken to ensure quality. Chapter 4 presents the empirical findings and analysis, structured thematically. Chapter 5 discusses the findings, drawing out theoretical and practical implications, highlighting key contributions, acknowledging limitations, and suggesting directions for future research. Finally, Chapter 6 concludes the study by summarising its main insights.

2. Literature Review

2.1 Understanding AI Governance

Early work on AI governance has focused on external, macro-level governance, with scholars exploring global norms, policies, and institutional frameworks (Dafoe, 2018; Floridi et al., 2018; Jobin, Ienca and Vayena, 2019). Much of this work draws on high-level ethical principles such as fairness, transparency, accountability, and explainability (Floridi et al., 2018; Jobin, Ienca and Vayena, 2019; Morley et al., 2020), reflected in numerous AI ethics frameworks published by governments, organizations, and companies (Jobin, Ienca and Vayena, 2019).

However, principles alone offer limited value. Without concrete mechanisms, they remain abstract commitments that do little to guide decision-making (Lu et al., 2023; Sadek et al., 2025), and organizations may find themselves lacking comprehensive guidance tailored to their specific needs and operational contexts (Akbarighatar, 2024). This is evident in the difficulty of transforming ethical principles into specific design and monitoring processes across an AI system's lifecycle as noted by Lu et al. (2023). Morley et al. (2020) similarly note that ethical principles describe aspirations rather than actionable steps, and Papagiannidis, Mikalef and Conboy (2025) emphasise that responsible AI principles frequently collide with real organisational constraints. This aligns with Chhotray and Stoker (2009) who argue that governance must be understood empirically as a set of practices, not as a list of norms, detached from real organisational behaviour. Applied to AI governance, this perspective underscores the need to examine how AI governance actually unfolds within firms and how how AI governance is perceived, interpreted, and enacted inside organisations, especially startups (Akbarighatar, 2025; Birkstedt, Minkkinen, Tandon, and Mäntymäki, 2023).

2.2 AI Governance Challenges Traditional Governance

Traditional governance approaches rely on top-down directives and assume relatively stable technological trajectories (Moses, 2013). Regulators are expected to anticipate risks, specify duties, liabilities, and update rules incrementally (Guihot, Matthew and Suzor, 2020; Taeihagh, 2021). Such approaches hinge on predictable rulemaking cycles and limited

information asymmetries (Lee and Petts, 2013; Smuha 2025). When technological environments become fast-moving or highly complex, traditional governance structures struggle to provide sufficient clarity or responsiveness for effective oversight (Erdelyi and Goldsmith, 2020; Lee and Petts, 2013; Smuha, 2025).

AI amplifies these limitations. Its rapid development, evolving risk landscape, and inherent uncertainty increasingly render static traditional regulatory models inadequate (Taeihagh, 2021). Regulation is further complicated by the, partially, unforeseeable number and nature of future AI applications (Clarke, 2019; Mikalef, Conboy, Eriksson Lundström and Popovič, 2022). Widespread adoption across sectors has accelerated the need for new governance structures (Calvano and Calzolari, 2025) while simultaneously outpacing legal reform cycles and producing jurisdictional gaps (Ranchordas, 2021). This is particularly significant for startups, which must navigate these ambiguities without the compliance infrastructure available to larger firms (Pollman, 2019).

AI's technical characteristics further complicate governance. High levels of autonomy, opacity, and adaptivity (Taeihagh 2021;2025) make system behaviour difficult to predict and trace. Models trained on vast and often unverified datasets may behave unpredictably, and their black-box nature undermines transparency and accountability, which are cornerstones of governance (Taeihagh, 2025). As Cath (2018) observes, regulatory mechanisms struggle to keep pace with this speed and complexity, creating a persistent gap between technological evolution and regulation. Regulators face delayed or fragmented oversight as they attempt to evaluate risks that emerge faster than they can be assessed (Lee and Petts, 2013). For startups, these structural uncertainties translate into heightened practical challenges in interpreting and implementing governance expectations (Stemler, 2020).

These tensions are reflected in the EU AI Act, framed as a comprehensive risk-based regulatory framework; it adopts a traditional, top-down structure that relies on predefined categories of risk (EU Artificial Intelligence Act, 2024; European Parliament, 2023). Risk-based regulation assumes impacts can be predicted at the moment of rulemaking, an assumption AI routinely violates (Lee and Petts, 2013). Calvano and Calzolari (2025) warn that the Act may quickly become outdated and impose disproportionate compliance burdens on smaller developers.

2.3 AI Governance in Organisational Contexts

Organisational-level AI governance concerns the rules, practices, processes, and tools that individual organisations employ to govern their AI systems (Birkstedt et al., 2023; Mäntymäki et al., 2022). Existing literature largely examines large, established organisations with formalised governance structures, resources, and expertise. In these firms, AI governance mechanisms are shown as structural, procedural, or relational, and includes dedicated committees, training programs, codes of conduct, documentation, and procedural practices (de Vaujany, Fomin, Haefliger and Lyytinen, 2018; Lu et al. 2023; Mäntymäki et al. 2022; Papagiannidis, Enholm, Dremel, Mikalef, Krogstie, 2022; Schneider et al., 2023).

At a more technical and process-oriented level, Lu et al. (2023) and Schneider et al. (2023) highlight governance mechanisms such as model validation, testing protocols, risk assessments, lifecycle management, and reproducibility controls. These are all supported by clearly allocated responsibilities and formal oversight structures (Papagiannidis, Mikalef and Conboy, 2025; Schneider et al., 2023). Startups, however, operate in fundamentally different organisational realities. They face significant resource constraints, tend to lack formal governance infrastructure, and often rely on implicit norms embedded in everyday decision-making rather than codified procedures (Kaggwa et al., 2023; Pollman, 2019).

External governance further shapes organisational behaviour. Laws, standards, and emerging policy developments influence governance structures, resources, and expertise firms prioritise (Floridi et al., 2018; Schneider et al., 2023; Papagiannidis et al., 2022). As Gahnberg (2021) notes, AI governance consists of both formal rules and informal norms, and firms may engage in voluntary self-governance even before regulation is enforced. Because regulatory expectations are evolving, firms must continually track, interpret, and react to shifting expectations (Schneider et al., 2023; Papagiannidis et al., 2022). Responsiveness therefore becomes a strategic capability as competitiveness in AI depends not only on technological performance, but also on the ability to adapt to regulatory and market shifts (Lee, Kim and Vaquero, 2024).

2.4 Tensions Between Regulation and Innovation

The relationship between regulation and innovation has long been debated, with evidence showing that regulatory interventions can both encourage and constrain innovation (Blind,

2012). In the context of AI governance, regulatory compliance constitutes a central component (Gasser, 2018), while innovation remains critical to the success and survival of startups (El Hanchi and Kerazi, 2020; Santisteban, Mauricio and Cachay, 2021). This creates an inherent tension where governance requirements may ensure responsible AI, yet they can also limit experimentation, slow development cycles, and divert scarce resources (Stemler, 2020). Understanding how startups perceive and navigate this tension is therefore critical to analysing AI governance in practice.

For AI startups, innovation is shaped by the broader environment in which they operate, not by internal processes alone (Chalmers, MacKenzie and Carter, 2021; Chesbrough, 2003). Market competition, investor expectations, and evolving regulatory signals all influence how AI development unfolds (Cave and ÓhÉigeartaigh, 2018; Lee, Kim and Vaquero, 2024). When regulation becomes more restrictive, startups may perceive themselves at a competitive disadvantage relative to firms in jurisdictions with more permissive rules (Martin, Matt, Niebel and Blind, 2019), which may affect how they perceive and respond to regulatory constraints, intensifying pressure to balance compliance with innovation.

Because AI is deeply data-dependent, evidence from data regulation offers a useful parallel (Ranchordas, 2021). Martin et al. (2019) show that the GDPR produced both innovation-enhancing and innovation-limiting effects, introducing new market opportunities while simultaneously obstructing certain data-driven business ventures. For AI startups, whose value creation depends on access to high-quality data (Jöhnk, Weißert and Wyrtki, 2021; Weber et al., 2022), restrictions in data access or use directly influence innovation. Empirical evidence shows that the GDPR imposed substantial resource demands on startups, prompting many to establish new compliance roles and reallocate internal resources (Bessen et al., 2020). These findings illustrate how regulations can lead to vulnerabilities for younger firms operating in data-intensive sectors.

Resource constraints amplify these vulnerabilities as startups generally lack the organisational slack needed to develop formalised innovation or compliance processes (Pollman, 2019; Spender, Corvello, Grimaldi and Rippa, 2017). Stemler (2020) shows how traditional top-down governance can dampen early-stage innovation as uncertainty driven by regulatory delay weakens investment incentives, incumbents benefit from disproportionate influence over standard-setting, and compliance demands redirect limited resources away

from core development. These pressures are especially pronounced for AI startups, whose competitiveness depends on agility, rapid iteration, and flexible resource allocation. As they scale, they must also navigate mounting tension between maintaining that agility and meeting increasingly complex regulatory expectations (Alshibani et al., 2025).

Across the reviewed literature, AI governance is largely discussed at high-level principles, norms or state-led regulation (Floridi et al., 2018; Jobin et al., 2019; Morley et al., 2020). These frameworks express important ethical ambitions but offer limited guidance and insights on how governance is enacted in organisational practice (Lu et al., 2023; Papagiannidis, Mikalef and Conboy, 2025). Organisational studies show insight into how established firms implement AI governance through formal structures, technical controls, and codified procedures (Mäntymäki et al., 2022; Schneider et al., 2023), yet, these accounts presume resources and infrastructures that early-stage ventures typically lack. Startups, operating under resource constraints and relying on informal, evolving practices, may face greater difficulty translating abstract governance principles into actionable mechanisms (Pollman, 2019; Kaggwa et al., 2023).

External governance further compounds these challenges. Regulatory interventions can create opportunities but also impose disproportionate compliance burdens on smaller firms (Bessen et al., 2020; Martin et al., 2019). As AI governance becomes more formalised through instruments such as the EU AI Act, startups face increasing pressures to balance compliance with innovation. Traditional top-down regulatory models struggle to keep pace with AI's speed and uncertainty (Stemler, 2020; Taeihagh, 2021), creating tensions that startups experience more acutely than larger, more established firms with greater capacity to respond to regulatory demands.

Despite theorisation of governance principles, regulatory regimes, and innovation pressures, little is known about how AI startups themselves interpret and navigate these in practice (Alshibani et al., 2025; Birkstedt et al., 2023). This gap is especially salient in Sweden, where rapid growth in the AI startup ecosystem coincides with the implementation of the EU AI Act and growing concerns about its impact on competitiveness. Our study addresses this gap by examining how Swedish AI startups perceive and navigate AI governance in practice, and how they interpret tensions between regulatory compliance and innovation within the Swedish context.

3. Methodology

The following chapter outlines the methodological choices of the study. It explains the reasoning behind the research design and describes how we addressed the research question.

3.1 Scientific Research Approach

3.1.1 Research Philosophy

To effectively address the research question and generate practically valuable insights, it is necessary to outline our ontological, epistemological, and methodological assumptions (Bell, Bryman and Harley, 2019), for which we adopted an ontological perspective of constructionism. This assumes that social phenomena are created through the actions and interpretations of social actors, and are continuously reshaped over time. Organizations are therefore viewed as socially constructed rather than fixed entities, meaning that this study represents one possible interpretation of reality rather than an absolute or definitive account (Bell, Bryman and Harley, 2019). Considering the constructionist perspective and the study's aim to examine the subjective realities, interpretations, and behaviours of startups, the study adopted an interpretivist epistemological position. This standpoint emphasizes the meanings constructed by social actors and acknowledges that the startup members' experiences form the basis for our understanding (Bell, Bryman and Harley, 2019). This aligns with the study's focus on perceptions and interpretations rather than objective measures of compliance or governance.

3.1.2 Research Strategy and Design

Following Bell, Bryman and Harley (2019), an iterative research process was employed. Our initial interest emerged from public debate surrounding the EU AI Act where prominent actors in the startup community, alongside political leaders, raised concerns that the regulation could constrain innovation. These discussions highlighted the relevance of examining how AI startups perceive and navigate AI governance in practice. Based on this context, we formulated a general research question: *How do AI startups perceive and navigate AI governance in practice, and how do they perceive tensions between regulatory compliance and innovation within the Swedish context?* Given this focus, and consistent with the study's constructionist and interpretivist foundations, an exploratory qualitative research strategy was applied (Bell, Bryman and Harley, 2019).

To avoid the common limitation of purely inductive research, namely that empirical data alone is often insufficient for building theory, this study adopts an abductive approach. The aim is to identify empirical patterns and relate them to existing theory in areas where prior research is incomplete, while also generating new theoretical insights. This required an ongoing alternation between the literature and empirical data, using observations from the field to inform theoretical development (Bell, Bryman and Harley, 2019). Theory was therefore treated as something emerging through data collection and analysis, following an iterative process (Bell, Bryman and Harley, 2019).

Given the focus of the research question, we adopted a multiple-case study design (Bell, Bryman and Harley, 2019). Each participating AI startup was treated as an individual case, allowing us to examine governance as a social process shaped by the actions and decisions of startup members (Bell, Bryman and Harley, 2019). This design enabled us to capture variation across organisational contexts while still generating insights grounded in the specific circumstances of each firm. Data were collected through interviews with one or two members from each startup, allowing us to explore how they perceive and navigate AI governance in practice.

Furthermore, employing triangulation through public documents (Carter, Bryant-Lukosius, DiCenso, Blythe and Neville, 2014; Denzin, 2012) 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 (Bell, Bryman and Harley, 2019; Carter et al., 2014; Denzin, 2012). In Table 1, an overview of data sources can be found.

3.2 Data Collection and Analysis

Overview of data sources	Type
Interviews	Semi-structured interviews
Public Documents	Social media Websites Privacy policies Blog posts

Table 1. Overview of data collection

3.2.1 Interview sample

The study employed a purposive sampling strategy, selecting startups based on their relevance to the research question and their ability to provide rich insights (Bell, Bryman and Harley, 2019). The sample was designed to reflect variation across industries while focusing on AI-driven ventures. The following criteria were used to identify startups: (1) they operate primarily in Sweden, (2) they are in the early or growth stage, and (3) they implement AI systems as a core component of their product or service. Additionally, because most AI startups operate with business-to-business (B2B) models (Weber et al. 2022), the study focused on B2B firms to improve comparability and simplify sampling. While we initially aimed for two participants per startup, time constraints within the organisation meant most startups contributed one participant. In total, 17 interviews across 13 startups 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). Initially, we interviewed approximately eight participants and as data collection progressed, elements of theoretical sampling were incorporated, reflecting the logic of adjusting the sample in response to preliminary analytical findings (Bell, Bryman and Harley, 2019). Additional interviewees were selected based on emerging insights and identified gaps in understanding, such as varying degrees of regulatory exposure and differences in the company's perceived risk level in relation to the EU AI Act. For example, additional health technology startups were included to address the underrepresentation of startups operating under high regulatory pressures, as seen in Table 2. This iterative process ensured that each subsequent participant contributed meaningfully to addressing the research question, and allowed us to refine our focus by including participants whose experiences could expand or challenge the developing interpretation.

We identified startups by reviewing Swedish startup-incubators, including both current and past participant lists. Additional startups were located through online searches for Swedish AI startups. The startups varied in their level of maturity, which meant that roles and responsibilities among the members that were interviewed differed across companies. To ensure comparability, the study aimed to interview co-founders or executive roles, such as CEOs and CTOs. In one case, our initial contact redirected us to another team member with more specific knowledge of their governance practices. All potential participants were contacted via LinkedIn. Lastly, we applied the grounded theory approach of theoretical saturation, meaning that sampling continued until additional interviews no longer produced new themes or insights and similar patterns began to recur across the data (Bell, Bryman and Harley, 2019).

3.2.2 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) (see *Appendix A* and *B* for interview guides in Swedish and English). Prior to each session, we presented the interview procedure, confidentiality measures, and consent to record in alignment with Bell, Bryman and Harley (2019). The interview guide was partially adjusted throughout the process to align with each participant's role and level of expertise. Additionally, 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). One of us led each interview while the other took notes. The roles were alternated in each interview, allowing both to step into the conversation when needed. A detailed summary of interviews is presented in Table 2.

Interviewee	Industry	Role	Language	Setting	Duration (min)
# 1	Infrastructure	Co-founder/CEO	Swedish	Online (Microsoft Teams)	40
# 2	Health Technology	Co-founder	Swedish	Online (Microsoft Teams)	45
# 3	SaaS	Co-founder/CTO	Swedish	Online (Microsoft Teams)	40
# 4	Infrastructure Technology	Co-founder/CEO	Swedish	Online (Microsoft Teams)	50
# 5	Procurement Technology	Co-founder/CPO	Swedish	Online (Microsoft Teams)	40
# 6	Marketing Technology	Co-founder/CEO	Swedish	Physical meeting, Götgatan 81, Stockholm	45
# 7	Enterprise Software	Co-founder/CEO	English	Online (Microsoft Teams)	50
# 8	Health Technology	Co-founder/CEO	Swedish	Online (Microsoft Teams)	35
# 9	Health Technology	Co-founder	Swedish	Online (Microsoft Teams)	30
# 10	Marketing Technology	Co-founder/CTO	Swedish	Online (Microsoft Teams)	45
# 11	Health Technology	CEO	Swedish	Online (Microsoft Teams)	55
# 12	Safety Technology	Founder/CEO	Swedish	Online (Microsoft Teams)	50
# 13	Research Automation	Co-founder	Swedish	Online (Microsoft Teams)	40
# 14	Safety Technology	Product Manager	Swedish	Online (Microsoft Teams)	45
# 15	Infrastructure Technology	CTO	Swedish	Online (Microsoft Teams)	45
# 16	Health Technology	Co-founder/CTO	English	Online (Microsoft Teams)	40
# 17	Voice Technology	Co-founder	Swedish	Online (Microsoft Teams)	30
					$\mu = 42.65$

Table 2. Overview of conducted interviews

3.2.3 Public Documents

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. Reviewing these materials also ensured that we entered the interviews with a foundational understanding of each firm's self-presentation and operational focus, facilitating more informed questioning.

A total of 37 documents were collected, as shown in Table 3.

Public Documents		**No.**
Social Media (Linkedin)		13
Website		13
Privacy policies		9
Blog posts		2
	Total	37

Table 3. Overview of public documents

3.2.4 Data Analysis

Given the interpretivist stance of the study, the data processing and analysis focused on the perceptions and topics that interviewees themselves identified as important for understanding the phenomenon (Bell, Bryman and Harley, 2019). 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, 2006; Bell, Bryman and Harley, 2019).

The thematic analysis process followed the outline presented by Braun and Clarke (2006). We began by familiarising ourselves with the data. All interviews were audio-recorded and transcribed verbatim via Microsoft Teams, producing 242 pages of transcripts. Both authors reviewed each transcript against the audio to ensure accuracy and consistency (Bell, Bryman and Harley, 2019). In the second phase, we generated initial open codes 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. 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 Table 4.

Steps one through four were conducted individually, thereafter, we compared and discussed our outputs to resolve discrepancies and strengthen transparency and objectivity. The analysis was guided by an abductive logic of inquiry. Emerging themes were iteratively compared with concepts from the literature on AI governance and regulatory tensions, using an ongoing comparative method to identify recurring patterns and progressively develop the study's theoretical contributions.

Exemplar text	**Open codes**	**Themes**	**Conceptual category**
"Not even the experts can determine how the law should be applied. If I ask, 'What is high risk? What is not?' I get a new answer every time I talk to someone. It's really difficult." (Interviewee 12)	Uncertainty about how the law should be applied Uncertainty about what is considered high risk Difficult for both experts and startups Many different answers	Regulatory landscape	Contextual factors shaping AI governance
"If customers perceive the solution as unsafe, we will not succeed with the product. I would argue that everything we do is permeated by a GDPR-oriented mindset." (Interviewee 1)	Unsafe product will not succeed GDPR is important AI governance connects to GDPR	AI governance as commercial legitimacy	Perceptions of AI governance
"When we launched a feature allowing users to upload their documents for analysis, many customers were hesitant. We had to add a clear message stating that their data would not leave Europe or our servers, and would not be shared with anyone." (Interviewee 3)	Customer hesitation Adding clarification Data will not leave Europe Data is safe and not shared	Governance-by-design Transparency	AI governance practices and strategies
"Being compliant costs an enormous amount of money. It is extremely expensive, and that removes the small scale. No entrepreneurs can match compliance. [...] You cannot reasonably approach an investor and say that you need ten million to develop a product concept when five of those millions are legal fees." (Interviewee 4)	Burden placed on startups Compliance is expensive Small scale is removed Hard to approach investors	Resource allocation	Perceived tensions between compliance and innovation

Table 4. Visualisation of the coding process

We analysed public documents both before and after conducting interviews to contextualise, enrich, and confirm the findings. Prior to the interviews, we reviewed startups' websites and LinkedIn pages to gain an initial understanding of their operations. After the interviews, we examined further public materials, primarily websites and privacy policies, to identify governance practices and to triangulate the interview data. Public documents can be valuable in this way, as they shed light on how organisations construct and communicate particular narratives about their operations and priorities (Bowen, 2009). However, such materials also have limitations because they are self-reported, often promotional in tone, selectively updated, and may overstate the maturity of internal practices. Therefore, we treated them as contextual indicators rather than direct evidence, using them primarily to inform and triangulate the insights derived from interviews and other empirical sources. Following Bowen's (2009) guidance, we considered the purpose and intended audience of each document when assessing its relevance. This approach enabled us to incorporate public materials in a transparent and critical manner, recognising both their value for contextualisation and their constraints as empirical data.

3.3 Quality of the study

3.3.1 Trustworthiness and Authenticity

When evaluating business and management research, three of the most common quality criteria are replicability, reliability, and validity (Bell, Bryman and Harley, 2019). However, some qualitative researchers argue that these criteria are more applicable to quantitative research and less suitable for qualitative approaches. Therefore, this study assesses quality based on the concepts of trustworthiness and authenticity, as proposed by Guba and Lincoln (1985;1994) and referred to in Bell, Bryman and Harley (2019).

Trustworthiness is a criterion of evaluation in qualitative studies and can be divided into four sub-criterion which are credibility, transferability, dependability, and confirmability (Bell, Bryman and Harley, 2019). Credibility concerns the alignment between research findings and participants' accounts. Due to the limited timeframe of this study, extensive respondent validation was not feasible, beyond regularly confirming interpretations during the interviews themselves. To ensure sufficient credibility, data collection and analysis, we followed good research practice by remaining closely grounded in participants' actual statements, and

continued until theoretical saturation was reached (Bell, Bryman and Harley, 2019). Lastly, relying on self-reported accounts introduces risks related to social desirability bias and selective recall. 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). To minimise this bias, we triangulated the interview data with public documents to provide contextual support and strengthen the credibility of the findings (Bowen, 2009), but we did not include direct observations of governance practices or how they evolve over time, meaning that actual behaviour may differ from what interviewees described.

Transferability concerns the degree to which findings can be applied in other settings (Bell, Bryman and Harley, 2019). Because the study focuses on startups operating under EU-wide regulatory conditions, the findings are likely transferable to similar contexts beyond Sweden. However, the study's relevance may diminish if the regulatory environment undergoes significant change. Because the study also addresses the broader relationship between regulation, governance, and innovation, the findings may hold relevance in comparable settings regardless of geography. Yet, startups differ substantially from small, medium-sized, and large firms, which limits the applicability of the results to startup contexts. Moreover, because the study focuses on perceptions, findings may vary in different contexts or over time. Finally, while purposive sampling allowed for an in-depth exploration of relevant perspectives, it does not support statistical generalization to a wider population (Bell, Bryman and Harley, 2019).

Dependability concerns whether the research process is transparent, logical, and sufficiently documented for others to understand how conclusions were reached (Bell, Bryman and Harley, 2019). To support this, we maintained detailed records of each step in the process, and the methodology and appendices provide a clear account of how the study was carried out. However, the absence of an external audit is a limitation, which highlights the relevance of the next criterion which is confirmability. Confirmability addresses the extent to which the findings reflect participants' views rather than researcher bias. To strengthen confirmability, we cross-checked transcripts against audio recordings, grounded interpretations in direct participant quotations, and generated themes through a structured coding process rather than subjective impressions. The abductive approach further reinforced this by requiring ongoing

comparison between empirical observations and theoretical concepts, helping to avoid premature or overly subjective conclusions.

The final criterion for evaluating qualitative research is authenticity (Bell, Bryman and Harley, 2019). This concerns our responsibility to represent diverse perspectives within a broader social context and to consider the wider social and political implications of the work. The impact of regulations, especially those concerning AI, has generated substantial debate globally and in Sweden regarding potential effects on innovation. The study contributes to the broader societal and political discussion by incorporating the views of AI startups, for which innovation is central. Their insights provide relevant input not only for future research, but also for organizations, and political and regulatory bodies.

3.3.2 Account of ethics

The study followed the ethical principles outlined by Bell, Bryman and Harley (2019), emphasizing informed consent, confidentiality, and the avoidance of harm. All participants were asked to provide consent before taking part in the study and before interviews were recorded. They received information about the study and its purpose in advance to ensure their consent was fully informed. The names of interviewees and their startups were anonymised, with only a general description of the industry provided. Interview recordings and transcripts were securely stored, accessible only to the authors, and deleted once no longer required for research purposes. Because the study involved discussion of regulatory challenges and compliance decisions, care was taken not to disclose information that could create reputational risk for participants or their companies (Bell, Bryman and Harley, 2019).

4. Findings and Analysis

The following section presents the empirical findings and analysis. It addresses the research question of how AI startups perceive and navigate AI governance in practice, and how they interpret the tensions between regulatory compliance and innovation within the Swedish context. The findings are structured into four chapters: the contextual factors shaping AI governance, the startups' perceptions of AI governance, their governance practices, and the tensions that arise between innovation and regulation. The chapter is concluded with a conceptual model that integrates these insights.

4.1 Contextual Factors Shaping AI Governance

4.1.1 Regulatory Landscape

Startups describe operating in a regulatory environment that is both evolving and difficult to interpret. While the GDPR remains the most established and influential regulation for AI startups, it often interacts with industry-specific regulations such as the Medical Device Regulation (MDR), and the emerging EU AI Act. Startups expressed uncertainty about how the AI Act will be implemented, noting that, unlike the GDPR, the AI Act is emerging simultaneously with the underlying technology itself, increasing uncertainty about its practical implications. Several startups also expressed a concern that the EU AI Act is unable to keep pace with technological development of AI:

> *"Now it's a new technology that's emerging and affecting the entire business world. [...] the revolution and the regulation are happening at the same time."* – Interviewee #15

> *"The AI Act is already outdated. It is almost unavoidable that it becomes obsolete quickly given the pace of technological change. When was that document even written? It was formally approved in 2023, and it is supposed to be implemented next year. It is already very old."* – Interviewee #12

This uncertainty is reinforced by inconsistent interpretations of how the EU AI Act will be applied across industries and enforced in practice. A recurrent example concerns the distinction between high-risk and non-high-risk systems, as described by one founder/CEO:

"Not even the experts can determine how the law should be applied. If I ask, 'What is high risk? What is not?' I get a new answer every time I talk to someone. It's really difficult." – Interviewee #12

Several AI startups attributed these inconsistencies to limited technical understanding within regulatory bodies, which renders the requirements ambiguous both for them and for legal advisors. They also pointed to a tendency for regulations to be written in non-technology-neutral terms, causing them to become outdated as AI systems evolve and thereby imposing additional constraints on firms.

"Since it is so technology-specific, it can be a challenge for the lawyer to actually understand the consequences. [...] This is an issue where you would almost need a double degree as a computer engineer and a lawyer, which is not very common, in order to build that understanding." – Interviewee #1

"The people writing these rules are usually legally trained, and they have a hard time thinking in a technology-neutral way. [...] This creates enormous pressure on the business sector, including startups like us that have to deal with it" – Interviewee #4

Interviewees also observed limited technical knowledge among customers and their compliance departments. Several startups noted that working with larger organisations often involved complex compliance discussions with legal departments that did not fully understand the AI systems or underlying data practices, at times resulting in misinterpretations of regulatory requirements and compliance risks:

"By [our customers'] lawyers, it can sometimes be interpreted as surveillance, whereas in our world it is an ongoing measurement that is fully anonymised [...] We had a different opinion, but it's kind of hard to trump a corporate lawyer at a large company if she had that interpretation of legislation" – Interviewee #1

Several startups further noted that regulatory bodies are perceived more as distant enforcers than as collaborative partners. While most acknowledged the importance of oversight, they

expressed frustration with the limited availability of accessible guidance and opportunities for dialogical engagement. In particular, they highlighted that Swedish authorities such as the Swedish Authority for Privacy Protection (IMY) are unable to provide concrete guidance or confirm whether a firm's interpretation of regulatory requirements is correct. As a result, startups must navigate complex requirements with minimal institutional support and substantial potential downside.

> *"We want to do the right thing, but we can't go and ask, 'Are we doing it right?' They can't answer that. So we do our best and hope we're right. And if it turns out we're not, then we risk an investigation and consequences."* – Interviewee #14

> *"One doesn't really know what applies. Some think we are high-risk. We don't think we are high-risk. And there's no one who can really provide answers."* – Interviewee #12

One CEO specifically compared the Swedish system unfavorably with more consultative systems abroad, such as the American Food and Drug Administration (FDA), where regulatory bodies actively engage with innovators to clarify standards and expectations. The absence of similar mechanisms in Sweden was described as a lost opportunity to foster safe and responsible technological regulatory development.

> *"FDA has a consultative division. In the USA, the regulatory organization therefore also serves in a consultative role, which in this case is an excellent asset. So if we aim to enter North America, this becomes an opportunity."* – Interviewee #11

4.1.2 Global Market

Startups frame the competitive landscape as global rather than national, which directly shapes how they perceive and navigate AI governance in Sweden. A consistent topic across startups was the dominance of the United States in AI infrastructure and capital, with foundational technologies, cloud suppliers, and investors being based in the US, as noted by one co-founder:

> *"If you use Google – it's American, if you use Facebook – also American. Everything is basically American, and all the subcontractors that supply companies today with technologies are American as well."* – Interviewee #2

This dominance is reinforced by greater access to venture capital for startups in the US. Multiple startups explained that the scale of available funding, combined with constant pressure to avoid running out of cash, creates a pull toward the American market. According to one co-founder, this dynamic not only encourages Swedish and European startups to seek US investors but also contributes to a broader geopolitical shift that risks weakening Europe's position in AI:

> *"You get far more money from American investors, and when you're constantly trying to avoid running out of cash, it becomes hard not to turn to the US [...] everyone is pushed toward the US, and Europe and Sweden risk losing their geopolitical position in AI."* – Interviewee #2

While AI startups reported Sweden as technically strong and well-positioned in early AI adoption, this advantage is perceived as fragile. Many feared that the EU AI Act could slow European firms relative to American competitors, whose regulatory environment is perceived as more relaxed and aligned with rapid experimentation. This regulatory asymmetry was described by startups as a disadvantage. In a global race, slower means losing, as noted by co-founder/CEO:

> *"It [regulations on AI] puts us behind American companies when it comes to models, release and adoption and all that. They have more time to play with models, so we're competing but they have a head start"* – Interviewee #7

4.1.3 Available Resources

Across all startups, the availability and allocation of resources emerged as a central theme. Compliance requirements and governance is described as disproportionately burdensome for early-stage firms because it requires capital, legal expertise, and time, none of which startups possess in abundance. Even one of the more well-funded AI startups in the sample acknowledged that while they currently have the financial resources to manage compliance, they themselves were once in a position where such demands would have been prohibitive.

One co-founder/CPO further reflected on the broader consequences of regulation, noting its potential to raise barriers to entry for less-resourced firms:

> *"For us, of course it's not exactly fun to pay hundreds of thousands to lawyers to review something or get something in place. But we do have the resources to do it now that we received funding. It's more of a problem for companies at a much earlier stage that don't have that kind of money. Historically, it has never been easier to get started financially and technically, and it would be a shame if new laws and regulations essentially made it impossible."* – Interviewee #5

4.1.4 Industry

Industry context and data sensitivity strongly shape how AI startups perceive regulatory risk and, in turn, how they operationalise AI governance. AI startups that handle sensitive data and operate in highly regulated industries, such as health care, generally prioritised formal AI governance practices from an early stage. In contrast, startups working with less sensitive data or in less regulated industries tend to not be driven primarily by the AI Act as they perceive and develop AI governance.

> *"I plan and document that we are in fact not high-risk. Our goal is to be compliant with the least possible effort. But it is always a question [from the customer] how we handle their data, and that is the driving factor."* – Interviewee #15

Customer maturity also shapes governance expectations. Because the startups in our sample operated in B2B markets, and those selling to municipalities, public healthcare providers, or large corporations faced lengthy legal and compliance reviews. Whereas smaller or less regulated clients imposed fewer demands on governance practices. As a result, governance practices were often shaped by the expectations of their customers.

> *"As a startup you are so preoccupied by the operational work that these questions become a bit hypothetical for us, they become a second priority. But if our customers start reacting to it and say, you know what, have you read the EU legislation? Then of course we should act on that immediately."* – Interviewee #1

4.2 How AI Startups Perceive AI Governance

Startups do not hold a single, unified view of AI governance. Instead, governance is interpreted through multiple, sometimes conflicting lenses shaped by the contextual factors. Across interviews, three dominant perception patterns emerged: governance as procedural compliance, as commercial legitimacy, and as important but deferrable.

4.2.1 AI Governance as Procedural Compliance

Startups commonly perceived AI governance as a formal, externally imposed compliance requirement. They often map it onto familiar legal frameworks, especially the GDPR, which they use to guide their documentation practices, traceability measures, and contractual arrangements. AI governance is therefore understood primarily as an administrative exercise focused on meeting legal requirements. Because they rely on frameworks they already know, the emerging EU AI Act remains distant and difficult for many to translate into concrete action.

> *"We comply with GDPR as a major requirement related to data. And then of course we follow international standards related to IT security. And we feel that is sufficient for now. Or at least I feel that these two components are enough for us to keep moving forward without having to make adjustments at this stage."* – Interviewee #14

Startups acknowledged the need to demonstrate compliance to regulators and enterprise customers, but described the associated documentation and verification work as tedious and resource-intensive:

> *"We still have to demonstrate that we meet all the points they're [customers and regulators] interested in, and even that is a burdensome task."* – Interviewee #3

> *"We have internal documents and processes that we update so that, yes, we can keep track of, yes, different rules and stuff like that"* – Interviewee #13

4.2.2 AI Governance as Commercial Legitimacy

At the same time, startups widely perceived AI governance as a commercial necessity tied to credibility, trust, and long-term business viability. Governance is understood as a signal of professionalism and ethical integrity that enables stakeholders to consider the product usable and trustworthy.

> *"If customers perceive the solution as unsafe, we will not succeed with the product. I would argue that everything we do is permeated by a GDPR-oriented mindset."* – Interviewee #1

> *"If I were to provide a product that the person – whether a customer or an end user considered unethical, I don't think it would work."* – Interviewee #6

AI governance is linked to the firm's legitimacy and ability to scale, especially when dealing with enterprise clients. Failure to demonstrate regulatory compliance is perceived as commercially risky.

> *"If your business model depends on something that's not legal, then there's no point pursuing the idea."* – Interviewee #7

4.2.3 AI Governance as Non-Urgent and Deferred

Despite recognising AI governance as important, many startups perceived it as something that can be postponed until later growth stages. Governance work competes with more immediate priorities such as product development, fundraising, sales, and customer acquisition. Until the AI Act is fully implemented or customers explicitly demand compliance evidence, AI governance beyond what is required under the GDPR and other industry-specific regulations is often deferred.

> *"We have other problems today that are more important, so it's a future-me problem. [...] Anything that isn't an immediate problem becomes a bit of this future-me problem."* – Interviewee #3

> *"Can I do my business? Is it legal in the long run? If yes, great. We worry about the details later. And the legal part is the last thing you worry about, especially the ones enforced by governments."* – Interviewee #7

4.3 AI Governance Practices

Startups' differing interpretations of AI governance become evident in technical and internal practices through which they build and manage their systems. Governance is not treated as an abstract ideal but is translated into specific design choices, operational routines, and accountability arrangements. This section examines how these practices materialise in both technological and internal processes.

4.3.1 Technological Practices

4.3.1.1 Governance-By-Design

Across all startups, core governance considerations were integrated early into product development rather than introduced later. Startups described this as a strategy to avoid costly redesigns and reduce regulatory exposure. Instead of treating AI governance as only documentation, they embedded compliance into the offering:

> *"We've had it as a basic requirement that if we're going to build a product, it has to be GDPR-secure."* – Interviewee #4

A common governance practice was maintaining human oversight in the workflow (human-in-the-loop), ensuring that AI-generated outputs are reviewed and approved before release. This practice was not only presented as a quality and trust mechanism, but also as a deliberate way to avoid the system being classified as higher risk or autonomous under the EU AI Act, which would trigger stricter compliance obligations.

> *"We assert that we have human-in-the-loop, meaning human creation together with an AI, and this means we do not need to label the output as AI-generated, which is something of a grey area [in the AI Act]."* – Interviewee #6

> *"We make sure to have a human in the loop to avoid being reviewed under the MDR, since that is burdensome and takes a long time."* – Interviewee #8

Several startups described processes where customer data is encrypted, processed in controlled environments and then automatically deleted to maintain secure deployment of data in their AI systems.

> *"The [data] is encrypted and sent to our data centers, [...] and then automatically deleted. And then the text is sent back encrypted, and it is not something that can be decrypted, so it is secure."* – Interviewee #9

This aligns with the data-handling descriptions published in several startups' privacy policies, which detail similar encryption and deletion routines.

Startups also spoke about different privacy-concerning mechanisms. Handling sensitive data, like customer documents and internal company files, required high levels of traceability and security. As one co-founder/CPO explained:

> *"Above all, security, and the traceability of the data has been absolutely essential, even before we started coding."* – Interviewee #5

Traceability was also used internally to detect misuse, data leaks, or model error, reinforcing both accountability and control.

> *"If something happens, we have traceability [...] we can see that the data was in this person's system and that his colleague accessed or leaked it."* – Interviewee #4

Clear communication and transparency were seen as necessary, not only for compliance but also for customer assurance. One co-founder/CTO noted that customers could be initially hesitant to upload sensitive documents, until the process was made more transparent.

> "*When we launched a feature allowing users to upload their documents for analysis, many customers were hesitant. We had to add a clear message stating*

that their data would not leave Europe or our servers, and would not be shared with anyone." – Interviewee #3

4.3.1.2 External Infrastructure Reliance

A majority of the startups relied on external AI infrastructure, particularly large language models (LLMs) and cloud services, rather than building proprietary systems. This reliance was driven by resource constraints and the high cost of in-house development. As a result, startups effectively outsource much of their governance from large providers. Several startups stated that using major, established providers offered a degree of assurance regarding compliance and ethical safeguards. They relied on contractual guarantees, non-training clauses, legal assurances, and third-party audit certifications to meet ethical and regulatory requirements. This was highlighted on many startups' websites and in privacy policies where it served to assure clients that data will remain private, is never used for training, and that providers are compliant and properly audited.

"I think all of them [LLMs] have to deliver on these things [regulatory requirements], otherwise they wouldn't be able to operate in Europe." – Interviewee #4

"We don't use any unknown third party. Everyone is properly audited, and the whole audit report is shared with us." – Interviewee #7

Adding another perspective, a few startups highlight that they cannot fully verify how these models were trained, what data was used or whether model suppliers' ethical claims really hold. One co-founder/CEO expressed discomfort, despite relying on them in practice:

"I'm completely convinced that no one at either [...] or [...] could swear that all their data is 'kosher' [legitimate] but that's what you buy into." – Interviewee #4

A few startups described efforts to reduce this reliance, motivated by both data-sovereignty concerns and ethical considerations. As pointed out by one co-founder/CTO:

> *"Privacy is the starting point [...] We create our own AI models. We do not rely on American big tech services [...] because it gives us control over the data pipeline."* – Interviewee #16

Several startups acknowledged that relying on model suppliers subject to American law was a concern. Specifically, one co-founder/CTO pointed to the *US Cloud Act* as a direct governance constraint. The law gives US authorities access to data held by American companies, even when that data is stored in Europe, limiting data sovereignty and responsible AI system deployment, regardless of server location.

> *"With the US Cloud Act [...] even if your servers are in Sweden [...], the US government can still access your data without informing you.*" – Interviewee #16

4.3.2 Internal Practices

4.3.2.1 Documentation and Safeguards

Internal AI governance practices differed across startups and evolved over time through a mix of written guidelines, internal discussions, customer requirements, and contractual obligations. A majority maintained publicly available privacy policies, though the level of detail varied. A comparison of these published policies show that one of the more established startups had several different policies, while younger firms worked with a single core document and supplemented it with verbal explanations or case-by-case clarifications. Customer expectations often determined how formal these governance practices became. As one co-founder/CTO put it, documentation functioned not only as information, but as a way to demonstrate deliberate consideration and maturity:

> *"We have data policies and similar documents published on our website where we explain how we think about these issues, and I see that as the foundation. You have to show to customers that you've considered these things from the start, not something you construct afterwards."* – Interviewee #3

At the same time, customer interaction functioned as an informal governance mechanism. Customer requests continuously triggered new controls, documentation, or technical

adaptations. In many cases, client demands shaped AI governance more directly than regulation, as noted by one co-founder/CEO:

> *"Power is on the client's side so whatever they ask for will happen."* – Interviewee #7

Testing, stress-testing, and continuous monitoring of AI outputs were used as internal safeguards, particularly before new features were launched. These practices helped ensure that outputs were accurate and aligned with contractual expectations.

> *"We run rigorous tests before we ship new features […] so that the information is validated and correct."* – Interviewee #5

The use of certifications, particularly ISO 27001, which is the international standard for information security and data protection, were frequently mentioned in the interviews. Startups framed them primarily as a way to acquire enterprise customers rather than as an internal governance tool.

> *"We cannot do B2B business without it [...] clients from day one are like, we love this but it needs to go through legal. If you don't have that one-pager saying you're certified, you won't get their business."* – Interviewee #7

However, one founder/CEO pointed out that no AI Act–specific certifications currently exist, making compliance more ambiguous and negotiations slow:

> "*Questions about the AI Act are starting to come now. [...] It takes time because so many people need to be involved to make some kind of assessment, and the deal dies in the meantime [...] It requires a lot of money, time, and resources to get certified. [...] And right now, such certifications don't exist. It's very unclear"* – Interviewee #12

To deal with, and make sense of, the uncertainty introduced by the EU AI Act, many startups relied on support from their surrounding ecosystem. This included drawing on resources

provided by incubators and engaging with other startups to discuss appropriate governance practices.

> *"The first thing we did was get help from a law firm through [incubator], and we received free hours with them."* – Interviewee #2

> *"What we do is collaborate with other startups. They have their expertise, and I have mine, and we make sure to help each other. You make sure you have a strong network, and in that network you can check who is skilled at what. Then you get some help from there, and it becomes a give-and-take. Then I can contribute on the things I'm good at, which is great."* – Interviewee #15

4.3.2.2 Responsibility and Accountability

Startups used contractual arrangements to establish responsibility and accountability for AI system outputs and data handling. Some firms assumed full responsibility, especially in regulated sectors, and reflected this stance in their privacy policies by stating that the company is the data owner. Others strategically shifted responsibility downstream to customers or framed themselves as technology providers, placing accountability on end users. This was perceived as a grey area within the EU AI Act, underscoring the ambiguity surrounding the practice.

> *"We also place some responsibility on the customer and say that we provide the technology. From a responsibility perspective, we received the recommendation [from a legal advisor] to push it to the customer's area of responsibility. So all material generated through [AI] is owned by the customer. [...] And there is indeed a grey area in the AI Act. It is possible to shift the responsibility to the end user."* – Interviewee #6

4.4 Perceived Tensions Between Compliance and Innovation

Across interviews, startups described a series of tensions that emerge when navigating AI governance. These tensions are not uniform, but instead varied depending on industry, maturity, and commercial strategy. However, three overarching friction points recur, namely resource allocation, product development constraints, and competitive disadvantage. A

minority of AI startups also noted that regulation can, under certain conditions, provide guidance and structure for innovation.

4.4.1 Resource Allocation

The startups consistently framed resource constraints as a key source of tension between innovation and compliance with AI governance. Compliance activities require financial and organisational capacity that early-stage firms often lack, making compliance costs particularly burdensome. As the regulatory environment continues to evolve, startups struggle to allocate resources efficiently. Compliance demands consume both capital and development capacity that could otherwise be devoted to product innovation. This creates a structural tension between investing in innovation and meeting compliance and governance requirements. As more resources are absorbed by compliance, less capacity remains for innovative work. This tension is highlighted by a few AI startups:

> *"Being compliant costs an enormous amount of money. It is extremely expensive, and that removes the small scale. No entrepreneurs can match compliance. [...] You cannot reasonably approach an investor and say that you need ten million to develop a product concept when five of those millions are legal fees."* – Interviewee #4

> *"I find it difficult to determine how to balance this regulatory framework [EU AI Act] against allowing innovation to progress freely."* – Interviewee #14

The startups further associated AI governance and compliance with slow decision-making and lengthy processes. Audits, requirement specifications, and interpretive analysis were described as consuming time that could otherwise be directed toward rapid product iteration or sales activities. A recurring perception was that, even when regulatory rules are not inherently problematic, their interpretation is unclear and implementation generates delays. These time losses undermine innovation processes, as startups depend on speed, experimentation, and short feedback cycles. AI Governance instead introduces sequential procedures, documentation requirements, and legal reviews that cannot be easily accelerated. Because the ability to act quickly and secure first-mover advantages is central to their competitiveness, startups perceive unclear requirements, lengthy processes, and excessive bureaucracy as significant constraints on innovation.

"As a startup, the way you die is through a long sales process. [...] What this will lead to is that it will become very difficult for smaller companies to manage all this bureaucracy. [...] It will therefore be very challenging for a startup to keep up with all the requirements needed in order to obtain this compliance stamp." – Interviewee #10

"My impression is that in situations where regulations are involved, those regulations are often so complex that it takes them more time to interpret and understand the rules than it would take to assess, 'Does this make sense? Is this aligned with our ethos?'." – Interviewee #12

4.4.2 Product Development

A majority of the startups emphasised that regulations are not only costly but also poorly aligned with the realities of the technology and overall AI development. Startups perceived that regulations were more suitable for stable-slow moving organisations and technologies, rather than for fast-paced startups like themselves. As a result, product development is delayed or halted when rules restrict certain functionalities, data-processing methods, or testing activities. In some cases, startups refrain from developing or testing features because engaging in approval-processes from authorities are too slow, expensive, or unpredictable. This uncertainty slows innovation and redirects it toward what is regulatorily feasible rather than what is technically most promising, resulting in stalled product development and a 'wait-and-see' approach. One co-founder/CEO illustrated this challenge when discussing their desire to remove the human-in-the-loop component of their offering, noting that regulatory ambiguity made such development too risky:

"We have a human-in-the-loop, everyone understands that if we have that we are pretty safe. It is when we start moving away from it that it becomes a more grey area in the law and with the EU AI Act as well. [...] We will definitely develop away from human-in-the-loop [in the future] and there is no question about it. Because at some point you reach a limit in how much you can do with a human-in-the-loop and how efficient it is. But when that limit is reached, we will not prioritise going beyond it until we know we have clear [regulatory] signals that it is ok." – Interviewee #8

> *"When you work with innovation and AI and try to build a business, it is extremely burdensome to wait half a year for decisions from the IMY [The Swedish Authority for Privacy Protection]."* – Interviewee #1

Moreover, some startups have broader doubts that the AI Act can remain relevant at the pace AI technology evolves. This contributes to the sense that the regulation limits product development as the AI Act is not adapted to the technology it seeks to regulate.

> *"There are clear limitations in product development that stem from this entire category of regulations. [...] It is impossible for it to be adapted and to remain adapted when it actually comes into force."* – Interviewee #12

4.4.3 Competitiveness

Startups perceive competitiveness as a dual challenge between meeting immediate operational demands and ensuring long-term viability. In the short term, startups must develop a product, attract customers, and generate cash flow. In the longer term, regulatory compliance becomes essential for securing market access, investor capital, and scalability. These short- and long-term priorities often conflict.

> *"In the short term, it can be a considerable burden [to be compliant]. But if you choose not to do it, you are likely to face obstacles later on."* – Interviewee #11

The startups further indicate that while regulation is necessary, the EU's regulatory intensity influences competitiveness beyond the level of individual firms. Several AI startups perceived the EU's regulatory framework as structurally disadvantageous, particularly at the model-development level, where American firms are perceived to hold a persistent lead. They emphasised that regulatory costs, complexity, and legal uncertainty can discourage innovation within the European ecosystem, causing European startups to fall behind global competitors and, in some cases, consider relocating outside Europe. Two startups expressed these concerns explicitly:

"I also believe, from a geopolitical perspective, that this [the AI Act] will eliminate all innovation in the EU. [...] I would then have to leave Sweden and the EU." – Interviewee #2

"Because we are in a position in Sweden where we can lead AI innovation, possibly in the world, and it is not about years, it is about months. If we are pushed back a few months, then someone else will come first and we will fall behind globally, and if we fall behind globally the investment incentives from investors disappear." – Interviewee #8

However, one co-founder/CEO noted that regulation will continue to be secondary to market dynamics and the intrinsic motivations of startups, yet still impose disadvantages for innovation in the meantime:

"I believe in the end that companies' desire to develop and make money will always steer. I think it will always be the company and the economy that decide where we end up with regulation. With that said, it can still hinder innovation in the meantime. And for example it means we push companies out of Europe, which we don't want. So there are a lot of disadvantages with that. But I think it will always be businesses at the end of the day that steers." – Interviewee #6

At the same time, a counter-narrative emerged. Some startups reported that EU regulation can serve as a source of competitive differentiation. Firms that have developed their own AI models or that already operate in highly regulated environments and maintain strong compliance present this as a market advantage, noting that customers may prefer European firms that do not rely on US-based systems. As one co-founder/CTO explained, strong compliance can create barriers to entry for competitors and provide an advantage for firms that developed their models before the regulatory framework was introduced:

"By creating our own models, we can actually satisfy the AI Act much better because we have the data. So for us, it's a huge strength that there is an AI Act that stops the competitors. [...] By creating our own AI models, we have control of the data pipeline. So for us, the EU AI Act is a huge competitive advantage. [...]

So privacy also became our differentiator right now in USA. We have now more customers coming from the USA than from Europe" – Interviewee #16

4.4.4 Frame for Guidance

While many startups viewed regulation as inhibiting innovation, some also acknowledged its constructive role. AI regulation can provide clarity, predictability, and trust, which in turn create opportunities for innovation. Several startups noted that regulation enhances customer confidence and reduces the risk of ethical missteps or legal obstacles later in development. This perception is most evident among firms already operating in highly regulated sectors. In these contexts, governance can function as an innovation guide, as regulatory frameworks define what is and is not permitted and direct startups toward solutions that are ethically and legally viable.

"If innovation is viewed as an integrated whole, then regulation becomes a sometimes time-consuming factor, but it can also be helpful in clarifying what you are trying to achieve. [...] It is an opportunity, in my view. If you are proactive and seek certification, [...]. The evaluation you receive then becomes the best possible guide for your next twelve months of development." – Interviewee #11

4.5 Conceptual Model

Figure 1 presents our model which explains how AI startups perceive and navigate AI governance, and how resulting tensions between compliance and innovation emerge. The model consists of three sequential elements: contextual factors, governance perceptions, and governance practices, followed by the tensions that arise from their interactions.

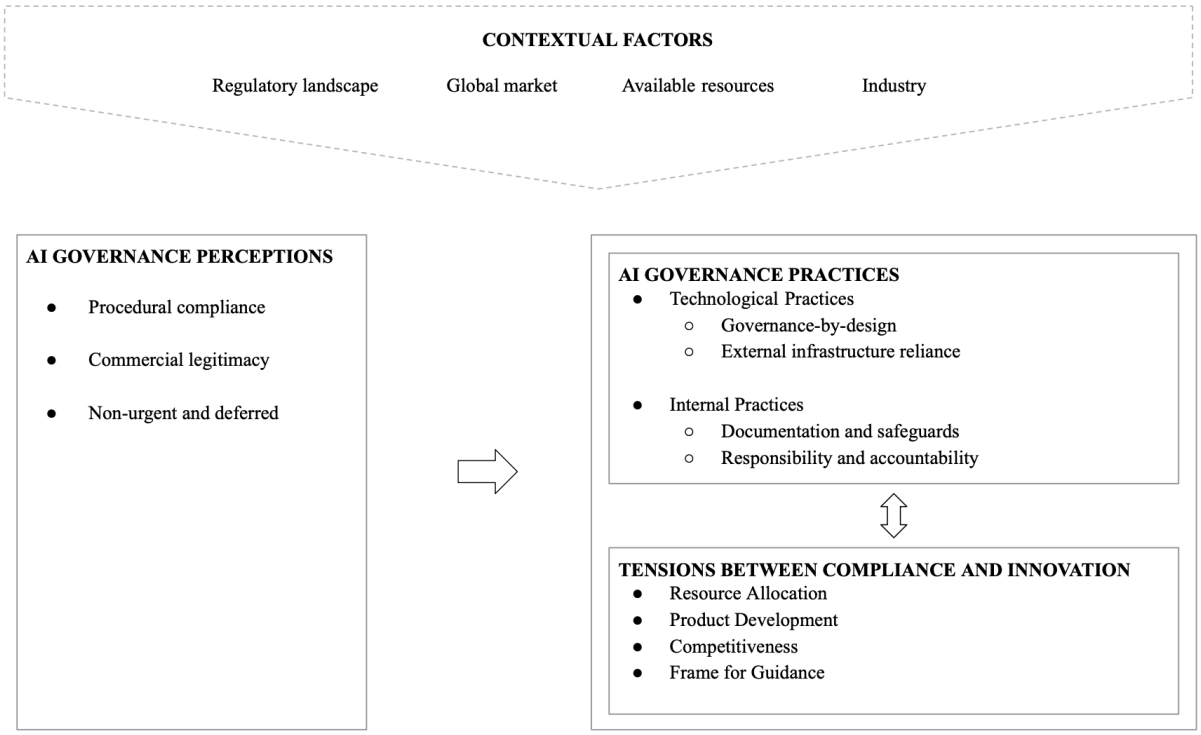

Figure 1. Conceptual Model of How AI Startups Perceive and Navigate AI Governance and Innovation Tensions

The contextual factors form the overarching environment in which startups shape how AI governance is perceived and navigated. Startups do not respond to governance uniformly, instead they filter these contextual conditions through their own governance perceptions. For some firms, multiple perceptions coexist, while others have certain interpretations depending on their context. These perceptions determine the perceived purpose, urgency, and relevance of AI governance. The resulting governance practices represent the responses that follow from these perceptions. Startups operationalise AI governance through selective and adaptive practices shaped by their resources, risk exposure, and stakeholder expectations. Tensions between compliance and innovation emerge as outcomes of this process. Resource allocation pressures, competitive disadvantages, product development constraints, and instances where regulation provides guidance arise from how startups enact AI governance in practice rather than from regulation alone. These tensions are therefore not static conditions but consequences of the interplay between context, perception, and practice.

Overall, the model conceptualises AI governance navigation as a dynamic process. The context sets the conditions that shape perceptions, which in turn guide practices, and together

these processes generate the resulting tensions. This processual view presents why startups facing similar regulatory environments adopt different governance strategies and experience governance in distinct ways.

5. Discussion

The conceptual model provides a structured account of how Swedish AI startups perceive and navigate AI governance, enact it in practice, and experience the resulting tensions between regulatory compliance and innovation. The findings show that AI governance in entrepreneurial settings cannot be understood as a static, top-down compliance function. Instead, governance is interpreted, negotiated, and operationalised through a dynamic interplay between contextual factors, organisational perceptions, and adaptive governance practices. This section discusses the contributions of the study in relation to existing literature.

5.1 Implications for Research on AI Governance

This study advances AI governance research by demonstrating that governance is not primarily determined by regulatory requirements but by how actors interpret, embed, and operationalise those requirements. Existing frameworks provide valuable taxonomies (Gasser and Almeida, 2017; Papagiannidis et al., 2022; Schneider et al., 2023), but provide limited insight into how these layers interact in practice or how regulatory pressures actually unfold within organizations (Wirtz, Weyerer and Sturm, 2020), particularly in resource-constrained firms like startups. Our findings respond to calls for more practice-oriented, empirical studies of AI governance (e.g. Birkstedt et al., 2023).

The findings also extend research on startup governance (Pollman, 2019) by showing that governance is not a static capability but an evolving process shaped by stakeholder expectations, resource availability, and risk exposure. Unlike mature firms that integrate AI governance into existing governance structures (Mäntymäki et al., 2022), startups embed governance selectively and incrementally, consistent with arguments that governance matures as organisations grow (Pollman, 2019).

A central finding is that many startups embed governance that ensure data and AI safety from the outset of their systems. Literature has described this as governance-by-design (e.g. Mulligan and Bamberger, 2018) and, more broadly, as privacy-by-design, which emphasises embedding privacy and data-protection safeguards directly into system architectures (e.g. Edwards, 2016). Our findings confirm Yeung and Lodge (2019) who argue that technical design can function as an instrument of regulatory compliance, enabling organizations to

shape or minimise their exposure to legal obligations, like the AI startups to prevent stricter risk classifications in the EU AI Act do. We extend this work by showing that, under regulatory ambiguity, design choices become interpretive tools through which startups translate uncertainty into legitimacy.

Documentation, certification, and contractual mechanisms also emerge as key governance tools, which develop reactively in response to customer demands. Rather than fully internalising responsibility, many startups shift responsibility downstream to customers or upstream to infrastructure providers, depending on their sector and risk profile. This supports concerns raised by Smuha (2025) and Akbarighatar (2025) about fragmented accountability in AI outputs. It also reflects broader critiques that the AI Act's loopholes, reliance on self-assessment, and weak oversight mechanisms enable actors to exploit regulatory grey zones and strategically externalise responsibility (Wachter, 2024). Our findings show that AI startups exploit a grey zone in the AI Act and treat responsibility shifting as a way for avoiding the regulatory pressures associated with accountability and to navigate their operations under conditions of regulatory and technical uncertainty. While this is most prevalent in lower-risk sectors, startups operating in high-risk domains such as healthcare exhibit a stronger tendency to internalise responsibility, both for legal and strategic reasons. In this way, the distribution of responsibility is not fixed but negotiated, shaped by industry norms, stakeholder power, and the perceived plausibility of shifting blame.

Most startups in our sample rely on LLMs and cloud platforms, typically provided by US-based companies, rather than building proprietary systems. This reliance effectively externalises parts of their compliance burden. While this affords access to robust systems, it also introduces dependencies that are not fully transparent, particularly around data origin, security jurisdiction, and auditability (Bachlechner, Thalmann and Maier, 2014). This supports Mayer and Phillips' (2017) insight that governance is increasingly delegated to powerful private actors. In this case, infrastructure providers become compliance proxies, acting as validators of legal and ethical standards. As startups lean on providers for legal credibility, they also relinquish part of their control, echoing the black-box nature of AI ecosystems (e.g. Taeihagh, 2025).

Our conceptual model further demonstrates that regulation does not directly translate into organizational action. Startups interpret regulatory signals through the lens of their resources,

market relationships, sector, and perceived risks. In this environment, governance is shaped less by formal regulation and more by market forces, especially customer demands, investor pressure, and competitive dynamics. For early-stage AI startups, we find that stakeholders often act as informal regulators determining which governance practices are adopted and when. This extends the stakeholder framework proposed by Cihon, Schuett, and Baum (2021), offering empirical evidence that informal expectations from customers, partners, and infrastructure providers can outweigh formal legal mandates, particularly in sectors not classified as high-risk under the EU AI Act. In more heavily regulated industries, however, startups tend to treat formal regulation as more of a driving force of what governance practices should be used, in some cases choosing to go beyond compliance to establish trust and differentiate themselves strategically.

Taken together, the findings support a broader theoretical contribution: while regulations create baseline conditions, the AI governance practices startups actually adopt are largely shaped by contextual factors and organisational interpretation. The effectiveness of regulatory frameworks therefore hinges on how actors understand and operationalise the rules embedded within technological and organisational systems (de Vaujany et al., 2018). This interpretive work aligns with Seidel, Frick and vom Brocke (2025), who show that actors construct regulatory meaning not only from past experiences but also by anticipating future risks and expectations. Perceived uncertainty can further limit the ability to determine the right course of action in advance, pushing organisations to develop workable responses despite ambiguity (af Malmborg, 2022). Our findings reinforce this view as startups do not passively receive regulation but navigate, negotiate, and selectively translate governance requirements into practice in ways that reflect their broader environment and strategic priorities.

5.2 Implications for Regulation and Innovation in Entrepreneurial Contexts

Our findings add nuance to debates about how regulation interacts with innovation. Our study shows that this relationship is contextual, temporal, and interpretive. We extend Martin et al.'s (2019) work on organisational responses to data regulation by showing that similar patterns emerge under the emerging AI regulation. AI startups experience the EU AI Act as neither wholly negative nor wholly positive for innovation, but as a mixed influence on their activities and for the startup ecosystem as a whole.

AI startups experience regulation as a short-term obstacle to innovation that introduces friction, slows development, and consumes resources. Yet, in the long term, compliance to regulations was perceived as necessary, critical for securing enterprise clients, building legitimacy, and attracting investment. This perception echoes Martin et al.'s (2019) argument that the impact of new data regulation on innovation depends on the temporal horizon in which it is experienced. Such regulation may be more damaging in the short term, while its innovation-enhancing effects typically emerge only later. We extend this work by showing that for AI startups, the impact of regulation on innovation is also driven by contextual factors and perceptions, such as resource constraints, market demands, and expectations about future regulatory developments, which produce perceived tensions between compliance and innovation. Our findings also provide empirical evidence of the risk of temporal decoupling described by de Vaujany et al. (2018) as the AI Act is perceived as poorly aligned with the technology it seeks to regulate, leaving startups with rules that feel neither meaningful nor actionable. This has fostered a 'future-me problem' and a wait-and-see approach in which startups defer governance efforts until the regulatory landscape becomes clearer.

We find that regulatory ambiguity and implementation, rather than the regulation per se, emerges as the main innovation constraint. Startups see the EU AI Act as too rigid and premature, relative to the pace of AI development and the demands of innovation. This aligns with Collingridge's (1980) technology control dilemma (Mayne, 1982) and later arguments by Lee and Petts (2013) and Erdélyi and Goldsmith (2022), which note that regulators struggle to intervene early when technologies are novel and poorly understood, yet delayed intervention risks greater disruption once those technologies are widely deployed. Our findings present that these tensions are further intensified by persistent information asymmetries, both between technical and legal actors (Gasser and Almeida, 2017; Taeihagh, 2025) and between AI startups and their customers. Such asymmetries complicate compliance and governance decisions, as startups often perceive regulators as lacking technical competence, while customers' legal departments frequently misunderstand the underlying technology. In this sense, the study contributes by illustrating how these asymmetries and timing pressures manifest in practice for early-stage AI firms. By highlighting how ambiguity, timing pressures, and information gaps shape these day-to-day governance challenges, the analysis adds nuance to ongoing calls for more adaptive, flexible,

and inclusive approaches to AI regulation (e.g., Alshibani et al., 2025; Sadek et al., 2025; Taeihagh, 2025).

Our study also contributes to research on startup innovation capabilities. As El Hanchi and Kerazi (2020) suggest, such capabilities are vital for early-stage firms, but many startups in our study reported difficulties sustaining core technological and product development innovation capabilities due to the burdens of AI governance and compliance work. Perceptions of excessive regulations and legal ambiguity consumes resources, limits the ability to explore new technical possibilities or launch novel offerings. At the same time, our findings reveal that startups increasingly rely on relational capabilities to fill governance gaps. External stakeholders, including other startups, legal advisors, and incubators, play a growing role in helping startups interpret regulations and design practical responses. In this sense, regulation indirectly strengthens ecosystem ties, even as it weakens internal capacities.

Ecosystem-level dynamics further influence governance. Our study contributes to ecosystem-level analyses of AI governance by shedding light how perceived regulatory asymmetries (between the EU and the US) shape startup strategy and innovation trajectories. As the EU AI Act moves toward enforcement, many startups perceive it not only as a compliance framework but also as a geopolitical constraint that prompts them to consider relocating to the US. They view themselves as operating at a structural disadvantage relative to non-EU competitors, who benefit from greater access to capital and data as well as looser regulatory constraints. This aligns with Cath's (2018) concern that global leadership in AI is heavily concentrated in US-based firms, and with Bessen et al.'s (2020) finding that small companies are increasingly expanding internationally to compete. Our findings highlight that if compliance becomes too resource-intensive, startups may shift their growth strategies toward more permissive markets which pose risks for innovation across the EU. At the same time, both our study and broader research show that the implications of the EU AI Act are not uniformly negative. Wachter (2024) argues that its breadth could lead to global adoption of EU standards, as non-EU firms seek to avoid regulatory fragmentation, mirroring the global influence of the GDPR and potentially giving Europe a competitive edge in setting the rules of the game. Our findings add empirical nuance to this debate by showing how startups navigate these tensions in real time, interpreting regulation as both a barrier and an opportunity depending on context and perceived risk.

Our findings adds perspectives to the dominant narrative of an AI race in which entrepreneurial speed leads startups to deprioritise ethical consideration (Alshibani et al., 2025; Batool, Zowghi, and Bano, 2025; Calvano and Calzolari, 2025; Cave and ÓhÉigeartaigh, 2018). Contrary to this view, the AI startups in our study perceived AI governance as essential to commercial survival. Startups consistently emphasized that cutting corners would damage legitimacy, jeopardise customer relationships, and compromise long-term viability. This aligns with Erdélyi and Goldsmith's (2020) argument that safety failures erode trust and can destroy markets altogether.

Finally, our findings also nuance discussions of competitive strategy by showing that startups must balance the need for speed with the need for compliance, and many view trustworthiness as a competitive asset rather than a constraint on innovation. This dual perception underscores a key contribution of our study, namely that compliance and governance on one side, and innovation on the other, are not opposing forces but mutually shaping processes that evolve through ongoing negotiation, resource allocation, and stakeholder interaction. The challenge is not balancing one side against the other, but learning how to work with both at once in ways that respond to the specific context, take perceptions into account, and remain grounded in the realities of organisational constraints.

5.3 Practical Implications

Bessen et al. (2020) argue that more empirical work is needed to understand how entrepreneurial innovation can coexist with evolving data regulation. By examining AI governance in early-stage firms, this study provides such evidence and illustrates how policymakers, regulators, and ecosystem actors shape not only firms' external constraints but also their internal capabilities, priorities, and resource allocations.

The findings show that regulatory ambiguity operates as a legal, cognitive, and relational burden. Startups spend significant time and resources on interpreting unclear requirements, which shifts attention away from core innovation activities and slows development cycles. Consistent with calls for technology-neutral regulation (Seidel, Frick and vom Brocke, 2025; Smuha, 2021). Our study suggests that the EU AI Act, like the GDPR, should be written in technology-neutral terms that guide behaviour rather than constrain underlying technologies. Bridging this disconnect requires regulators to adopt roles that extend beyond enforcement

(Ayres and Braithwaite, 1992) and act as interpreters and collaborators who provide situated, technically grounded guidance that reflects the practical complexities of AI development (Fenwick, Vermeulen and Compagnucci, 2018).

Recent policy developments point in this direction. In November 2025, after the completion of this study's data collection, the European Commission proposed measures aimed at reducing administrative burdens and strengthening innovation capacity, emphasising the need for clear guidance, proportional implementation, and targeted support (European Commission, 2025). This development supports the findings of this study and indicates growing recognition at the policy level that regulatory effectiveness depends not only on formal requirements but also on the practical conditions under which startups must implement them.

The study also demonstrates that startups' governance practices are often shaped less by regulation than by the demands from stakeholders. This underscores that AI governance cannot be strengthened through legislation alone. Effective regulatory systems must account for the broader set of actors shaping firms' incentives and behaviors. Ecosystem stakeholders must therefore be included in the development of shared standards and responsibilities, not through vague principles but through actionable, enforceable, and operationally realistic mechanisms (Sadek et al., 2025).

5.4 Boundary Conditions and Future Research Directions

As this study examines early- and growth stage AI startups operating under regulatory ambiguity, the findings are most relevant in contexts where compliance demands remain unclear, unevenly enforced, or open to competing interpretations. In more mature regulatory environments, where guidance is clearer, AI governance perceptions and practices may shift or behave differently. Additionally, as we define AI broadly and include startups in our sample with different types of AI application, our analysis may obscure important heterogeneity across specific technologies, industries, and risk profiles. Future comparative research that addresses these distinctions more explicitly would strengthen generalisability.

Furthermore, longitudinal studies are needed to understand how governance evolves as regulations, like the EU AI Act, move from design to full implementation. Tracking how

interpretive practices are replaced, or reinforced, by formal procedures over time would deepen the understanding of regulation as it is practiced. Similar to papers studying the impact of the GDPR on startup innovation before and after its implementation (Martin et al., 2019), future studies could examine how increased regulatory clarity under the EU AI Act shapes internal governance structures, role formation, innovation, and competitive positioning over time. Additionally, as the study relied on self-reported accounts, future research using observational methods, internal documentation, or audits would provide deeper insight into how governance is implemented in day-to-day work and how it changes as startups grow.

Moreover, the sample consists primarily of B2B startups, whose governance practices are heavily shaped by customer demands. Firms operating in B2C models or platform environments may face different pressures around user transparency, fairness, or reputational risk. Studies comparing governance practices across business models would help identify which patterns are context specific and which are more widely applicable.

Lastly, the analysis and discussion of findings suggest that sensemaking provides a suitable theoretical lens (e.g. de Vaujany et al., 2018). Startups don’t simply comply or resist, they interpret, negotiate, and strategically respond to uncertainty. Future work could explore AI governance as a social process that unfolds over time and is shaped by how startsups make sense of ambiguous rules, shifting expectations, and resource constraints.

6. Conclusion

This study shows that Swedish AI startups perceive AI governance as necessary but ambiguous, and they navigate it through selective compliance, responsibility shifting, governance-by-design and reliance on external infrastructure rather than through formalised systems. Their perceptions are shaped by regulatory uncertainty, limited resources, stakeholder pressure and global competitive asymmetries, which make AI governance feel like a ’future-me problem’ even as it influences decisions in the present. Startups do not simply comply with or resist regulation. They interpret ambiguous rules through the lens of their resources, market relationships and technological choices, and adapt their practices accordingly. As a result, governance becomes part of the innovation process rather than an opposing force. Regulatory demands may slow development and strain resources, but they can also establish credibility, inform product decisions and create opportunities for differentiation. In this sense, innovation outcomes are not determined by regulation itself but by how startups interpret regulatory pressures and translate them into workable routines under conditions of uncertainty.

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8. Appendix

Appendix A: Interview Guide in English

Interview Guide (English)
1. Can you tell me a bit about your role and about [startup]? 2. How would you describe what you're building and how AI is involved?
3. What tends to guide your decisions when developing your offering? 4. What AI or data-related challenges or risks come up in your team, and how do you handle them? 5. Do you follow any routines, guidelines, or principles regarding AI in your work?
6. How do you talk about regulations in your team and what do you understand as required from you (e.g. EU AI Act)? 7. What do customers or investors tend to ask about regarding your offering or use of AI?
8. Can you describe a moment when you slowed down, changed direction, or held back on an idea while developing your product? 9. How do legal, ethical, or compliance considerations influence your ability to innovate, experiment, explore? How do you handle that?
10. Is there anything we haven't covered that feels important to mention?

Appendix B: Interview Guide in Swedish

Intervjuguide (Svenska)
1. Kan du berätta lite om din roll och om [startup]? 2. Hur skulle du beskriva det ni bygger och hur AI är involverat?
3. Vad brukar styra era beslut när ni utvecklar er tjänst? 4. Vilka AI- eller datarelaterade utmaningar eller risker dyker upp i teamet, och hur brukar ni hantera dem? 5. Har ni några rutiner, riktlinjer eller principer kring AI ni går efter i ert arbete?
6. Hur pratar ni om regleringar i teamet och vad uppfattar ni som krav på er (t.ex. EU AI Act)? 7. Vad brukar kunder eller investerare fråga om när det gäller ert erbjudande eller er användning av AI?
8. Kan du berätta om ett tillfälle när ni saktade ner, ändrade riktning eller höll tillbaka en idé under utvecklingen? 9. Hur påverkar juridiska, etiska eller compliance-relaterade överväganden er förmåga att skapa innovation, experimentera och utforska? Hur hanterar ni det?
10. Är det något vi inte varit inne på som känns viktigt att ta upp?

Appendix C: AI disclosure note

In this thesis, artificial intelligence was used in a limited and carefully supervised way, restricted to improving clarity, academic tone and overall readability of the written text, while fully upholding academic integrity and respect for the work of other scholars. Specifically, ChatGPT was used only for identifying spelling and grammatical errors, suggesting alternative word choices and helping refine phrasing so that the writing met an appropriate academic standard.

Examples of prompts used include:

- "Help me rewrite this following sentence to ensure that the grammar is correct and the flow is logical."
- "Improve this following paragraph to be more academic and concise while keeping the same structure and tone."
- "Provide a synonym instead of [word] in this following sentence."

AI was at no point involved in generating arguments, interpreting literature, analysing data or producing original content, nor was it used as a source of information. Since AI tools can occasionally provide inaccurate or misleading output, every output was reviewed critically, and their use was confined to surface-level language refinement rather than informational or analytical tasks. By restricting AI involvement to these technical aspects of writing, the clarity and readability of the thesis were improved, facilitating the overall writing process without affecting our independent academic judgement. Using AI highlighted where the writing lacked grammatical clarity, making it easier to refine language efficiently. It also underscored the need for human judgement, since only analytical reasoning and interpretation could be carried out reliably by the authors.