



A Case for Disclosures by Start-Ups in India

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Abstract. There has been a rise in mandatory reporting requirements, alternatively referred to as disclosures on non-financial aspects, of large businesses across countries in recent times as the perils of environmental damages and climate change become more evident. In line with this, academic attention has focused on the motivations, determinants, and impacts on shareholder value of disclosures by listed and large businesses alone, with little attention on start-ups as a category in itself. The potential in start-up businesses for innovation, use of technology, job creation, and novel solutions to problems merits attention, as they remain outside the purview of mandatory reporting, which can be linked to their success rate. This paper seeks to contribute to the scant academic literature on start-ups by proposing a set of disclosures for those centred on five stakeholders. The paper reasons that the proposed disclosures could improve the success rate of start-ups, as they entail engagement with relevant stakeholders, along with encouraging beneficial business impacts on the environment/ecosystem in which the start-ups operate and draw from. India is a fertile ground for this topic since it has the third highest number of start-ups in the world and has recently made disclosures mandatory for large listed businesses.

Keywords: sustainability, disclosures, stakeholders, start-ups, India

JEL Classification: Q01, O4, M14

1. Introduction

The Carrots and Sticks Report¹ (Carrotsandsticks, 2023) provides annual trends in disclosures by businesses since 2006 with a widening database of countries and policy documents. This edition covers 133 countries and 2,463 documents to reveal a greater role of governments as issuers of documents, and it highlights the reasons for greater adoption of mandatory reporting. Such reporting through public disclosures has evolved over time in line with the corporate social responsibility regulations (CSR) applicable to businesses. Agudelo et al. (2019) trace the

1 <https://www.carrotsandsticks.net/about-carrots-sticks/>.

beginnings of such a responsibility from Roman laws to the current time, where sustainability and CSR are treated equally (Christensen et al., 2021). The beginnings of disclosures – mandatory or voluntary – can be traced to guidelines enshrined in a report that resulted from a collaboration between the United Nations and financial institutions in 2004, titled *Who Cares Wins*² – Connecting Financial Markets to a Changing World. It identified “issues which have or can have a material impact on investment value”. After more than two decades of such a report, disclosures related to environment, society, and governance (ESG) are still not mandated across the world.³ Krueger et al. (2021) provide a comprehensive timeline on mandated E-, S-, and G-related disclosures (separately) for different countries. France took the earliest lead in 2004, while some states in the United States of America still remain on a comply-or-explain basis. ESG financing is a natural progression, as financial corporations take centre seat and have the power to direct finance towards investments that allocate funds for goals like net zero and related commitments of carbon emissions. As of 2019, there are 2,450 businesses that manage \$80 trillion of assets, who have volunteered to give space to ESG issues in their business strategies and investment decisions.⁴ A clear case for mandatory disclosures is increasingly being made in the European Union, where (O’Dochartaigh, 2022) the Corporate Sustainability Reporting Directive (CSRD) has been effective since 1 January 2024. This increases the number of eligible businesses and widens the range of disclosures that inform the sustainability performance of a business. The regulatory body, the Securities and Exchange Commission in the United States of America, is also expected to come out with a mandatory Climate Risk Disclosures legislation.

Recognizing that the existing regulations on disclosures focused on financial aspects of businesses for assessment by shareholders/investors (Lipton, 2019), more recent calls for disclosures are based on the view that shareholders are incomplete proxies for society. The societal impacts of businesses need to be transparent for non-investor audiences so that they can participate in and view business decisions that affect society more extensively when compared with the effects on investors/shareholders only. Disclosures that are non-financial in nature are critical for the measurement of the environmental and societal impacts that a business creates on a society so that they can be monitored, evaluated, and benchmarked to mitigate the negative impacts and encourage the positive impacts. In a global market, businesses may benefit from increasing transparency, improved reputation, enhanced brand value, and higher employee motivation on account of the social disclosures they

2 <https://documents1.worldbank.org/curated/en/280911488968799581/pdf/113237-WP-WhoCaresWins-2004.pdf>.

3 <https://documents1.worldbank.org/curated/en/444801491483640669/pdf/113850-BRI-IFC-Breif-whocares-PUBLIC.pdf>.

4 <https://www.forbes.com/sites/betsyatkins/2020/06/08/demystifying-esgits-history--current-status/?sh=169ee7ab2cdd>.

make, derived from the paradigm of the social responsibility of businesses. They serve a vital role in showcasing the philosophy, efforts, and outcomes of how a business is conducted within a social context in which the business operates (Van Marrewijk, 2003). The participants of the 2019 Business Roundtable gave primacy to non-investors and the foundations for transparency through disclosures that relate to all entities (both investors and non-investors) that hold a “stake” in a business, making a clarion call for the adoption of stakeholder capitalism. The top executives of global corporations took a call to adopt stakeholder capitalism with a new “...purpose of a corporation” and “to lead their companies for the benefit of all stakeholders”.⁵ This was followed by extensive discussions to create a set of 55 metrics aligned with the Sustainable Development Goals (SDGs) that 140 large world business houses agreed to voluntarily disclose at the 2020 World Economic Forum meeting. The disclosures suggested in this meeting relate to a greater diversity of stakeholders that extend beyond ESG dimensions and allow businesses to identify the most important stakeholders specific to them. These metrics were designed as a guide for businesses in reporting on ESG issues, which could be comparable, as existing disclosures use multiple reporting standards (Global Reporting Initiative, Sustainability Accounting Standards Board, Task Force on Climate-Related Financial Disclosures, and International Sustainability Standards Board are all widely used) that create an alphabet soup,⁶ while the disclosures remain non-comparable across industries and countries.

The academic focus on disclosures revolves around the drivers of disclosures (when they are done voluntarily) through a revelation of how businesses are benefited from them. Such a focus treats disclosures as a means/causal factor to drive quantitative shareholder value and/or mandated CSR activities. Fenwick et al. (2022) describe how ESG reporting benefits small and medium enterprises despite the human and financial resources expended. Brooks and Oikonomou (2017) provide a historical and comprehensive review of an empirical link between disclosures and financial performance. Krueger et al. (2021) show a positive effect of mandatory ESG disclosures on firm-level stock liquidity. This effect is greater if the mandates are driven by government institutions and effectively enforced. In qualitative terms, disclosures improve the information environment by reducing informational asymmetries and promoting transparency, which benefits capital markets in qualitative and quantitative ways. Whelan et al. (2021) demonstrate that in more than half of the companies under the lens, financial performance (measured in multiple ways such as return on assets, return on equity, stock price, or Sharpe ratio) is positively associated with ESG disclosures. Only 8–13 percent

5 <https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans>.

6 <https://www.reutersevents.com/sustainability/demystifying-alphabet-soup-reporting-frameworks>.

of the companies have shown a distinct negative relation depending on the metrics used for financial performance.

In a study of 24 OECD countries (Jackson et al., 2020), mandatory disclosures on CSR activities led to the adoption of significantly higher numbers of such activities. This also leads to convergence in the nature of CSR activities over time. Chen et al. (2018) conclude that mandatory disclosures on CSR lead to positive externalities, as the levels of SO₂ and industrial waste water decreased, along with profits. In this case, the environment gained at the expense of stakeholders, and this illustrates the trade-off that lies at the heart of dilemmas of capitalism based on shareholders' interests alone. A study on India (Jaisinghani and Sekhon, 2020) based on CSR disclosures between 2008 and 2017 reveals that selected aspects (related to community development) of CSR have a positive impact on profits, while those related to environment have a negative impact. Another study (Oware and Iddrisu, 2022) on India found little evidence for the contribution of a shift from voluntary to mandatory reporting to financial performance over the long run. Aghamolla and An (2023) show that the existence of social investors is critical, as a larger fraction of such investors as compared to shareholders enhances efficiency in a mandatory disclosure regime. Sustainable investing is also positively impacted by mandatory reporting. There have been social and moral bases for disclosures, even as the financial incentives may remain ambiguous. Using sample firms from the S&P 500 list, Loughran et al. (2021) demonstrate that there is an increasing space for moral corporate governance as revealed in their public disclosures. As is evident from the review of literature, there is little space for a consensus and comparisons, as disclosures remain country-specific in their legal status and format. The impacts of disclosures remain specific to the chosen sample in terms of country, ESG/CSR disclosures, and financial performance metrics.

In this paper, we seek to contribute to the scant academic attention on disclosures in developing countries and to provide a background on disclosure reporting mandate with India as the chosen country. We also seek to add to the literature on start-ups by creating a space for stakeholders to contribute towards “doing business with a purpose” that goes beyond shareholder value creation. Towards this, we make a case for and propose a set of voluntary disclosures for wider adoption by Indian start-ups, in the light of mandatory disclosures on non-financial aspects of business by the top 1,000 listed Indian businesses in the Business Responsibility and Sustainability Report (BRSR) since 2022-23. Our case rests on two planks. First, India occupies the third position in terms of the number of start-ups in the world, with a rising number having achieved a unicorn status, which is testimony to their size and potential to scale up. Second, we argue that disclosures can help Indian start-ups to solve some of the challenges they currently face. The proposed disclosures are centred on the identification of stakeholders in the business, to

allow for stakeholder engagement that goes beyond seeking shareholder value alone and that could possibly make these businesses sustainable and less extractive.

Using a qualitative content analysis of publicly available documents along with the BRSR, this paper proposes disclosures that are mapped to five broad groups of stakeholders for start-ups. Section 2 traces the evolution of the regulatory framework for reporting in India, while Section 3 outlines the importance of stakeholders for start-ups as a business entity. In Section 4, we propose relevant stakeholders and disclosures related to them. The concluding Section 5 sums up the ideas discussed in previous sections with a conclusion and limitations of the proposed disclosures.

2. A History of Disclosures by Businesses in India

India is a pioneer in the legal requirement of CSR spending (2 percent of the profits, which is proportional to the profits earned) but does not have an explicit ESG reporting mandate till date. India's engagement with reporting began in 2009, when the Ministry of Corporate Affairs announced the Corporate Social Responsibility Voluntary Guidelines, which could be followed by businesses on a voluntary basis. In 2011, these were revised and presented as National Voluntary Guidelines (NVGs) on Social, Environmental, and Economic Responsibilities of Business encapsulated as nine principles to inculcate a sense of responsibility in the way businesses are carried out. The next year, in 2012, the Ministry made the filing of Business Responsibility Report (BRR) mandatory for 100 businesses with the highest listing on the stock exchange. While these were not labelled as ESG disclosures in a strict sense, the spirit of the guidelines was in line with ESG concerns. The CSR reporting by Indian businesses was mandated in 2014, as part of section 135 in the Companies Act of 2013. As a precursor to better regulation, the Business Responsibility Report was made part of the Securities and Exchange Board of India (SEBI) Regulations 2015, which allowed this regulator to monitor the compliance with mandatory reporting. It took a decade for the guidelines issued in 2009 to be amended as National Guidelines on Responsible Business Conduct (NGRBC). These amended guidelines served as a precursor to a more exhaustive, uniform, and quantitative report on the sustainability of businesses named Business Responsibility and Sustainability Report (BRSR). Since 2022-23, this report has been a mandatory requirement from 1,000 businesses with highest listing value on the National Stock Exchange. Further, SEBI introduced another mandatory report, BRSR Core, as a subset of the BRSR in terms of 9 ESG attributes. To improve the quality of disclosures and obtain assurances, large businesses are now mandated to follow BRSR core guidelines for their value

chains. The mandatory filing of BRSR Core is to be done in stages, starting with top 150 listed firms in 2023-24. By 2026-27, the top 1,000 firms will mandatorily file disclosures under BRSR Core. SEBI continues to issue guidelines for specific sectors, which makes it clear that the area of sustainability disclosures in India is still evolving. An example is the RBI mandate in June 2022, which requires that all financial institutions – scheduled Commercial Banks, Cooperative Banks classified as urban, and Non-Banking Financial Companies – need to adopt the framework provided by the Task Force on Climate-Related Financial Disclosures (TCFD) for climate-related and sustainability-related disclosures if their assets exceed 5,000 crores Indian rupees.

The BRSR consists of quantitative and qualitative disclosures spread over three sections of the report. Section A deals with functional information about the business, while Section B deals with disclosures about the policies and processes put in place to adopt the 9 principles outlined under National Guidelines on Responsible Business Conduct. It is the last section that is the most detailed in terms of performance of the business on each of the nine principles. These details require businesses to demonstrate the extent of integration of their performance with each of the principles, to provide a holistic view of how they treat their stakeholders. Each principle requires mandatory disclosure of the essential indicators, while the leadership indicators remain voluntary, so as to showcase efforts made to integrate stakeholders in the business operations.

The BRSR includes a total of 140 questions, out of which 45 are quantitative in nature, 42 questions are part of leadership indicators and are voluntary, while the remaining are mandatory. There are several notable aspects of the BRSR format in the form of pre-set questions that need to be answered and can be treated as a disclosure. The report format makes it mandatory for businesses to identify and acknowledge the relevant stakeholders for them. The frequency, mode, and outcomes of engagement with stakeholders is required to be quantified, in line with the growing relevance of non-shareholder concerns that may not be centred on shareholder value creation (Freeman, 2017).

The BRSR provides a reporting format⁷ that is uniform across businesses, allowing inter-industry and intra-industry comparisons, along with benchmarking progress over time, for a given business on its efforts at engaging with stakeholders to deliver on sustainability commitments, which are ensconced within the format. This allows inter-industry specificities of the stakeholders that matter to be considered, while intra-industry differences in the list of stakeholders becomes available for scrutiny. The format allows the integration of sustainability report, CSR report, or annual report of the business with BRSR, as SEBI encourages any cross-reference in the disclosures. This encourages reporting beyond the mandatory annual report, as CSR and sustainability reporting remains voluntary in India.

7 <https://rb.gy/wvi3bg>.

3. Start-Ups in India

A start-up is not easy to define for policy, legal, or academic purposes, and it is yet to be defined uniformly across countries. A general description of a start-up begins with its unique approach to producing new goods or services, as they are not only innovative (Gans et al., 2018) in discovering a “need” that has been unserved but also use technology innovatively to provide goods/services that are competitive with existing/potential competitors in the market. They are often small businesses, and sometimes grow from the backyard of the founder’s house, but are big in terms of ideas and more innovative (Banal-Estañol et al., 2023) than existing (if any) potential competitors. They are known to be job creators (Goswami et al., 2023) with an “idea” at the epicentre, which has the potential to scale up and provide innovative products and create jobs with a substantial impact on the ecosystem due to the novelty of the product/idea. The OECD⁸ refers to a start-up as a “catalyst for radical innovation” and a job creator. The EU Startup Monitor describes⁹ it as “an independent, organisation, which is younger than five years and is aimed at creating, improving and expanding a scalable, innovative, technology-enabled product with high and rapid growth”.

In academic literature, a start-up is “a business entity which did not exist before a given time period (new), which starts hiring at least one paid employee during the given time period (active), and which is neither a subsidiary nor a branch of an existing company (independent)” (Luger and Koo, 2005). A common person’s perception of a start-up would include an entrepreneur (Westlund, 2011) with a novel idea or solution to a problem in the form of a new product or service who starts a business that is new, and not a subsidiary, spin-off, or offshoot of an existing business. Such a venture innovates in an environment beset with uncertainty about the commercial viability of the new idea, making the entrepreneur indulge in risk taking that is inherent in the foundation of the start-up (Runyan et al., 2008).

The Ministry of Commerce and Industry¹⁰ of India uses four criteria to define a start-up. One: in terms of the number of years (a maximum of 10 years) from the date of formal incorporation as a business (so an 11-year-old company does not classify as a start-up). Two: its turnover must be less than 100 crores of Indian rupees. Three: it is the source of its birth (it must not be a reconstructed business or formed through the splitting of an older firm). Four: it must be innovative in the creation of new goods and services, as well as employment in this process. These criteria serve as a benchmark and are under revision in an effort to establish

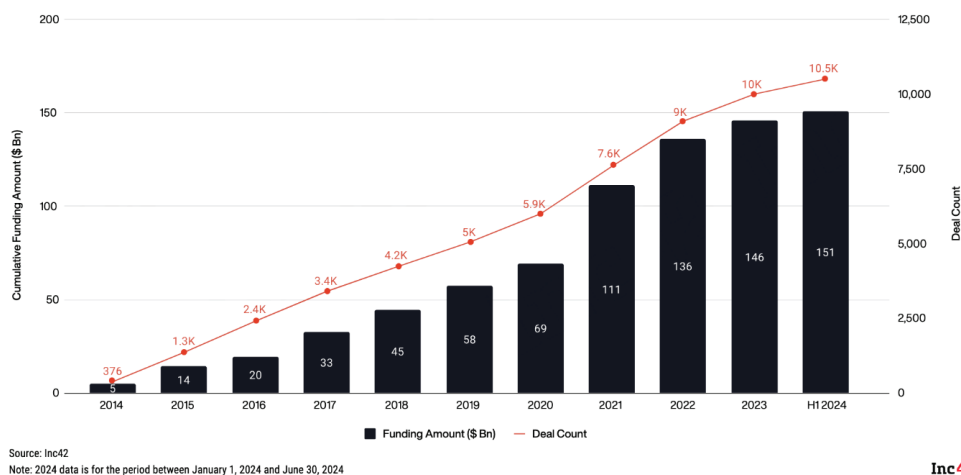
8 <https://www.oecd.org/coronavirus/policy-responses/start-ups-in-the-time-of-covid-19-facing-the-challenges-seizing-the-opportunities-87219267/>.

9 <https://europeanstartupnetwork.eu/vision/>.

10 https://dpiit.gov.in/sites/default/files/notification_Definition_StartupIndia_06July2021.pdf.

consistency in the criteria that can be used across G-20 nations so as to provide more sources of funds to founders.

The data on Indian start-ups comes from the Department of Industrial Policy and Promotion (DIPPT), which provides a platform for registration for Indian start-ups seeking financial support through State-led schemes.¹¹ These include the Startup India plan to nurture an ecosystem for start-ups, funds of funds and seed fund scheme for start-up funding, and ministry-wise schemes as well. As per official documents released by the government, India has 140,803 (DPIIT) recognized start-ups as of 30 June 2024,¹² with each state in India having at least one start-up originating from it.¹³ While such registration is voluntary, independent sources acknowledge the acceleration in the level of entrepreneurial activity in India (Tiwari, 2023), placing it 20 in the world but third in the number of unicorns (start-ups with a valuation that exceeds 1 billion USD).¹⁴ As per Global Startup Ecosystem Index Report 2023,¹⁵ India takes the first position in the South Asian region. *Figure 1* provides a visual description of the growth in the number of funding-related deals from 376 to more than 10,500 over the last decade, and a cumulative funding of 150 billion USD for 2024.



Source: <https://asset.inc42.com/2024/09/TES-2024-v10.pdf>

Figure 1. Growth of Indian start-ups in funding size and number of deals (2014–2024)

11 <https://pib.gov.in/pressreleaseshare.aspx?prid=1703787>.

12 <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2093125>.

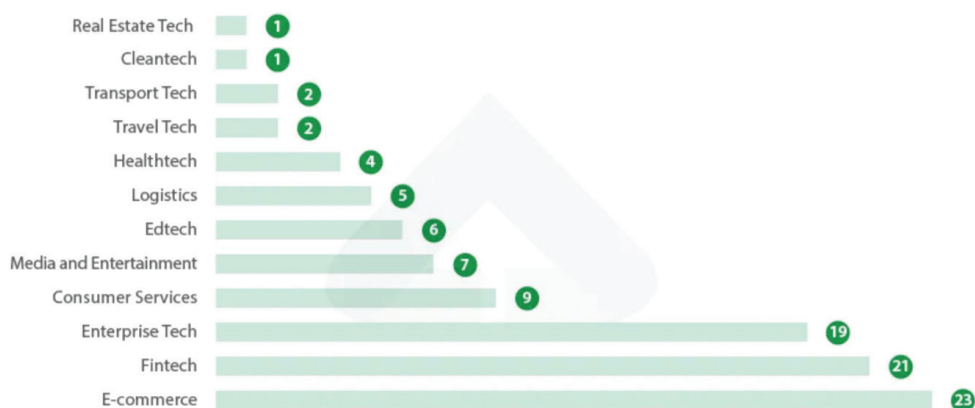
13 <https://www.investindia.gov.in/blogs/role-government-initiatives-boosting-startups>.

14 https://issuu.com/inc42/docs/afr23_v5.

15 <https://www.startupblink.com/startup-ecosystem/india>.

According to the Economic Survey 2023,¹⁶ EdTech (education + technology) is the top destination for 16 per cent of the start-ups, followed by EnterpriseTech (12 per cent), and the third sector is banking and financial services industry (10 per cent). Other sectors that draw entrepreneurs include advertising and marketing and the use of technology in retail, media, entertainment, consumer and professional services. The majority of unicorns are in the e-commerce sector, followed by fintech (see *Figure 2*).

Sector-Wise Breakdown of Unicorns in India



Source: <https://www.india-briefing.com/news/indias-unicorn-startups-sector-distribution-funding-ecosystem-global-comparison-25104.html/>

Figure 2. *Unicorns in India 2022*

The potential contribution of startups as engines of growth to India¹⁷ that drive new business models and innovative products is acknowledged by the government, as it celebrates 16 January each year as the National Startup Day. Despite this, the start-up ecosystem is beset with problems¹⁸ that range from inadequate funding to corporate governance failures, especially in developing countries (Kaczam et al., 2022). Particularly for India, the Economic Survey of 2022-23 takes note of “ever-elusive funding, revenue generation struggles, lack of easy access to supportive infrastructure, or the regulatory environment and tax structures”¹⁹ that result in the flip-up of start-ups – this happens when the ownership is transferred to non-Indians in developed countries where an integrated financial and infrastructural

16 <https://www.indiabudget.gov.in/budget2024-25/economicsurvey/index.php>.

17 <https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1907318>.

18 <https://www.econstor.eu/handle/10419/238502>.

19 <https://www.indiabudget.gov.in/budget2023-24/economicsurvey/doc/echapter.pdf>.

system overcomes some of the challenges faced in the Indian domestic environment. Various reports highlight the gender bias against women founders (Bhatnagar, 2023) and the dominance of specific cities as hubs/origins of start-ups. Bengaluru has the highest number of start-ups, while Delhi National Capital Region and Mumbai take the next two spots, followed by other and smaller Indian cities (Tiwari, 2023).

4. The Role of Stakeholders in a Start-Up Ecosystem

The importance of start-ups in contributing towards employment, innovation,²⁰ new technology applications, and new patents provides a legitimate role to their success in propelling the economic growth of a country (Spender et al., 2017). However, the lack of uniformity in the definition of start-ups across countries make any academic study attempting to analyse the success/failure and growth of these enterprises specific to the country under study. The United Kingdom²¹ characterizes a start-up as a business that is younger than 2 years old and focuses on innovation, while Brazil and India share start-up identifiers in their policy framework. The USA, Singapore, and Germany have no separate business category/criteria for the identification of new businesses as start-ups. Some countries provide state support and funding without invoking start-up terminology, while others simply identify start-ups as innovative and technology-based businesses that are born out of an idea alone and rely on the spirit of entrepreneurship to make the business scalable.

In spite of the heterogeneity in the legal classification of a new and/or small business as a start-up across countries, there is an acknowledgement of the critical role of stakeholders in determining the success of a start-up.²² Pathania and Tanwar (2024) provide a brief review of the causes of failures of start-ups that are centred on different stakeholders. Sehnem et al. (2023) employ the stakeholder theory lens to conclude that strategic stakeholders are the key to the success of a start-up in terms of their commitment to sustainable development goals laid out by the United Nations. Goswami et al. (2023) use a narrative analysis of identified stakeholders to determine the causes of failures of Indian start-ups. These include founders, investors, former employees, and consumers of a start-up. Sudiana et al. (2020) list five stakeholders that are critical for start-up success: academicians, businessmen, government, communities, and media. Gerhardt et al. (2021) show that stakeholders' perceptions impact the development trajectory of start-ups in Brazil. Miller et

20 <https://www.gov.br/en/government-of-brazil/latest-news/brazil-has-a-new-legal-framework-for-startups>.

21 <https://www.gov.uk/government/publications/letter-to-the-prime-minister-on-investment-in-innovative-science-and-technology-companies/innovation-finance-definitions-html>.

22 <https://sayyes.com/wp-content/uploads/2022/10/HBR-Why-Start-ups-Fail-Tom-Eisenmann.pdf>.

al. (2019) argue that the learning-by-doing approach and innovative techniques/processes allow start-ups to pivot their business around critical stakeholders to develop a scalable business model. Communities as stakeholders are better informed of the ground-level realities and can be invaluable in forging viable and consistent supply chains (Woerkom and Rozema, 2017). Further, Shah and Guild (2022) find that start-up firms tend to be more receptive towards creating value for all stakeholders (VAS) as compared to older and more established businesses.

Once the role of stakeholders in the success of start-ups is accepted, the next challenge is to find ways to engage with them in effective and mutually beneficial (to all stakeholders) ways, as outlined in the model of stakeholder capitalism (Freeman, 2010). While stakeholders are critical to the success of start-ups, they also help to improve governance and reduce the chances of frauds among start-ups. India has seen several start-ups failing on account of non-transparent financial and accounting practices that enable mismanagement and misappropriation of funds.²³ The scrutiny by shareholders (which is mandated in publicly listed businesses) is missing, as there is no separation of shareholders, founders, and managers that could eventually lead to weak internal controls, misgovernance, and failure of the start-up. A possible way to mitigate some of these problems is the involvement of stakeholders in the operations of start-ups so that they could become effective in reducing the chances of business failure. We propose that start-ups are more suited than established businesses to adopt the model of stakeholder capitalism and to engage in meaningful ways with stakeholders, as they are mostly young and nimble in their operations. The progress of existing Indian businesses in adopting the stakeholder capitalism paradigm is very limited. While there is no academic review of such adoption, media reports suggest that three established Indian business conglomerates were part of the list of signatories on the agreement drawn by the Business Roundtable in 2020: Reliance Industries, Mahindra Group, and Wipro India.²⁴

5. Proposed Stakeholders' Related Disclosures for Start-Ups

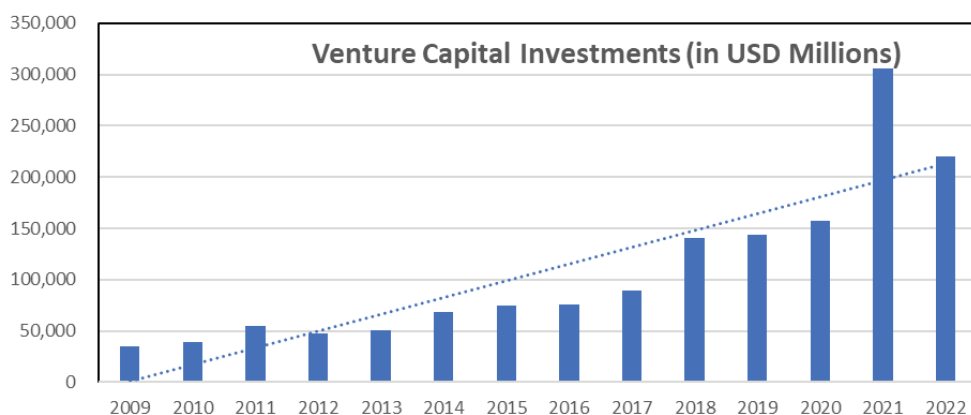
This paper proposes disclosures that allow start-ups to share information with non-investor audiences and at the same time encourage start-ups to be sensitive and vigilant in how they engage with identified stakeholders. These disclosures are both quantitative and qualitative and are partly derived from the BRSR.

23 <https://inc42.com/features/corporate-governance-indian-startups-lapses-blusmart-byjus/>.

24 <https://timesofindia.indiatimes.com/business/india-business/ril-mahindra-wipro-among-over-100-firms-committed-to-reporting-stakeholder-capitalism-metrics-wef/articleshow/86397852.cms>.

We provide six reasons for a call for disclosures from start-ups. The simplest reason is that there is no reason why they must not disclose how they engage with stakeholders and the impacts of their activities on the ecosystem from which they draw resources. India has mandated disclosures of a range of issues, including ESG, from the top 100 listed businesses in the form of BRSR. This report takes the form of pre-set questions, some of which are quantitative in prescribed formats, and the qualitative ones are open-ended. The potential of start-ups to be job creators, innovative users of technology, and creators of innovative products and services, as well as their young age makes them perfect for assimilating stakeholder concerns into business decisions and policies as they grow the business to scale.

Second, the inherent “innovativeness”²⁵ of a start-up makes it more flexible in establishing systems that are kinder to the environment than extractive. The young start-ups are possibly more nimble in establishing systems that consider the physical environment and human resources as equal partners/stakeholders in the business. There is less burden of following established ways of business operations for start-ups, especially when the founder/s is/are young. This creates a space for flexibility and inclusivity that involves all stakeholders in doing business in newer and unexplored ways. The case of successful start-ups that began operations out of co-working²⁶ spaces is one such example.



Source: OECD data (author's calculation)

Figure 3. Total venture capital funding in the world

Third, start-ups attract a lot of investor attention and funds. It is not possible to calculate the total amounts of funds invested in start-ups across the world, as this would involve own funds of founders (which are publicly unavailable) on the one

²⁵ <https://rb.gy/wvi3bg>.

²⁶ <https://www.innov8.work/blog/case-studies-success-stories-from-coworking-space-members/>.

hand and the definition of a start-up varies across countries on the other. However, the rising trend of venture capital invested is shown in *Figure 3*, and it bears testimony to the growing strength of such businesses. OECD describes venture capital as “a form of equity financing particularly relevant for young companies with innovation and growth potential” that qualify as start-ups. Venture capitalists are akin to investors in registered/publicly held businesses, and a responsible investment calls for full disclosures on ESG impacts of their investments, much like the logic of ESG investing.

Fourth, the driving force/idea behind many start-ups relates to environmental concerns, and they may subscribe to the circular economy. This automatically makes the environment a stakeholder in the business and is a tacit adoption of non-shareholders in business decisions. Phool²⁷ is an example that treats “temple waste” and converts it into sellable products, with women workers employed in the waste collection. It is an example of business in a “circular” economy – rather than the linear economy, in which a traditional business is more likely to operate. Ecoware²⁸ that began in 2010 is another example of a business operating in a circular economy, by creating disposable cutlery from waste and “\$2.41 of ESG impact for every \$1 invested by the company”. Chuk²⁹ is another business that makes cutlery out of sugar cane waste, and their aim is to “reduce garbage, replace plastics with non-toxic alternatives”. Such businesses are unique in their input use (which is often a recycled product or pure waste) and the end of life of the final product, which is again biodegradable. Such businesses need recognition as a new category of “circular” or “purposeful” businesses, especially in the start-up space.

Lastly, start-ups have seen a spate of governance failures leading to losses for investors and the loss of public faith in the product. In the case of India, the unicorn Byju’s in the edtech field is a prime example of failure that resulted in a 95 percent slashing of valuation³⁰ as of January 2024. Accounting lapses have been highlighted for a number of start-ups,³¹ forcing a major venture capital player to implement “stricter checks and requirements at the start-ups it funds”.³² Disclosures are one way to encourage ethical behaviour, especially when public gaze can impact customer attention and funders’ willingness to invest.

Typically a start-up goes through five stages: ideation, validation, early traction (or funding), scaling, and exit. We propose that start-ups could provide disclosures once they reach the funding stage, as this is when they seek funds as well as revenue generating customers. The suggested disclosures can be useful to showcase

27 <https://phool.co/pages/our-story>.

28 <https://ecoware.in/>.

29 <https://chuk.in/>.

30 <https://entrackr.com/2024/01/blackrock-slashes-byjus-valuation-by-95-to-1-bn/>.

31 <https://www.deccanherald.com/business/deciphering-corporate-misgovernance-at-indian-startups-1231165.html>.

32 https://www.business-standard.com/article/companies/sequoia-india-grapples-with-fallout-from-several-governance-issues-122061700491_1.html.

themselves before potential funders, including government-sponsored schemes. They could attract the attention of environmentally and socially conscious customers and provide a springboard to reach them to realize sales. We propose five stakeholders for Indian start-ups as follows (Men et al., 2019):

Owners (S1): It is appropriate to use the word “owners”, as many start-ups may still be privately held businesses, and the initial round of funding is done by friends, family, and the founders/entrepreneurs themselves, making them the first line of crucial stakeholders in the successes of the start-up. This success may not, at least initially, be in terms of profits; it could be the progress made since the inception of the idea itself. Typically, the journey of a start-up begins with conceptualizing an idea and ends with the business reaching a certain scalable level in terms of revenues and profits when it is possibly bought by an established business or large investor. This journey involves turning the idea into a physical good or service, which is test marketed to potential buyers/users to prove the usefulness of the conceptualization of the idea. When this usefulness is established, the start-up looks for funding to scale its operations and achieve revenue and profit goals. In this process, the “owners” of a start-up are not shareholders in a legal sense, as the start-up may not even be formally incorporated as a form of business, and, consequently, it may be inappropriate to measure financial performance (especially for younger start-ups) as a metrics for this group of stakeholders. A set of disclosures on the sourcing of funds, the purpose/idea of the business, and a list of its owners can be used to showcase the novelty value of the business and how it engages with non-shareholders (if the business is unlisted or takes the form of a proprietorship) as stakeholders in the business. The owners could include family, friends, local community sponsors, or the founder themselves. The monetary “seed” for the start-up could come from such owners, government schemes, private investors, and venture capital firms. The gender bias in owners is critical, as it has been found that only 4 per cent of the founders are women in Indian unicorns (Tiwari, 2023). They also face gender-specific challenges, which result in India’s ranking 57 in the list of 65 countries included in the MasterCard Index of Women Entrepreneurs.³³ The success of any start-up is also critically dependent on the informal organizational structure and separation of responsibilities among the founder/s, as the time and effort expended by this group of stakeholders is a reflection of the viability of the idea underlying the start-up itself.³⁴ A statement of purpose akin to a vision statement can be used to highlight the innovation behind the idea of the start-up, especially when such ideas are imbued with environment as an implicit stakeholder.

33 <https://www.mastercard.com/news/latin-america/en/newsroom/press-releases/pr-en/2022/march/2022-mastercard-index-of-women-entrepreneurs/>.

34 <https://www.livemint.com/companies/start-ups/women-entrepreneurship-in-india-how-women-led-startups-bridge-the-gender-funding-gap-11688612404028.html>.

Planet (S2): As a stakeholder, our planet Earth comprises natural resources that are used to produce goods/services and is consequently affected by all such production activities. Some of these resources remain unaccounted for as costs of production in an accounting sense, and as such they are unreported. In mainstream economics, these costs are termed externalities, for which a business does not pay in explicit ways – the pollution caused by a business due to its waste disposal into a nearby river is a good example. If the waste was disposed properly, then it would not cause the pollution of the river, but such a disposal adds to the costs of production and depresses profits. A full disclosure on the “withdrawals” of the natural resources (marine life of the river in our example) and how they are reused/recycled could reflect on the importance attached to this stakeholder by a start-up. A planet impact assessment can be tailor-made by the start-up depending on its age/stage and the sector in which it operates. A start-up may mention any external assessments it has undergone for this report and any international standards it has followed to develop such a report. Such a report may be beneficial to start-ups that are based on sustainability as their main idea, allowing them to highlight their engagement with the planet as stakeholder. Such start-ups may be provided a tag or badge to showcase them and encourage others to align with the “planet” as a stakeholder positively. This is particularly important, as there is some evidence that such disclosures may not cause any deterioration in financial performance (Downar et al., 2020).

Employees (S3): This group includes humans, in different capacities, as stakeholders for a start-up. It encompasses a range of information that can be captured by quantitative disclosures on gender bias in founders and employees, the employment of differently abled persons, the average tenure of an employee, and the share of permanent employees versus temporary/contracted. A potential form of engagement with them is the provision of stock options that allows them to take part and monetarily benefit in the growth and productivity of the business. In a survey of more than 400 founders by Inc42 in 2023,³⁵ more than half of the sample population agrees that stock options had remained an attraction for employees. The provisions of flexible work hours, work from home, special leave for women, welfare measures, such as allowing young children to accompany parents to the office under special circumstances, can be construed as forms of meaningful employee engagement.

Suppliers (S4): This group includes physical vendors/contractors, delivery firms, and public digital infrastructure that serve as input providers into the creation of goods/services by start-ups. Many of the start-ups apply technology

35 <https://inc42.com/buzz/after-a-difficult-2023-majority-of-indian-founders-optimistic-about-investor-sentiment-in-2024/>.

to a traditional sector to create products in physical form or services. For example, a start-up in the edtech sector could provide an app that delivers educational content using technology to make it user friendly. For such a start-up, there is little use for suppliers of inputs, as it uses a much lower quantity of physical resources compared to a start-up that is in the agritech sector providing sustainable options to reuse farming waste. A fintech business may not have to deal with traditional physical suppliers but may use public digital goods like Unified Payment Interface (UPI). A start-up can engage with its physical/digital suppliers depending on the nature of the product it offers and highlight such engagement in its disclosures' report. The physical supplier could be a micro, small, or medium enterprise (or MSME in the Indian context) or another start-up that creates opportunities to forge a network of start-ups³⁶ that build on each other's business. The practice of fair trade³⁷ (which is now a global certification) and ethical sourcing is gaining traction, highlighting the engagement with suppliers to build a sustainable business for everyone in the chain of supply. For example, Banyan Nation seeks to ethically source plastic using an app that allows them to trace discarded plastic till it reaches their manufacturing facility, where it is recycled.³⁸ Jasmine Concrete is another business that manufactures floral extracts, and it is now certified to ethically source jasmine flowers from smallholder farmers in India.³⁹ Indian Tobacco Company, or ITC, provides a QR code to allow consumers to trace the source of the wheat supplier as part of its new paper-based sustainable packaging.⁴⁰ Another disclosure can be centred on the distance travelled by inputs to reach the production facility – in other words, the extent of local sourcing. A good illustration is the start-ups engaged in waste management; their facilities for recycling are typically close to the areas that generate waste. Zerund Manufacturing⁴¹ is a start-up that produces lightweight bricks by using “70 percent waste materials such as fly ash and plastic waste” sourced locally. Such sourcing lowers the disruptions in supply chains caused by natural calamities and unprecedented events such as the COVID-19 pandemic. Local sourcing – in contrast with the global sourcing of inputs – has also found a legitimate place in circular economy discussions.⁴² However, the definition of “local” needs standardization even in the BRSR format.

36 https://sesr.org/ova_dep/india-entrepreneurs-network/.

37 <https://info.fairtrade.net/what/the-fairtrade-marks>.

38 <https://www.banyannation.com/>.

39 <https://www.firmenich.com/company/blog-article/jasmine-grandiflorum-achieves-uebts-highest-rating>.

40 <https://www.itcportal.com/media-centre/press-reports-content.aspx?id=2569&type=C&news=itc-s-aashirvaad-introduces-paper-based-packaging-on-world-earth-day>.

41 <https://www.zerund.com/our-offerings/>.

42 <https://yourstory.com/2022/04/meet-waste-management-startups-phoolco-zerund-zeroplast-labs-loopworm-muddleart>.

Communities (S5): The word “society” can be used interchangeably with communities, as the latter make up a society. While corporate social responsibility came up as part of “giving” back to society, it is clearly mandated for larger and listed firms in India at 2 per cent of profits. Start-ups, especially younger ones, may not have the financial bandwidth to spend on CSR, but they can contribute in meaningful ways. At a basic level, the number of new jobs created by the start-up can be disclosed starting from inception/registration. Some reports reveal that an average founder is young,⁴³ which makes him/her rely on a network of incubation centres for funding and physical facilities besides being open to shared experiences with budding and younger entrepreneurs. This is the idea behind mentorship provided under Atal Tinkering Labs, which aim to “cultivate one million children in India as neoteric innovators”.⁴⁴ Founders can lead in taking on the role of mentors “to lead the way for students of Atal Tinkering Labs across India... and help students practice future skills such as design thinking... experimenting, innovating, and bringing their knowledge to practice”.⁴⁵ Another example can be mentoring lessons or workshops conducted as alumni under the aegis of the school/college of the founder/s themselves.

A good system of governance helps to generate confidence about the start-up success among investors and the society at large. The recent case of Byjus⁴⁶ failing, after having a large number of consumers enrolled, is indicative of what could go wrong in governance (Gleason et al., 2022) despite an adequate funding of the start-up. For the sake of transparency, funding sources must be made public, along with a policy statement on governance principles and an ethical code of conduct that founders abide by. Additionally, start-ups that rely on public digital infrastructure must display their data privacy policy publicly. This is similar to consumer care policies in place for businesses that deliver physical goods to consumers. Such policies and statements are a form of engagement with consumers as stakeholders in the business.

Table 1 provides a list of proposed quantitative disclosures, mapped to each stakeholder, as suggested by Ardiana (2023), with a brief explanation for each of them.

A further list of proposed qualitative disclosures includes a vision statement, financial statements, governance policy, data privacy policy, planet impact status, and a regulatory compliance status.

– Vision Statement: It has been seen that many start-ups are based on a new idea of doing things in an “innovative” way and/or creating a new product itself. The

43 <https://www.startupgrind.com/blog/5-lessons-from-age-versus-startup-success-in-india-data-driven/>.

44 <https://aim.gov.in/atl.php>.

45 <https://aim.gov.in/mentor-of-change.php>.

46 <https://www.indiatoday.in/business/story/byjus-edtech-giant-trouble-legal-battle-valuation-cuts-resignations-layoffs-2400064-2023-06-30>.

novelty of the idea is the key to success and needs to be highlighted, as it lies at the core of the business. Such idea can be captured in a brief statement (Segrestin et al., 2021) by the founder/director on what makes the start-up unique, which could impact on the engagement with stakeholders (She and Michelon, 2023). This statement is also useful for investors to understand the foundational innovation of the start-up.

Table 1. *Suggested disclosures for Indian start-ups*

Stakeholder	Disclosure	Explanation
Owners	Source of Funds	Owner/family/angel investor/venture capitalist
	Founder/s	Number and gender of male/female/others
	Registration status and year of registration	Nature of registered entity (DPIIT/LLP/ proprietorship)
Planet	Total consumption of energy from renewable and non-renewable sources	Current consumption as well as comparison with previous reporting year/period
	Gas emissions	Quantified and comparison with previous year/period
Employees	Gender divide among employees and workers	Ratio of women in the headcount of employees
	Differently abled employees/workers	Presence of differently abled persons
	Permanent/temporary employees/workers	Ratio of permanent to temporary employees
	Average employee tenure	Years spent in the start-up
	Sharing of profits (ESOPs)	Presence/absence of ESOPs and % of employees provided with them
	Employment of locals	Number of employees within a specified radius of physical plant/office
Suppliers	Local or ethical sourcing	Source of physical inputs/services used
	Status of suppliers (MSMEs/others)	Nature/size of the supplier
Communities	Availing government loan/subsidy	Scheme name and amount
	Society interactions/contributions	Seminars/trainings/interactions/talks
	Spending on social causes (akin to CSR)	Monetary or non-monetary forms

Note: * Workers and employees as defined under Industries Act 2020.

– Financial reports: Each start-up goes through several stages before it begins to operate commercially in the market. We propose that once a start-up is funded, it could offer an audited financial statement of its operations, for the sake of

transparency, like any other listed business is mandated to do. This would allow an assessment of the government-supported subsidies availed / tax paid by the start-up to be recorded.

- Planet impact assessment: Older start-ups, especially in the manufacturing sector, may provide an assessment of their use and impact on environment-related parameters – CO₂ emissions, water use, energy consumption, land use, use of recycled materials, or management and disposal of waste of all types, among others. The start-ups in the non-manufacturing sector and/or those based on producing services in the digital domain have less use of physical inputs that draw on natural resources, so their withdrawal from the planet would be restricted to the requirements made by a designated physical place such as an office.

- Governance guidelines: A start-up may voluntarily share guidelines on how decisions are taken, especially when there is a conflict among founders / core team / board members. Since every start-up may not have reached the scale of having its own Board of Directors in place, it is advisable that it makes a formal statement of how the firm is governed, which reflects its transparency and ethical behaviour in the interest of all stakeholders and the long-term profitability (Brown and Peterson, 2022) of the organization (Bel et al., 2023). The Indian Tech Startup Funding Report 2023 cites a survey of 400 founders in 2023 to find that more than half do not consider corporate governance measures as highly effective. This bolsters the case for highlighting the importance of governance and the attendant public scrutiny. It also found that 44 per cent of the founders faced increasing scrutiny and reviews from investors – a situation that could be ameliorated with clear guidelines on governance principles.

- Data privacy statement: This is more important for start-ups in the digital sector, and it reflects the inclusion of customers as important stakeholders.

- Regulatory compliance report: Such a report would vary with the nature of business. A production unit would need to comply with norms of emissions, waste management, usage of natural products, or disposal of hazardous wastes, among others. A start-up in the technology domain would have a very different list, as physical products (inputs/output) are much fewer. It is notable that none of the disclosures listed here give any information on the uniqueness of the product/technology offered by the start-up, so its unique selling proposition remains with its founders, out of public gaze.

6. Conclusions and Limitations

This paper makes a case for disclosures by Indian start-ups, given their inherent innovation, their importance in the Indian business landscape, and their potential contribution towards job creation. While disclosing information about business

operations and stakeholder identification has gained greater traction after the mandated BRSR in India for listed businesses, there is no such requirement for start-ups currently. We propose five groups of stakeholders that are relevant to start-ups in a broad sense and shed light on how the proposed disclosures – mapped to different stakeholders – can be a relevant means for engaging with them. These disclosures could become a transparent report card for potential funders, including government-funded schemes, to encourage and support start-ups. There is little information in the public domain on how much detail is provided by founders to funding agencies and potential investors, which could lead to less informed decisions, as investors are unable to make a standardized comparison across different founders.

The nature of the paper is exploratory, and it is based on a qualitative content analysis of publicly available resources, using the disclosures in the BRSR format as the main guide in spirit and form. This paper contributes to the scant literature on disclosures pertaining to India (Singh et al., 2021), and even less academic attention devoted to start-ups in developing nations like India (Goswami et al., 2023) despite their rising numbers and contribution to India's growth story. It also contributes to the emerging literature on stakeholders' identification and engagement for "young" businesses that may not come into the purview of mandatory reporting yet. The suggested disclosures can benefit start-ups as they could serve as testimony to the engagement of the start-up with identified stakeholders, making them more amenable to consumers and funders and attracting vendors and communities to contribute to the success of the idea behind the start-up. It encourages start-ups to consider all stakeholders from the very beginning of their growth journey so that this awareness becomes second nature as they develop their business model, build supply chains, engage with vendors, and grow their workforce. The goal is to elevate the importance of stakeholders alongside shareholders, fostering a more sustainable business approach (Micheni et al., 2023). The difficulties encountered to change systems or "unlearn" (Rezazade Mehrizi and Lashkarbolouki, 2016) them to allow a balance between the creation of shareholder value and the costs borne by stakeholders (via negative externalities for the environment) is a legitimate reason to encourage start-ups to engage with stakeholders early on in their operations.

The most critical limitation stems from the lack of uniformity in the definition of a start-up across countries and the diversity of start-ups in terms of the stage that the business is in. The list of disclosures is a suggestive route to formalizing stakeholders' engagement, but it remains subject to limitations and improvements that further research may suggest. This paper, therefore, focuses on India and cites Indian examples to bolster the ideas presented therein.

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