

Evolution And Adoption Of Limited Liability Partnerships In India: A Stakeholder Perspective

Dr. Byju John ¹, Sathish Kumar M²

¹Professor, Department of Management, Kalinga University, Naya Raipur(CG), India

²Research Scholar, Department of Management, Kalinga University, Naya Raipur(CG), India

ABSTRACT

Limited Liability Partnership (LLP), which aids professional auditors to initiate LLP firms in India, is a hybrid form of organization with Companies as well as Partnership Act features. There remains a significant gap in exploring the adoption of LLPs in India from a Stakeholder (SH) perspective, while existing studies indicate a record-breaking surge in LLP adoption. Therefore, this study discloses this gap by approving a descriptive as well as analytical Research Design (RD) and collecting secondary sources of data. As per the study's findings, the service sector accounts for the highest share of LLP registrations (74.53%). The total LLP registrations grew by 16.4% during the financial year 2024-25. The study identifies key factors influencing SH adoption of LLPs, including decriminalization of minor offences, digital incorporation through the Ministry of Corporate Affairs(MCA) portal, lower compliance and filing costs, conversion flexibility from partnership firms to LLPs, and MSME policy benefits. The introduction of Small LLPs makes the LLP structure more attractive to startups and small enterprises

Keywords: Limited Liability Partnerships, Stakeholders, Decriminalization, Small LLPs, and India...

INTRODUCTION:

Usually, cooperation betwixt people working in legal professions has taken partnership form, under which every partner may be individually accountable to 3rd parties for any harms instigated (Dewi, 2021). Partnerships have historically been one of the oldest forms of business organisation; also, this could be demonstrated by the fact that partnerships have been replaced by the limited liability company concept regarding complex business (Krishna, 2018). Thus, the shareholders are not accountable for the company's debts more than their investment amount (Disassa, 2020). The most emerging form of partnership is the LLP, which is governed by a special act, "The LLP Act 2008" (Majmudar, 2021).

LLPs are the current forms of business enterprise amalgamation as well as have arisen as business enterprise's suitable along with suitable form. LLPs in India got legal gratitude after the LLP Act of 2008 enactment (Tyagi, 2021). The concept of LLP is based on limiting partners' liability to the extent of their agreed contribution (Sharma, 2018). This provides entrepreneurs and business owners with a structured business vehicle when weighed against a solitary proprietorship or else a conventional partnership. LLP offers business operation controlling flexibility regarding the company agreement whilst relishing the inadequate liability status when analogized to a company (Kumar, 2018). Due to the LLP's flexibility, it has become increasingly popular in the commercial world.

LLPs have donated to their rise to importance as a favoured selection amongst small business owners along with entrepreneurs in India (Kailash & Kumari, 2024).

Various small together with medium manufacturing enterprises have relished the dual benefit of less compliance and advanced admittance to credit in the market. LLP is the best business vehicle, especially for professionals like chartered accountants, company secretaries, along with advocates (Asghar, 2016). Due to the benefits of the LLP business model, legislation has been passed in many jurisdictions to incorporate and govern LLP operations. The number of LLP registrations in India is increasing, and the traditional unlimited partnerships are being converted to LLPs, providing them with a desired status in the Indian corporate environment (Sanghavi, 2022).

1.1. Problem Statement and Research Gap

The LLP has gained importance over the past few years because of what it represents, which is a fusion of a Partnership firm along with a company's benefits. Despite the legislative evolution of the LLP framework in India, there is a critical need to evaluate whether these macro-level policy changes have translated into micro-level benefits for diverse SHs. When comparing with private limited companies, LLPs offer a structure with limited liability and reduced compliance. However, several structural and institutional factors influence their widespread adoption among SHs. Even though existing data indicate a record-breaking surge in adoption, the adoption of LLPs from an SH perspective remains underexplored. This research targets to bridge the research gap and examine the perspective of SHs in the adoption of LLPs in India.

1.2. Research questions

To address the study's objectives, the subsequent Research Questions (RQs) are formulated:

How has the legislative and regulatory framework governing LLPs evolved in India?

What are the trends in the adoption of LLPs in India?

What are the sectoral and structural patterns of LLP adoption in India?

How do structural and institutional factors influence SH confidence in LLPs?

How do different SHs perceive the LLP structure as a business organization form?

1.3. Objectives of the study

To achieve the research's aim, the present study attempts to fulfil certain objectives, which help in examining the phenomenon. The present study's objectives are,

To examine the LLP framework's legislative and regulatory evolution in India.

To analyse trends in the adoption of LLPs in India.

To assess LLP adoption patterns from a SH-oriented perspective.

To identify structural and institutional factors influencing SH confidence in LLPs.

To establish a conceptual base for future empirical research on SH perceptions of LLPs in India.

1.4. Scope and Significance of the Study

This research aims to offer an overview of LLPs' evolution through legislative as well as regulatory means and SH responses to adopting LLP. LLPs are a new form of business organisation and provide flexible legal structures to allow for limited liability. As such, LLPs are quickly growing in popularity as an alternate to both companies as well as partnership firms, both of which have historically been utilised as business units. This research may also show how LLPs create more confidence in their SHs' opinions than traditional partnership firms do. The analysis of structural and institutional factors assists in providing SHs with greater confidence in using LLPs. This study focuses primarily on LLPs' development in India through the eyes of the SHs.

The latter part of the research is divided into a few sections and is given as: Section 2 contains a related literature review's summary. Section 3 defines the methodology used for the study. The result is discussed in Section 4. Finally, in Section 5, the study is concluded by discussing the findings, implications, their limitations, along with the scope of future research.

2. REVIEW OF LITERATURE

(Dinkisa, 2018) scrutinized the adoption of LLPs into Ethiopia's corporate system. The study collected data as of the prevailing legislation as a primary source linked to the study. Likewise, secondary sources of data were wielded. The collected data were investigated using qualitative analysis. LLPs were introduced in Ethiopia's legal system for promoting choice meant for SMEs along with professionals by offering incomplete liability devoid of onerous accounting, auditing, together with disclosure

requirements. LLPs became an added advantage for entrepreneurs, business owners, along with investors opening ventures, as well as the country's overall economic development. However, the study examined whether the major corporate theories of LLPs would be applicable only to the Ethiopian context.

(Thottolia & Ahmed, 2023) studied Information Technology (IT) adoption's effect and its decisive factors by auditing LLP. Quantitative data of 143 chartered accountants recorded as LLPs located in Kerala were collected through a questionnaire. The study used statistical methods like descriptive statistics, reliability testing, and confirmatory factor analysis. Further, Structural Equation Modelling (SEM) with the Partial Least Squares (PLS) was wielded to test the hypotheses. The results revealed that IT awareness was associated positively with IT adoption, IT proficiency was associated positively with IT confidence, and IT confidence mediated the link between IT proficiency as well as IT adoption. Despite the findings from the study, generalising the results to LLPs in Kerala might not be accurate.

(Ananya, 2022) scrutinized LLPs' impact in diverse business scenarios. The data used for the study were collected using a questionnaire. The study also included secondary sources of data from books, e-journals, and websites. It offered collected data's qualitative analysis regarding LLPs. The findings revealed that since 2012, the evolution in start-ups registered in the LLP Act was 6 times more than it was in the preceding decade. Further, the paperwork and costs involved in establishing an LLP were significantly lower when compared to traditional companies. Moreover, benefits like tax advantages, access to loans, and no compulsory audit compliance made business structures of LLPs less burdensome for SHs. Nevertheless, the findings of the study were subjected to biases due to its qualitative nature.

(Kahal & Jarwal, 2023) explored the growth and development of LLPs in India. Data used were collected as of secondary sources like the Reserve Bank of India, the National Institute for Transforming India (NITI) Aayog, and the Ministry of Finance. The study used descriptive statistics to examine the gathered data. The study found that 1,26,733 LLPs were operating in India from June 30, 2018, with Rs. 38,447.21 (total contribution obligation). Amongst all LLPs, the service industry was 76%, after the manufacturing sector (22%), as well as agriculture, along with linked activities (2%). Furthermore, there was no change in LLP registrations between the pre- as well as post-GST Act 2017. However, the data used were only sourced from secondary sources. This might neglect the experiences of entrepreneurs regarding LLPs, thereby providing a limited understanding.

(Patil et al., 2023) studied the effects of LLPs on businesses in India. Data were gathered only from secondary sources, which included books, online journals, along with government websites. Data's descriptive statistic was used to gain insights into the effects of LLPs. The findings showed that over 26,000 LLPs were recorded in 2020-21. There were more than 264,000 LLPs

registered in India from the 28th of February 2022, as stated by the Ministry of Corporate Affairs (MCA). Maharashtra had the highest LLPs with over 54,000 registered LLPs, followed by Delhi (27,000) and Tamil Nadu (19,000). However, changes in government regulations, taxation policies, or compliance requirements for LLPs after the study period might affect the applicability of the results.

(Bhagat & Vnsgu, 2019) examined the awareness levels regarding the LLP Act among Chartered Accountants (CAs). The data used were collected from 50 practising CAs in Surat city through a questionnaire. The study used the cross-tabulation method for the collected data's analysis. As per the outcomes, 11 out of 50 practising CAs were not aware of the LLP Act. Also, 31 out of the 50 participants advised registration under the LLP Act, and 33 out of the 50 agreed that LLPs are better than traditional partnerships. Moreover, a majority of the participants disagreed that LLPs were time-consuming and costly. Despite the views of the participating CAs, the study might be subject to perception biases, and the study's applicability was limited since data were sourced only from Surat City, India.

(Pooja, 2018) studied the concept of LLPs in India. The research gathered secondary data from various sources. Consequently, the study offered a qualitative analysis to interpret results. The findings showed that, unlike corporate shareholders, LLP's partners can achieve the business directly. One partner wasn't accountable or else liable for additional partner's misbehaviour or else slackness. Partners' liability was limited to their decided contribution in the LLP or else specified in the LLP agreement. LLP was another corporate business vehicle, which offered limited liability's benefits but allowed its members to establish their internal structure as a conglomerate centered on an equally agreed-upon agreement. However, the study didn't provide empirical backing for the stated facts due to the lack of quantitative analysis.

(Jarwal, 2020) examined LLPs as a business model to facilitate entrepreneurial efficiency. Interviews were conducted among 439 LLPs as part of the data collection process. The study also used secondary data sourced from the MCA. Subsequently, the study conducted statistical analyses, such as regression and analysis of variance, for the aforementioned data. The empirical results showed that entrepreneurs had gained efficiency through the adoption of the LLP model. Additionally, the entrepreneurs under the LLP model could efficiently use capital as compared to labour employed. Nevertheless, data gathered from the interviews might be subject to respondent bias, and the details of the LLP business profiles weren't considered in the study. These limitations limited the accuracy and objectivity of the study.

(Kahal, 2017) studied the benefits of the LLP model for Small and Medium Enterprises (SMEs) and entrepreneurs. The study collected data only from secondary sources like websites, books, along with journals. Therefore, the data gathered were analysed qualitatively without the use of statistical data analysis methods. The study identified benefits like no minimum

capital contribution, limited liability, reduced compliance burden, no compulsory audit, tax benefits, and working flexibility as favourable for the growth of SMEs in India. Despite the identified benefits, reliance on secondary data limited the scope of the study. Moreover, as past data were used, the changes in policies and legislation were not addressed.

(Kahal, 2019) assessed the impact of LLPs on the prospects of entrepreneurship. Primary data were collected via a structured questionnaire as of 402 LLPs, whereas secondary data were composed as of MCAs website and other websites for the period 2010-2018. Further, the assessments were carried out using methods of descriptive statistics and SEM modelling. The results indicated a year-wise increase in the number of registrations. The SEM results established that LLP, as a business model, helped to promote entrepreneurship. The year-wise increasing trend of registrations and conversions from traditional business models indicated that the LLP model was helpful in the promotion of entrepreneurship. Nevertheless, since data were gathered only from 2010 to 2018, the study might not account for the ongoing legislative and economic changes.

(Rajanaahalli, 2020) measured the merits of LLPs over traditional business partnerships. The study used primary along with secondary data. A questionnaire functioned as the source for primary data collection, whereas secondary data were collected as of books, e-journals, along with websites. The collected data were interpreted using descriptive statistics. Out of the participants, 89% responded 'yes' to being aware of LLP as a business model. Further, the findings revealed that 89% of participants agreed that LLPs were a better business model than traditional partnerships. Furthermore, 67% agreed that LLPs in India had helped professionals to compete with businesses from other parts of the world. However, the lack of numerical analysis in the study might limit the applicability of the study to a larger sample.

(Joshi, 2024) explored the impact of LLPs as well as their effects on small enterprises. The study used data only from secondary sources like books, online journals, along with government websites. The study relied on the qualitative analysis of past studies. The findings revealed that from February 28, 2022, there were 112 foreign LLPs recorded in India. As per MCA, LLPs engendered INR 1.62 lakh crore in 2019-20. Also, LLPs are accountable for over 2.5 million job creations in India. Additionally, LLPs that were registered in India had steadily grown in the course. Nevertheless, the lack of quantitative analysis limited the applicability of conclusions that could be drawn from the study.

(Govindan, 2018) studied LLPs' growth in India as an advanced vehicle meant for entrepreneurial development. Data were gathered from secondary sources linked to corporate law, bar acts, and publications by the state, along with the central government in India, as well as international organisations linking to commerce as well as trade. The collected data were investigated using statistical analysis methods like correlation analysis and the T-test to test hypotheses. Results from the correlation

table revealed that LLP registrations, along with contribution (total obligation) (Rs. in crore), were correlated. As per the paired t-test result, a growth was depicted in LLPs' registrations after the Companies Act 2013 implementation. But, the results might be geographically limited, as the data were specific to India.

(Shreeram, 2020) analyzed the factors contributing to the effective implementation of LLP as a business model. Primarily, data were collected through a questionnaire from 424 business persons and chartered accountants from western Maharashtra in India. Further, secondary data were collected to find out various facts and figures regarding the study. The research used a one-sample z-test to test the hypotheses. The study found that 83.15% of the entrepreneurs had a basic understanding of the working rules of LLPs, and they expressed an opinion that they could be better shielded through an innovative business model like an LLP. Income tax, foreign policy, and a banker's approach played significant roles in the successful implementation of an LLP. Nevertheless, as the study gathered data specific to Maharashtra, the findings might not be generalisable to a larger sample.

(Govindan, 2018a) examined the number of companies registered in India and their economic performance. Secondary sources acted as the sole source of data collection. Various statistical methods, like percentage, correlation, and paired t-tests, were used to analyse the secondary data. Correlation analysis between the state-level economic activity and registrations showed that Maharashtra, Delhi, and West Bengal ranked highest in both total registered and active companies. A paired t-test analysis of LLP registrations indicated that there was no change in registrations before and after the 2017 GST Act, thereby indicating a high level of stability. The T-test found that LLPs were robust enough to maintain stable growth despite tax reforms. However, the study specifically considered data before December, 2018. The results and interpretations given in the study were of an outdated nature, affecting the practical relevance to present contexts.

3. CONCEPTUAL FRAMEWORK

In the SH theory, an organization is defined as the network of SHs in the environment. The SHs of an organization are defined as individuals or entities that have an interest in how the organization is governed and managed (i.e., its operation and decision-making) (Freeman & Veal, 2005). By applying this definition to organizations investigated by the research, the concept of SHs can generally refer to any person or entity whose interests are either influenced or affected by how an organization operates and is governed. Therefore, SH theory provides a theoretical framework for analyzing the effect of regulatory and institutional changes on the adoption of various business structure types.

The LLP structure, introduced by the LLP Act, 2008, is a hybrid type of business organisation that provides business owners with the operational flexibility of a traditional partnership while at the same time offering the protection from liability associated with corporations (Sen & Mathen, 2011). The purpose of establishing LLPs was to encourage entrepreneurship and the development of professional service firms and small and medium enterprises (SMEs). The LLPs help to eliminate the risk presented to entrepreneurs by unlimited (personal) liability and the burden of a complex corporate compliance framework (Afsharipour, 2015).

The willingness of different SHs to accept LLP naturally varies based on how those SHs believe an LLP stack up against other types of organizations in terms of their respective benefits/limitations (e.g., for entrepreneurs and small businesses, an LLP may be evaluated with respect to flexibility in managing an LLP, reduced compliance burdens, or the relative costs associated with incorporating an LLP). For professional service (e.g., Chartered Accountants, Legal Practitioners, Consultants), it would be more impacted towards accepting an LLP from a structure perspective since the LLP's unique 'partnership methodology' allows for a viable partnership, given the legal protection it affords against personal liability for conduct on behalf of the LLC (Govindan, 2018).

Another key SH group that has an impact on how LLPs are adopted is regulators and policymakers. Regulatory reform, in the form of laws like the LLP (Amendment) Act of 2021, created a variety of new measures to help simplify regulatory compliance and improve businesses' ability to operate in a timely manner (MCAs, 2021) (Goyal, 2021). This included the introduction of the "Small LLP" concept and the decriminalization of certain procedural offences. Institutional reforms will improve SH confidence in the legitimacy of LLPs as a business structure.

Lending institutions and financial organizations also affect the adoption of LLPs by affecting the access offered to credit and investment opportunities. For example, some lenders consider LLPs to be a higher risk than corporations due to their restrictions on both capital structure and ownership transparency (Thottolia & Ahmed, 2023). This indicates that lenders' perceptions may affect their financing decisions, thereby affecting the growth trajectory of the different types of LLPs.

So, the conceptual framework (Figure 1) proposed by this study suggests that both the evolution of the regulatory framework and the reforms in institutions influence the adoption of LLPs through the differing perceptions and expectations of the various SHs. These SHs' reactions to these changes in institutions will then ultimately impact the way in which LLPs are adopted across the Indian economy's various sectors.

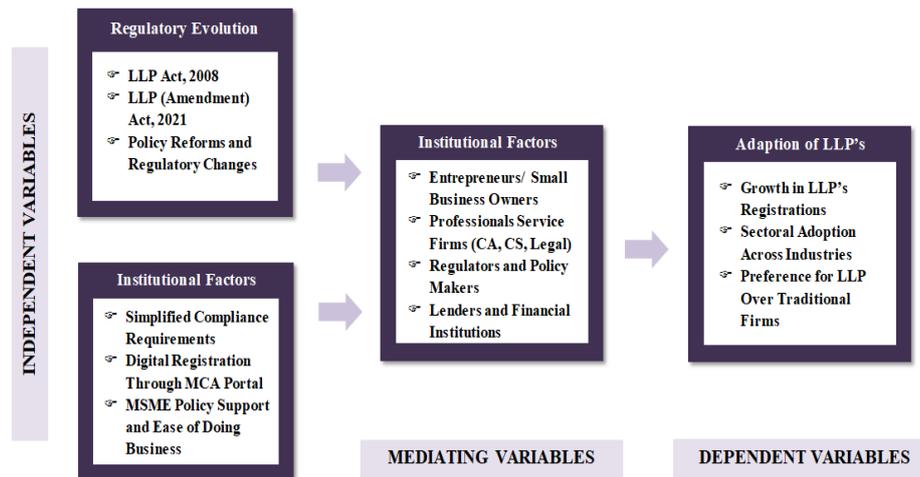


Figure 1: Conceptual Framework of LLP Adoption in India

Within this conceptual framework, regulatory evolution and institutional reform are classified as the independent variables that impact the LLP's overall business environment. All SHs, such as entrepreneurs, professional service providers, regulators, and financial institutions, are perceived as mediating variables impacting how LLPs become accepted and utilized. The dependent outcome variable of the framework is the level of utilization of the LLP structure within India, as evidenced by the trends in registered LLPs and participation across various sectors.

4. RESEARCH METHODOLOGY

The research's main focus is to examine the perception of SHs in the adoption of LLPs in India. The research methods wielded are presented along with their discussed in this section. It focuses on RD, methods for approaching the data, and the collection of data. The study accepts a descriptive, along with analytical RD centered on secondary data. Both quantitative and qualitative information available from these sources is analysed using descriptive statistical techniques and qualitative content analysis.

4.1. Research Design

An RD creates the route to answer the RQs. Thus, the RD is the primary plan for the research, like each step, which is proficient by the researcher. This study examines the evolution and adoption trends of LLPs in India. Further, the study examines the adoption patterns of SHs in adopting LLPs in India. The RD chosen is a descriptive as well as analytical RD. The design presents data in a meaningful manner, which helps the researcher to reach logical conclusions. The study relies exclusively on secondary data obtained as of government reports, statutory documents, and academic literature.

4.2. Data Collection

Here, the research was built upon a detailed analysis of information, along with understanding gained as of secondary sources. Data are collected from various sources like statutory enactments, government publications, MCA annual and monthly bulletins, committee reports, and peer-reviewed academic literature. These are valuable sources of secondary data to provide

comprehensive insights into the present research topic. Compared with primary data, secondary data sources offer a lower-cost means of answering the RQ, along with answers could be attained in a short time frame. In this study, the data collected includes both quantitative and qualitative data. Ethical clearance is not required as no primary data has been collected and used for the study.

4.3. Data Analysis

This research uses quantitative as well as qualitative techniques to examine complex RQs. The secondary data collected relates to LLPs in India. The collected data are analyzed using two different techniques. By employing descriptive statistics (frequency as well as percentage), the quantitative data are analysed; also, the qualitative data are analyzed by employing qualitative content analysis. Moreover, a comparative analysis has been performed to examine the adoption rate of LLPs among the SHs before and after the enactment of the LLP (Amendment) Act, 2021.

4.4. Advantages of Secondary Research

It is a cost-effectual, accessible, along with effectual means of exploiting the prevailing data to answer novel RQs. Another advantage of employing this is available data's breadth. It offers access to datasets, which would be virtually unbearable for an individual researcher to collect. As great organisations have greater financial along with human resources for longitudinal analysis, secondary data drawn as of credible sources are sometimes more reliable, which is valuable while making comparisons over time.

5. ANALYSIS OF RESULTS AND DISCUSSION

5.1. Legislative and regulatory evolution of the LLP framework in India

Legislative History of India's LLP Act

Recently, the Indian government has assembled committees, mainly made up of foremost industrialists along with government officials, for considering amendments as well as modernization of Indian business law. The LLP framework's legislative evolution in India from 2005 to the present date is summarized in Table 1.

Table: Legislative Evolution of Limited Liability Partnerships in India

Year	Legislative Development	Key Significance
2005	J.J. Irani Committee Report	Suggested introduction of LLP structure in India
2008	Limited Liability Partnership Act, 2008	Established LLP as a novel business entity combining partnership flexibility with limited liability
2009	LLP Rules implemented	Enabled formal registration and regulatory procedures
2021	LLP (Amendment) Act, 2021	Decriminalization of minor offences and introduction of the Small LLP category
2022 onwards	Compliance simplification measures	Improved ease of doing business for LLPs

Source: (Institute of Company Secretaries of India, 2005; India Code, 2008; Indian Kanoon, 2009; Ministry of Law and Justice, 2021)

J.J. Irani Committee recommendations

In December 2004, the MCA assembled the J.J. Irani Expert Committee on Company Law to aid to appraise the Companies Act, 1956. The Irani Committee observed its task as endorsing changes to Indian business law for making India modest in appealing investments as of abroad. The Government founded an Expert Committee on Company Law under Dr J.J. Irani’s Chairmanship to make endorsements on:

Issues rising as of the revision of the Companies Act, 1956.

Responses received as of numerous SHs on the Concept Paper.

Bringing around compactness by minimizing the Act size, along with eliminating redundant provisions.

Allowing easy as well as unmistakable interpretation by reorganizing law provisions.

Offering tractability in rulemaking to permit an appropriate reply to ever-developing business models.

Protecting SHs and investors’ interests like minor investors.

Any other issue linked to or else incidental to the above.

The Committee recommendations can offer valued input in the novel Company Law (Ministry of Affairs, 2005) preparation.

LLP Act, 2008

The LLP Bill was presented in Parliament in 2006. The LLP Act was enacted in 2008 by the Ministry of Law and Justice, and it was passed on 12th December. This act is enacted to make supplies for LLPs’ formation as well as regulation as well as for matters linked therewith, incidental thereto.

The act has 81 sections as well as 4 schedules.

The 1st Schedule deals with the partners’ mutual rights as well as duties.

The 2nd Schedule deals with firm conversion into an LLP.

The 3rd Schedule deals with a private company’s conversion into an LLP.

The 4th Schedule deals with an unlisted public company’s conversion into an LLP.

It is administered by the MCA along with the Registrar of Companies (RoC). LLP is considered as a hybrid organisational structure combining features of an enterprise as well as a company (Taxmann, 2008). The difference between LLPs and Traditional Partnership Firms in India is given in Table 2.

Table 2: Comparative Features of LLP and Traditional Partnership Firms

Feature	Traditional Partnership Firms	Limited Liability Partnership
Act Applicable	Partnership Act, 1932	LLP Act, 2008
Registration	Registration optional	Registration with RoC is required
Numbers of members	Minimum: 2 Maximum: 20	Minimum: 2 Maximum: Unlimited
Agreement documents	Partnership Deed	LLP Agreements
Liability	Unlimited	Limited
Legal entity	No separate legal entity	Yes, can sue or be sued in the name of LLP
Minimum capital	No requirement	No requirement

Succession	Ceases to exist on the change or death of a partner	Perpetual succession
Board of directors	No requirement	No requirement
Number of board meetings	As per the Partnership Deed	As per LLP Agreements
Preparation of minute book	Not mandatory	Depends on the procedure prescribed in the LLP agreement
Maintenance of statutory registers	Not applicable	Not applicable
Conversion	Can be converted into a company or an LLP	Can be converted into a company
Directorship/Partnership	A foreign national can't be a partner in a firm (except in some cases)	A foreign national could be a partner in an LLP
Dissolution	By agreement, mutual consent, or insolvency	By agreement or else by order of the National Company Law Tribunal

Source: (Govindan, 2018)

The milestones achieved during the modern evolution of LLP in India from 2008 to 2025 are given in Table 3.

Table 3: Modern evolution of LLP in India

Milestone Year	Evolution Phase	Stakeholder Impact
2008	Inception	Introduction of a hybrid corporate vehicle.
2021	Amendment Act	Decriminalization of procedural lapses.
2024	Record Growth	LLP registrations hit 8,700+ per month (March 2025).
2025	Digital Maturity	AI-integrated V3 Portal & e-filing ecosystem.

Source: (India Code, 2008; Ministry of Law and Justice, 2021; Press Information Bureau, 2026)

Introduction of Small LLPs

The Act recognized the small LLP concept, which was similar to the concept of small companies under the Companies Act, 2013.

Contribution up to ₹25 lakh (extendable to ₹5 crore)

Turnover up to ₹40 lakh (extendable to ₹50 crore)

Small LLPs benefit from reduced compliance requirements, lower penalties, and simplified regulatory procedures, making the LLP structure more attractive to startups and small enterprises (Goyal, 2021).

Decriminalization of minor offences

The Government of India, in the MCA, decided to initiate the process of decriminalization of compoundable offences under the LLP Act, 2008 for greater ease of doing business for law-abiding LLPs. This was done by constituting a Company Law Committee, which gave birth to the LLP (Amendment) Bill, 2021. The Amendment Act balances criminal liability, along with decriminalizing the following offences by recommending just civil liability in monetary penalty form (Table 4).

Impact of the LLP (Amendment) Act, 2021

Table 4: Offences under various sections

Section 10: Punishment for contravention of Sections 7, 8, as well as 9	Section 13: Registered office of LLP and change therein
Section 21: Publication of name as well as limited liability	Section 25: Registration of changes in partners
Section 30: Unlimited liability in case of fraud	Section 34: Conservation of books of account, other records, audit, etc
Section 35: Annual return	Section 60: Compromise or else arrangement of LLPs
Section 62: Provisions meant for LLPs' facilitating reconstruction or amalgamation.	Section 74: General penalties

Source: (Goyal, 2021)

Regulatory simplification

Earlier, LLPs did not have the benefit of either simplified regulation or ease of practice. The earlier structure imposed high compliance costs, hindering start-ups and small businesses. The LLP (Amendment) Act, 2021, replaced several criminal offences with civil penalties and reintroduced the concept of Small LLPs, thereby reducing regulatory burdens and educating the ease of doing business. The LLP’s evolution before and after the amendment of the LLP Act is given in Table 5.

Table 5: Evolution of LLP after the Amendment

Feature	Pre-Amendment (Before 2021)	Post-Amendment
Small LLP Concept	Non-existent	Introduced for ease of doing business and had higher thresholds (Contribution up to ₹5 Crores and Turnover up to ₹50 Crores)
Offences	Criminal (imprisonment risks)	Decriminalized with 12 minor offences converted to civil defaults with monetary penalties
Audit Requirement	Rigid thresholds	Exempted for Small LLPs, significantly lowering the Compliance Cost for SHs.
Raising Capital	Limited to partner contribution	Non-Convertible Debentures (NCDs) are permitted, allowing debt financing from regulated investors.

Source: (Goyal, 2021; India Code, 2008; RBSA Advisors, 2021)

In India, LLP registrations in May 2025 flied by 37% year-on-year, setting a novel benchmark meant for minor business creation. Whilst traditional company combinations rose by 29%, the general trend meant for FY25 depicted a 2.2% failure in company setups. While, LLPs saw a 16.4% annual evolution in 2024-25 (Efiletax, 2025) after the LLP (Amendment) Act, 2021.

Foreign Direct Investment in LLP

Previously, FDI under the automatic route was permissible only in a company united under the Companies Act, 1956/2013. Then, it was decided that the LLP recorded under the LLP Act, 2008, was eligible to accept under certain conditions. FDI in an LLP requires prior Government approval. Under the FDI Policy, Foreign Investment in LLP is allowable with the

Government’s specific approval. After the 2015 policy reform, FDI in LLPs is permissible under the automatic route in sectors, where 100% FDI is permitted (Press Information Bureau, 2011).

LLPs with FDI wouldn’t be permitted to function in agricultural or else plantation activity, print media, or else the real estate business.

LLPs with FDI wouldn’t be qualified to make any downstream reserves.

Foreign Capital participation in LLPs will be permitted just by way of cash deliberation.

Investment in LLPs by Foreign Institutional Investors as well as Foreign Venture Capital Investors wouldn’t be permitted.

5.2. Trends in the adoption of LLPs

LLP Registrations in India

Table 6 presents the number of LLP registrations in India across selected financial years. The number of registered LLPs showed a small decrease from financial years 2020–21 to 2022–23 and then increased sharply between 2023–24, suggesting that the introduction of regulatory reforms and increased ease of conducting business led to an increased number of registered LLPs starting in 2023/24.

Table 6: LLP Registrations in India (Selected Financial Years)

Financial Year	LLP Registrations	Source
2020–21	42,186	MCA Annual Report
2021–22	38,418	MCA Annual Report
2022–23	36,249	MCA Monthly Information Bulletin
2023–24	58,990	MCA Annual Report
2024–25*	51,461 (Apr–Oct)	MCA Monthly Information Bulletin

Source: (MCA, 2026; MCA, 2026a; Ministry of Electronics and Information Technology, 2026)

Sector-Wise Adoption of LLPs in India (Financial Year 2024–25)

Indian LLPs have been quickly embraced by the various industries in which they operate, including agriculture and its related activities, the industrial sector, and the service sector (See Table 7), as a result of being a hybrid form of business in that they combine partnerships’ flexibility with corporations’ limited liability. Providing examples of each of these industries is helpful. The industrial sector consists of the manufacturing industry, construction companies, electricity companies, gas companies, water supply companies, and mining and quarrying companies, whereas the service sector consists of the business services industry, trade/retail/wholesale, real estate as well as leasing, community/personal/social services, transportation/supply/storage/communication, and insurance deadlines (MCA, 2025).

Table 7: Major Sectors Adopting LLP Structures in India

Sector	Nature of LLP Adoption	Examples of Businesses
Service sector	The highest concentration of LLP registrations	Consulting, IT services, and legal and accounting firms
Industrial / manufacturing	Moderate adoption among SMEs	Small manufacturing enterprises
Agriculture and allied activities	Limited adoption	Organized farming groups and agri-services

Source: Compiled by the author centered on MCA registration data and secondary literature.

The number of LLPs registered and active LLPs in the above mentioned sectors during the fiscal year 2024-25 is given in Table 8.

Table 8: LLPs as on 31st March, 2025

Sector	Number	Percentage (%)	Obligation of Contribution (in Rs Crore)
Agriculture and allied activities	6,771	1.75	2,136.15
Industry	91,969	23.72	42,555.36
Service sector	2,89,035	74.53	2,18,032.63
Others	33	0.01	0.75
Total	3,87,808	100	2,62,724.89

Source: (MCA, 2025)

According to the data, 74.53% of registered LLPs are in the service sector. Industry accounts for 23.72% of LLP registrations, and agriculture and related sectors contribute only 1.75%, or a small number of registered LLPs.

5.3. Adoption Pattern of LLP from a stakeholder-oriented perspective

Factors driving the shift from a private limited company to an LLP

The factors that influence the SHs to convert from a private limited company to an LLP are examined and displayed in Table 9. The shift from a Private Limited Company to an LLP in India is primarily driven by factors like compliance burden, taxation, ownership flexibility, audit requirements, conversion flexibility, and start-up preference.

Table 9: Influential factors

Factor	LLP	Private Limited Company
Compliance Burden	Lower	Higher (mandatory audits and annual returns)
Taxation	Flat 30% income tax on profits	Corporate tax + dividend taxed in shareholders' hands
Ownership Flexibility	Equal say amongst partners	Directors vs Shareholders
Audit Requirement	Only if turnover > ₹40 lakh or else contribution > ₹25 lakh	Mandatory, irrespective of turnover
Conversion Flexibility	Easy to convert into a company	Complex to switch to LLP
Start-up Preference	Professional firms and consultants	Start-ups seeking VC funding

Source: (Efiletax, 2025)

Stakeholder Comparison

The LLP is a frequently used structure to balance operational flexibility with legal certainty in professional services. The LLP allows professionals with shared goals to collaborate in an efficient manner while providing a high level of legal and financial security to its members.

Start-ups and SMEs frequently use the LLP structure due to lower compliance costs than those associated with private limited companies, greater operational flexibility, and fewer regulatory restrictions. This is particularly true for SMEs that do not have a minimum capital contribution requirement. Industrial enterprises also find the LLP structure advantageous because it has the least complicated regulations of any type of business structure.

LLPs have been used by various agricultural enterprises because they provide protection (limited liability) and flexibility (operational flexibility) as well as offer relief by being subject to fewer governmental regulations (less regulatory burden). The benefits of the LLP structure for different SHs are displayed in Table 10.

Table 10: Stakeholder Benefits of the LLP Structure

Stakeholder	Benefit of LLP Structure
Entrepreneurs	Reduced compliance burden and operational flexibility
Professional firms (CA, CS, and law firms)	Limited liability with partnership-style management
Regulators	Simplified regulatory monitoring compared with companies

Lenders	Structured legal entity with a defined liability framework
SMEs	Lower cost of formation compared with private companies

Source: Compiled by the author based on (Sen & Mathen, 2011; Afsharipour, 2015; Govindan, 2018).

The analysis of legislative development and trends in how LLPs are being accepted and the distribution of LLPs by sector shows that this form of business organization has gained significant traction in India as an attractive alternative to the traditional forms of business organization. By introducing regulatory reforms through the LLP Act, 2008 along with the LLP (Amendment) Act, 2021, authorities have reduced the compliance burden and made it easier to do business. The service sector has the most LLP registrations, indicating great levels of use by professional service companies and consulting firms and by knowledge-based businesses. LLPs are attractive to a wide range of SHs because they combine high flexibility for how the business can be run, limited liability protection for all partners involved in the operation, and minimal regulatory compliance as a legal entity. Thus, LLPs offer many opportunities for entrepreneurs as well as small to medium-sized businesses and other types of partners who wish to do business together in an organized manner.

5.4. Structural and institutional factors influencing stakeholder confidence in LLPs

In India, LLPs have become one of the most popular business structures. With supportive government reforms, the LLPs provide the right balance of legal protection, credibility, and ease of doing business to various SHs, such as entrepreneurs, professional service providers, regulators, and financial institutions. The factors influencing the SH's confidence in preferring the LLPs are decriminalization of minor offences, simplified digital registration process, lower compliance and filing fees, conversion of traditional partnerships into LLPs, and MSME benefits extended to LLPs (Table 11).

Table 11: Structural Factors Influencing LLP Adoption

Institutional Factor	Influence on LLP Adoption	Reasons for stakeholders preferring LLPs for the future
Decriminalization of minor offences	Reduced regulatory risk	Trust among the SHs

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Digital incorporation through the MCA portal	Faster business registration	Encourage businesses to adopt LLPs without problems
Lower compliance and filing costs	Financial advantage for SMEs	Reasonable for small firms and start-ups
Conversion of partnership firms into LLPs	Easier transition for existing businesses	Provide liability protection and maintain partnership flexibility
MSME policy benefits	Increased attractiveness for small enterprises	Helps the firms to expand with financial support

Source: (Peshwani, 2025)

6. CONCLUSION

Here, the study scrutinized the perspective of SHs in the adoption of LLPs in India. Also, the study explored the factors influencing the SHs' confidence in adopting LLPs. The study determined that the LLP (Amendment) Act, 2021, introduced Small LLPs, decriminalized minor offences, and simplified regulations. Also, after the LLP (Amendment) Act, 2021, in the financial year 2024-25, LLPs saw a record annual growth of 16.4%. The LLP structure provided several advantages to SHs, including reduced compliance burden, operational flexibility, equal participation among partners, and audit requirements only when turnover exceeded ₹40 lakh or contribution exceeded ₹25 lakh. During the financial year 2023–24, the number of LLP registrations increased significantly following these regulatory reforms. Foreign Investment in LLP was allowable with the Government's specific approval. The service sector accounted for the highest number of LLP registrations of 74.53% among the agriculture and allied activities, industry, and service sectors. The findings of this research were limited to the data, as this research was based on the literature and publicly available documents related to India. Likewise, the study only focused on the LLP business model. Thus, the study will perform a critical analysis of LLPs over other corporate forms of business models in the future..

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