ISSN: 2583-8814 (Online)

Stakeholder Capitalism for Indian Startups

Ankur Bhatnagar[1], Professor, Department of Economics, Satyawati College, University of Delhi

Abstract

One of the prominent priorities of India's G20 presidency is to build '*Cities …as hubs for entrepreneurship, jobs, and skill development*'[2] along with a transition to clean energy, which aligns with SDGs in multiple ways. These priorities are enveloped by the objective of sustainable development[3] laid out for the G20 group. India stands on fertile ground as it occupies the third spot in the number of start-ups in 2022, behind USA and China. Start-ups are known to be the drivers, even synonymous with innovation, job creation and sustainability. Larger businesses typically lag behind on these parameters, even though they deliver on shareholder value creation, and have led the world in terms of economic growth. This growth has come at a cost, which the present generation is paying due to the environmental and climatic damage, along with human right excesses. A spotlight on these effects by the WEF[4] in 2019, took the form of the Round Table Conference. The deliberations here by top CEOs have accelerated the adoption of stakeholder capitalism as a viable and sustainable model that subsumes shareholder concerns of value creation. In the recent past, stakeholder concerns have led to mandatory/voluntary disclosures of the business impact on Environment (E), society (S) and governance (G) issues (ESG in common parlance). India has initiated a similar disclosure in the form of the Business Responsibility and Sustainability Report (BRSR), which is mandatory for the top 1000 listed businesses from 2022-23. This is a laudable mandate and this paper argues that a similar disclosure for

---

[1]Email: ankurbhatnagar@satyawati.du.ac.in
[2]https://www.adb.org/news/features/indias-g20-presidency-opportunity (all the web links mentioned in the paper are accessed from January, 2023 to October, 2023)
[3]https://www.g20.org/en/about-g20/
[4]World Economic Forum (https://www.weforum.org/events/world-economic-forum-annualmeeting-2023/))

start-up businesses can have multiple benefits. This paper reviews stakeholder capitalism and compiles a list of disclosures by start-ups that could make them more sustainable over the long run, while assisting them in funding and policy support from government.

Keywords: *Sustainability, economic growth, stakeholders, capitalism, environment.*
JEL CODES: M14, O4, Q01

1. Introduction

The Indian PM declared January 16 as the national start-up day in 2022, while stating that '*Start-ups are reflecting the spirit of new India*' in his *Mann ki Baat* address to the nation on 29 May 2022. Such attention by the PM signals the increasing attention that these businesses have gathered from the government. This attention is not without reason as India is the 3rd largest economy in terms of the number of start-ups in 2022.

A start-up defies any standard definition, in terms of operations, size of profits or any conventional financial parameter. It could operate out of a garage, with no dedicated office and its operations handled by a group of friends or even family, as it is often based on an idea- being innovative and the use of technology are the 'qualifying' hallmarks of a start-up. Many start-ups are purpose driven in terms of creating environmental friendly products, using sustainable practices[5] that could save the planet from environmental degradation, which is a critical issue in the face of climate change. While every business-start-up or an established one, would not want its activities to be environmentally damaging, it is more difficult for older business to modify and change their established methods of production, waste management processes and supply chains to become more environment friendly. The relatively younger age of a start-up by definition may aid in the adoption of newer and more sustainable practices, rather than following older ways of doing business. Adding to the newness of a start-up, the inherent innovativeness of a start-up could make it more flexible in establishing production systems and practices, which are relatively kind towards the environment. The absence of a status quo in younger start-ups could provide a greater degree

[5] https://www.startupindia.gov.in/startup-india-showcase#/category/sustainability

ISSN: 2583-8814 (Online)

of flexibility in setting newer ways of doing business in an inclusive manner that takes all the stakeholders of the business into consideration, rather than satisfying shareholders alone. We argue that start-ups are 'inherently' more likely and open to assimilating the concerns of all stakeholders of the ecosystem they operate in, to the extent that the seed idea of the start-up lies within a stakeholder. This makes them ideal businesses to embrace the model of stakeholder capitalism, where all stakeholders are given due importance with private ownership of means of production.

This paper discusses the Indian start-ups scenario and the hurdles and challenges they face. We introduce the ideas of stakeholder capitalism that are particularly attuned to the founding ideas and core of most start-ups. We argue that this model of capitalism is more suited for start-ups and propose that a disclosure report along suggested lines would be helpful in surmounting some of the problems faced by start-ups. Additionally, the sustainable elements in the report can go a long way in boosting the overall sustainability of the businesses, as well as lay the foundation for a broader adoption of stakeholder capitalism by businesses.

2. Indian Start-Up Scenario

The Ministry of Commerce and Industry[6] defines a start-up in terms of its period of registration, turnover, source of its birth and its creativity in innovating new goods and services, along with wealth and employment generated. This definition is under revision[7] and discussions are on to find a consistent definition that can be used across G-20 nations to allow ease of funding and avoidance of high taxation on such firms. For policy purposes, a well-crafted definition is crucial to allow start-ups to avail of the benefits and concessions offered by the State to promote them. In many countries start-ups as we call them are known as 'growth-stage' companies, as it '*is a temporary organisation designed to search for a repeatable and scalable business model*'.[8]

[6] https://dpiit.gov.in/sites/default/files/notification_Definition_StartupIndia_06July2021.pdf
[7] https://www.livemint.com/economy/g20-nations-to-establish-common-definition-for-startups-potentially-resolving-valuation-and-taxation-challenges-say-indian-officials-g20-startups-taxation-11681665707872.html
[8] https://steveblank.com/2010/01/25/whats-a-startup-first-principles/

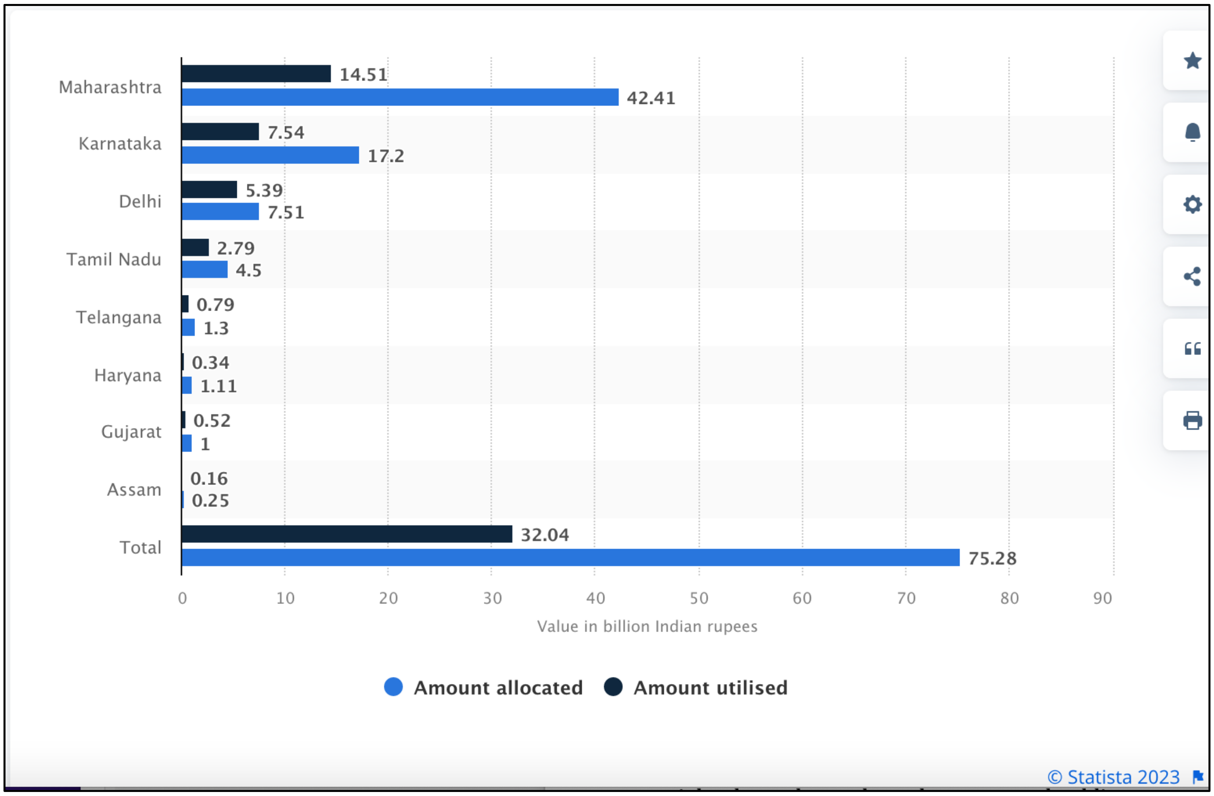
ISSN: 2583-8814 (Online)

In academic parlance, Luger and Koo (2005) describe a start-up '*as 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)*'. Such an emphasis on a new(idea or product or service) business that undertakes a business activity (active) from the beginning (independent of existing firms) is more in line with a general perception of a start-up. Such a venture is generally considered as a form of entrepreneurship, (Westlund, 2011) that involves a high degree of innovation, based on new ideas that allow sit to offer new products with considerable risk taking (Runyan et al., 2008) inherent in the venture.

The Indian government launched its flagship program for start-ups in 2016 for '*supporting entrepreneurs, building a robust start-up ecosystem and transforming India into a country of job creators instead of job seekers'*.[9] The Department of Industrial Policy and Promotion (DIPP) was entrusted to lead the program and monitor it as well. The program has seen a continuous rise in the number of registered start-ups from 426 in 2016 to 92683 as of Feb 2023.[10] The support comes in the form of financial help for funding, providing platforms for market access, international support, mentorship and recognition. Despite such well-intentioned schemes and platforms, funds allocated remain unutilised. As of 30 Nov 2022, only 42 % of the allocated funds to SIDBI worth Rs 7527 crores were utilised under the Fund of Funds for Start-ups scheme. Even the allocated amount to SIDBI (as the disbursing authority) is less than the approved corpus of 10000 crores. In another scheme, the Start-up India Seed Fund Scheme, out of the corpus of Rs. 945 crore, Rs. 455.25 crore has been approved to 126 incubators of which only 40% has been disbursed, as per a press release of DIPP. The regional imbalance (Box 1) in the number of start-ups is clear as Uttar Pradesh, Delhi, Haryana, Gujarat, Karnataka, Tamil Nadu and Telangana account for the lion's share of the number of registered start-ups.

[9] https://www.startupindia.gov.in/content/sih/en/about-startup-india-initiative.html
[10] https://pib.gov.in/PressReleasePage.aspx?PRID=1913977

Box 1: Geographical distribution of start-ups in India



Source: https://www.statista.com/statistics/1381198/india-funds-utilized-allocated-under-ffs-by-state/

While these numbers are only indicative of a lack of utilisation of State funds, the Economic Survey of 2022-23 states that problems in funding, revenue generation, infrastructural access, regulatory framework, tax environment and tax structures have held upstart-ups in unleashing their potential effects on the Indian economy. In a survey[11], it was found that 60% of founders were in favour of getting funds through a public listing of their business outside of India.

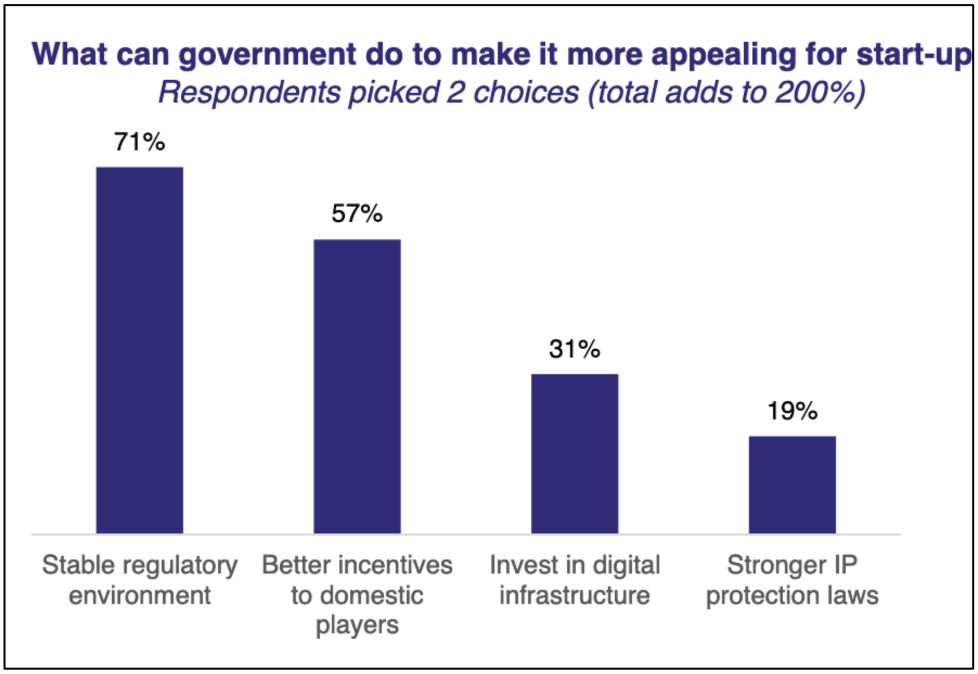
As per NASSCOM report for 2022[12] only 18% of the founders/cofounder in a start-up is a woman. To add to this dismal statistic, as per a survey among 2000 women, professionals, start-up founders and business leaders, '*73% of women in non-metros* [cities] *feel that non-availability of adequate infrastructure deters their move in taking up entrepreneurship, while*

[11] https://inc42.com/buzz/60-indian-startup-founders-against-listing-india-inc42-survey/
[12] https://community.nasscom.in/communities/nasscom-insights/nasscom-tech-start-report-2022-rising-above-uncertainty-2022-saga

ISSN: 2583-8814 (Online)

22% of women in metros [cities] *feel that physical infrastructure is a problem for them*'.[13] Further, '*58% of respondents also highlighted the difficulty in raising funds and gaining access to capital in comparison to their male counterparts'*.[14]In another survey of 120 founders[15], they cited unstable regulatory environment and low domestic incentives as the key areas that merit government attention (Box 2).

Box 2: Impediments to start-ups success



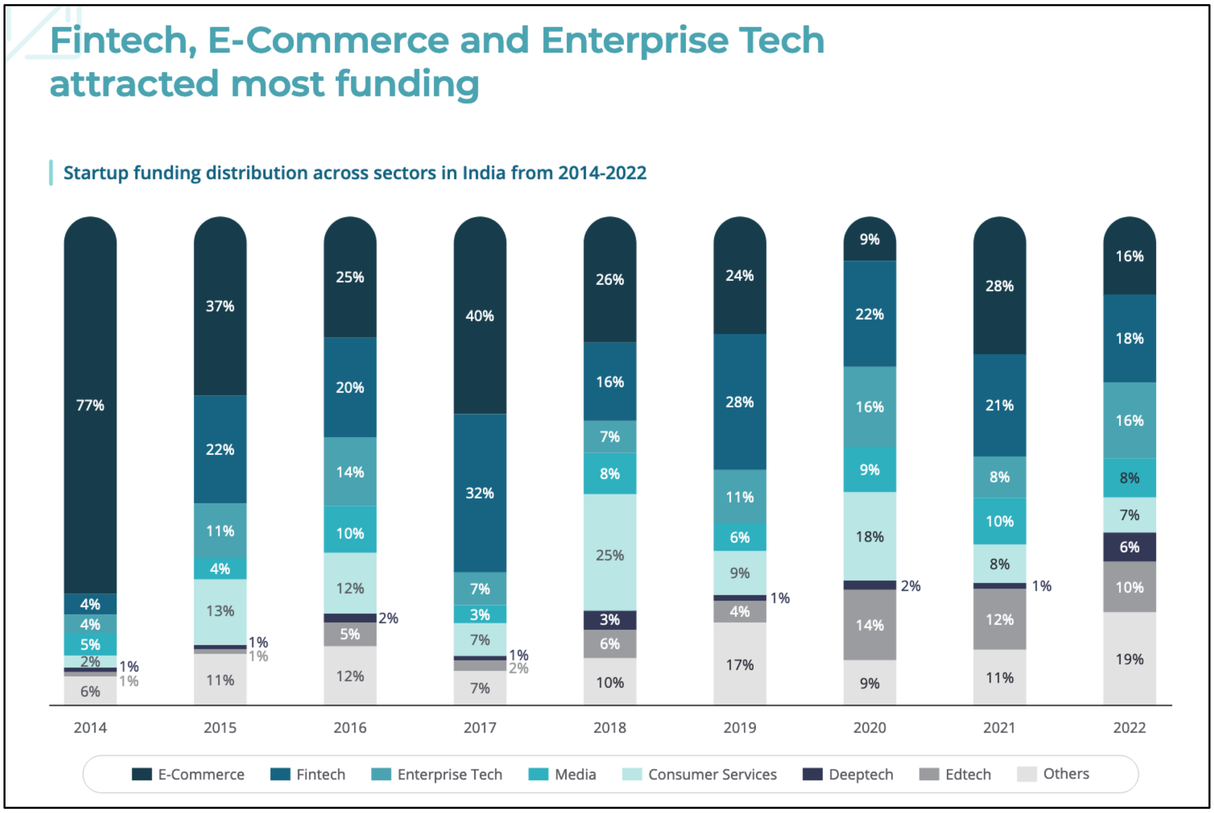
Source: https://www.innovencapital.com/public/uploads/files/20230208/89b061982924c7b6c33454d2473ba386.pdf

Despite the problems (Korreck, 2019) highlighted above, India remains a fertile ground for start-ups to thrive. As per Global Start-up Ecosystem Index Report 2023[16], India takes the first position in South Asia region, but stands at 21st position worldwide. In terms of the number of start-ups we stand at the 3rd position in 2022 as per the Economic Survey for the

[13] https://techarc.net/product/state-of-women-tech-entrepreneurship-in-india/
[14] https://www.livemint.com/news/india/why-the-indian-unicorn-growth-story-is-being-led-mostly-by-male-founders-11646651262817.html
[15] https://www.innovencapital.com/public/uploads/files/20230208/89b061982924c7b6c33454d2473ba386.pdf
[16] https://www.startupblink.com/startup-ecosystem/india

same year. This has been possible due to massive funding by venture capitalist and private investors, amounting to more than $130 billion over 2014-2022. As per a consultancy report by BCG[17], even this amount pail in contrast with $837 billion for China. While Indian start-ups have developed a healthy balance among different sectors over time (Box 3), the gender bias in founders remains a challenge.

Box 3: Sector-wise start-ups in India



Source: https://www.bcg.com/publications/2023/road-to-hyperscaling-in-india

3. Stakeholder Capitalism

The term stakeholder (Freeman, 2007) is not new in management literature, but it has increasingly taken a broader meaning across business, management, and economic literature. Its use in sustainability literature is more recent, as the model of stakeholder capitalism has seen a revival in the Round Table Conference in Davos (2019). It has played a sterling role in

[17] https://www.bcg.com/publications/2023/road-to-hyperscaling-in-india

bringing sustainability of businesses to the fore, that have till now thrived on the back of a market based economy that has expanded on the waves of globalisation in the last century. As the world gains from an expansion in GDP, its future is threatened by the effects of such expansion on the environment (Schwab and Wanham, 2021).

The basic tenet of stakeholder capitalism is founded on the inclusion of more stakeholders in the capitalist model of doing business. Philips et. al. (2003) asserts, '*the term stakeholder is a powerful one due, to a significant degree, as the term means different things to different people'*. The term stakeholder is broad in perspective and refers to any group, person, or business that can claim a business's resources or is affected by it.

A general list of such stakeholders includes living beings- consumers, suppliers, vendors, communities that are dependent on the business in indirect ways, investors/shareholders of the firm and non-living entities-environment and government. While the traditional capitalist model gives primacy to shareholders' interests, the newer version-stakeholder capitalism attempts to give an adequate (if not equal) consideration to all stakeholders as a firm takes business decisions and evaluates its outcomes. These outcomes go beyond profitability and subsume a larger set of outcomes on society and environment. In such an ecosystem, the participation of all the stakeholders could make the business more sensitive and accountable to the latter which contributes to sustainability of the business itself over time. The inclusion of stakeholders lends a multidimensional aspect to the economic sustainability of any business in social and environmental ways (Doane and MacGillivary, 2001), such that this sustainability of the business gets embedded within the sustainability of the larger ecosystem, in a mutually reinforcing manner.

In August 2019, at the Business Roundtable (BRT, 2019), CEOs from leading corporations across the world pledged to revisit their corporate goals through the lens of sustainability, by expanding the list of stakeholders involved in their business decisions and evaluations. Under the aegis of World Economic Forum[18], such a pledge was transformed into actionable items as it released the world's first standardised ESG (Environment, social, and governance) metrics. These metrics '*…reflect six-month consultation process with more than 200*

[18] World Economic Forum (https://www.weforum.org/events/world-economic-forum-annual-meeting-2023/))

companies, investors and other interested parties" (WEF, 2020) and can be mapped onto the 17 Sustainable Development goals (SDGs) formulated by the UN.

These metrics align with the 4 pillars (4Ps) of the model of stakeholder capitalism, under which different stakeholders can be grouped - planet, people, prosperity and principles of governance.

Planet: The planet metrics, as the word suggests is concerned with the environment and natural resources of planet Earth, gifted to us by previous generations. This delegates the responsibility of leaving adequate reserves of resources for the future generations to the present generation. Seven major areas under this metric include - air and water pollution, loss of nature, climate change, availability of fresh water, resources and solid waste. These align with some of the SDGs and require disclosures in line with Paris Agreement and suggested by the Task Force on Climate-related Financial Disclosures (TCFD). These disclosures relate to the use of water, extent of its likely contamination, use of land, especially around areas of biodiversity and protected areas, among others.

People: The group of living beings that are most invested in the business is employees. This metric calls the attention of businesses to ensuring the dignity, wage equality, health, wellbeing, social diversity, and skills of this group. This would encompass all regulations relating to wage parity, employee benefits in cash and kind, service conditions, safe and healthy work environment and training the employees.

Prosperity: It is difficult to quantify prosperity in terms of well-being of society, as the notions of prosperity can be culture specific, and society itself may include all living forms (and not just humans)**.** The WEF emphasises on the creation of better products through innovation, generation of employment and wealth, research and development along with community supporting practices like taxpaying and CSR activities.

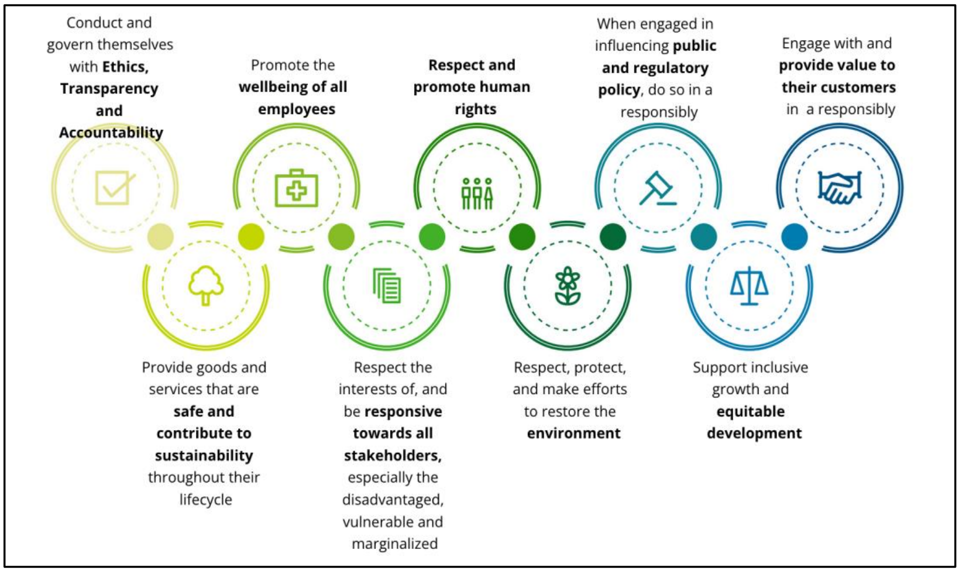
Governance: As the gatekeeper of all economic activities, the government is an omnipresent stakeholder for all businesses, and is capacitated to monitor and drive the other metrics in intended directions. It is well placed as a regulator to minimise the friction in the ecosystem of stakeholders through rules and incentives based policies. A good governance structure is capable of inducing ethical behaviour of businesses, alongside purposeful activities by businesses in a way that healthily balances risk and opportunities for them.

4. Suggested Framework

The progress of Indian businesses in imbibing the stakeholder capitalism paradigm in spirit and action is tardy. Only three major businesses have signed on the WEF led agreement to report on the suggested metrics. - Reliance Industries, Mahindra Group and Wipro. Despite the recognition that '*Purpose driven businesses are likely to be more resilient than those that do not embrace people and planet'* (Mahindra, 2021), the explicit cognisance of the stakeholders in a formal manner remains elusive. In a study on 128 US businesses, it has been shown that the '*BRT Statement was mostly for show and … did not intend or expect it to bring about any material changes in how they treat stakeholders*' (Bebchuk and Tallarita, 2022). Such a poor show must be seen in the light of a lack of mandatory environment, society and governance (ESG) disclosures in the USA, with each state free to make them mandatory or businesses adhere to comply-or-explain. Europe is at the other end, where ESG disclosures are mostly mandatory, with France taking the lead as early as 2001(Kruger.et al, 2023). These ESG disclosures maybe treated as a precursor to the acknowledgement of stakeholders (like environment) beyond just shareholders, to make businesses acknowledge their impacts on the former, and do business responsibly.

In line with global move to make businesses responsible for the qualitative effects of and costs imposed by their activities on stakeholders that are not shareholders, India mandated reporting in the form of the Business Responsibility Report (BRR) in 2012 for the top 100 listed firms, based on national voluntary guidelines. The Indian government has taken a step forward and made it mandatory for businesses to file the Business Responsibility and Sustainability Report (BRSR) from 2023 onwards. The BRSR is based on nine principles (box 4) of responsible business (Ministry of Corporate Affairs, 2018) and is an improvement over the BRR; this only hints at the increasing awareness about a sense of 'sustainability' among businesses in an explicitly formal manner. However, even the BRR was mandatory for only the top 100 listed companies in India by the end of 2019. This requirement is now wider, but not uniformly in force as only the top 1000 listed companies are legally bound to disclose the ESG footprint created by their activities.

Box 4: National Guidelines for Responsible Business Conduct 2018.



Source: https://www2.deloitte.com/in/en/pages/finance/articles/business-responsibility-and-sustainability-report.html

The SEBI documents do not provide any clue on why selected firms (top 1000 listed firms) are covered under BRSR. A possible reason could be the high cost of compliance in terms of certain quantitative parameters required in the report- leadership indicators could be one such example which is outlined in Principle 2 of BRSR framework.[19]This disclosure asks for a qualitative '*overview of the entity's material responsible business conduct issues*', which translates into identification of material issues as risks or opportunities, and steps to mitigate them. These are linked to the technical requirements in Principle 6 (businesses should respect and make efforts to protect and restore the environment) which requires quantitative data on the exact usage and reuse of natural resources and measurements of environmental effects of

[19] https://www.sebi.gov.in/sebi_data/commondocs/may-2021/Business%20responsibility%20and%20sustainability%20reporting%20by%20listed%20entitiesAnnexure2_p.PDF

the business activity. Another possible reason can be that many quantitative parameters in the BRSR do not apply to the smaller and newer firms whose employees may not fit into the legal definition of 'employees'.

This paper argues that all firms, including start-ups, need to be responsible and grow in sustainable ways. The first step in owning responsibility involves sensitisation to the stakeholders of a business (and not just shareholders) who are impacted by the environmental and social imprints of the business activities. The model of stakeholder capitalism outlined by the World Economic forum in Davos in 2019, paves the way forward for business to strive for profits, in a sustainable way as stakeholders are also accounted for in business decisions. The model is an alliance of profits with sustainability, as each stakeholder receives attention in the matrix of costs and benefits of business decisions.

We propose that start-ups are more suited than established businesses to adopt the model of stakeholder capitalism as they are mostly young and nimble in their operations. They do not carry any prior baggage of established practices of doing business; their uniqueness stems from being innovative and open to the use of newer technology. As a first step towards adoption of this model, they can be asked to voluntarily disclose selected ESG aspects of their activities, which can be assimilated as an index value or a reporting document that can be used in multiple ways, including funding purposes. This will also initiate start-ups to give primacy to stakeholders as part of business activities and decisions. An annual reporting of their impact of stakeholders will add to the sustainability value of the business itself. As start-ups are relatively young in terms of the time from inception, and may have young founders, it is easier for them to change their processes to make them ESG compliant and environmental friendly. As per a report[20], the median age of a founder is just 27 years, and 80% of founders launch their start-ups before they reach 30 years of age.

We propose that five stakeholders are important for smaller, newer firms that may qualify as start-ups that need some hand holding to overcome the financial and infrastructural impediments. These include investors, planet, human resources, suppliers and communities.

[20] https://www.startupgrind.com/blog/5-lessons-from-age-versus-startup-success-in-india-data-driven/

Investors – Since many start-ups may still be privately held businesses, founders/friends/family investors are crucial stakeholders in their success. This is the group of stakeholders which is most invested in the growth of the business in terms of financial performance or even progress of the business from inception onwards. Typically, a start-up undergoes many stages before it begins to bring in revenues and then make profits. From the inception of an idea till profit making stage, a typical start-up needs to create the product /service, test it in among potential users for proof of concept, get funding, scale up the idea and finally take it to the market for selling and realising revenues. In this scheme, it is the investors- in term of finance, or qualitative support as first users of the product, beta users, and family – those who have a 'skin' in the idea behind the start-up. It is suggested that the following disclosures be introduced to highlight them.

Some of these include:

- **Source of funds:** There can be informal sponsors of an idea ranging from family and friends to local community sponsors and even self-savings of the entrepreneur (also referred to as bootstrapped start-up). It can also be funded through crowd funding or angel investors or venture capital firms or government support.
- **Purpose of the start-up:** This is very important as some start-ups are driven by environmental concerns and base their idea on eco-conservation or recycling and reuse of resources. Such ideas need greater support as their idea is imbued with environment as a stakeholder implicitly. A 'statement of purpose' or 'seeds for the idea' statement by the start-up can become a differentiator for those whose ideas are aligned with sustainability and environmental concerns.
- **Ownership pattern:** The number and gender of the founders is reflective of participative and collaborative ownership. Women founders need greater handholding considering the specific impediments they face in the workplace. Ina survey, 43% of the women entrepreneurs surveyed said that they get little support from family and spouses, which reflects in India's abysmal 57th rank out of 65 countries that form part

ISSN: 2583-8814 (Online)

of the MasterCard Index of Women Entrepreneurs.[21] The structure of ownership among founders (if they are more than one) shows the strength in the idea and the personal investment of time and effort made by them, and may indicate the probability of the start-up succeeding.[22]

Planet: This stakeholder encompasses a wide range of resources that are directly or indirectly used and impacted by the business. These resources are often unaccounted for in business calculations in terms of the costs levied on environment by the business, or what economists call externalities. A suggestive list of the data elements that pertain to the physical environment, water and air, lie at the heart of sustainability of the business over time, in terms of the environmental impact of the business.

- **Usage of water resources:** A list of sources of water used over a period of time in the production process can be provided. This could be recycled, sourced from nearby water body, publicly provided water or own sources. This can be measured in per unit terms as well, depending on the stage in which the start-up is.
- **Use of recycled inputs:** A list of recycled inputs that are employed in production process can be disclosed. Further, the amount of waste that is recycled can also be a part of the disclosure.
- **Gas emissions:** The carbon imprint of the business includes the CO_2 emissions, and the extent of carbon neutrality the business has attained. The disclosures can also relate to other emissions (NO_2, SO_x, PM 2.5) that are a by-product of production.
- **Plastic imprint:** The type and amount of plastics used per unit of output, the amount recycled, as well the use of recycled plastics in business are relevant for sustainability.
- **Energy sources and usage:** The type of energy, or energy source and its usage on per unit/period basis.

[21] https://www.mastercard.com/news/latin-america/en/newsroom/press-releases/pr-en/2022/march/2022-mastercard-index-of-women-entrepreneurs/
[22] https://www.livemint.com/companies/start-ups/women-entrepreneurship-in-india-how-women-led-startups-bridge-the-gender-funding-gap-11688612404028.html

- **Waste management:** The amount and types of waste generated and waste management practices followed, or the recyclability of the waste generated can be disclosed.
- **Digital businesses:** Since many businesses operate in the digital medium they do not use land or water, or create waste and CO_2 gases. For them the planet would imply the environmental imprint of their physical office.

It may be noted that due to scalability issues or being in an early stage, a start-up may have limited production levels. In such cases per unit use of resources will provide a distorted picture. It may be useful to disclose total output in a time period like 6 months or a year, along with total usage of resources employed.

Human resources: This refers to the persons involved in the start-up, as formal employees and those who may not be formally recognised as employees, as they may not come under the ambit of a legal definition of an employee. A person who works part time (for a few hours only in a day), or works remotely or may be formally employed elsewhere but chooses to devote time to the start-up, is a stakeholder as she strives to contribute to the success of the venture. It may be noted that a 'formal/legal' status of employees may not be possible in the initial stages of a start-up, which may necessitate the use of an alternative ways to describe the human contributors to business (gig workers are one example), along with formal employees. Some of the suggested quantitative aspects of the involved human resources include:

- **Retention of human resources** (in terms of average tenure of an employee in the business): A business where employees do not stay for long, and there is higher turnover rate could be reflective of poor management styles by the founders.
- **Remuneration:** Salaries/bonuses/rewards/wages paid and their growth, along with other non-cash benefits. This can be captured in multiple ways- average salary per employee, median salary, gap between highest and lowest salary, training programs conducted/sponsored by the business for employees, safety of the work environment.

- **ESOPS:** Stock options are given to the employees which is an inclusive way that allows employees to take part in the growth and productivity of the business.
- **Stakeholder share in profits:** Profit sharing pattern (if it exists) reveals how each employee stakeholder is viewed and valued in the ecosystem.
- **Gender divide:** This can take many forms- imbalance in the gender ratio of employees, difference in the salary of men and women employees, nature of leave permitted, especially to women.
- **Skilling and training:** Training programs or opportunities offered to the employees are reflective of the investment in human resources, which can potentially reap benefits for the business itself, along with empowering the employees.
- **Work environment:** A safe working environment indicates that employees are well looked after so that they can contribute their best to the business without any emotional or physical hindrances.
- **Gig workers:** In a gig economy, a business may rely on many temporary/outsourced workers who are not 'employees' in a technical sense. The cases of delivery apps like Zepto and Swiggy are well known. The delivery staff may not be 'employees' but their contribution to the business is no less than of legal employees. The metrics for employees can be extended to such gig/contractual workers as well.

Suppliers: Given the variety in the nature of businesses that start-ups engage in, ranging from physical production of goods to online services which have lesser use of traditional/physical resources, the nature of suppliers is equally varied. A fintech business may not have to deal with suppliers, but use public digital goods like UPI. A start-up that is in the business of production of physical goods will rely less on digital infrastructure and will have physical vendors/suppliers. Both types are critical to business, and have a stake in the ecosystem.

Some of the aspects that can be included in disclosures are:

- **Tracking suppliers:** The practice of fair trade in business is in line with the involvement of stakeholders in the supply chain on a sustainable basis. Such a practice can be presented as a voluntary disclosure. For example BanyanNation recycles plastic by sourcing ethically using an app that allows them to trace discarded plastic till it reached their manufacturing facility.[23]

- **Suppliers' profile:** The nature of the suppliers in terms of formal or informal organisation or if they are a part of MSMEs universe can be disclosed as it adds to the value created among special groups of business and aids in their integration with newer businesses.
- **Suppliers' compliances:** Regulatory compliances of suppliers and vendors can be shared with the start-up, which can be reported so that it pushes vendors to be compliant in order to get business from the start-up.
- **Sourcing of inputs:** Distance of vendor location to production area of the start-up is the key in many start-ups that seek to solve environmental concerns around plastics and waste. It also adds to supplier resilience, in the face of global supply chain problems that erupted during Covid pandemic. Local sourcing, rather than global sourcing of inputs is a worthy idea in the circular economy paradigm.[24]

Communities: Like any other business, a start-up affects and is impacted by the society around it. The inclusion of this stakeholder is aimed at ensuring that each business 'gives' back to society at large, akin to the idea of corporate social responsibility. While there are CSR rules for larger and registered businesses, smaller and newer firms are equally responsible and answerable on their contribution to society. Some forms of contributions can include:

- Number and nature of jobs created since inception/registration of the start-up, which marks a formal recognition to the idea.
- Philanthropic events/activities done by the employees and founders. An example could be a talk given by the founder at her alma mater or local organisation describing their own journey. The Government of India provides several ways for founders to play the role of mentors '*to lead the way for students of Atal Tinkering*

[23] https://www.banyannation.com/
[24] https://yourstory.com/2022/04/meet-waste-management-startups-phoolco-zerund-zeroplast-labs-loopworm-muddleart

Labs across India…. and help students practice future skills such as design thinking… experimenting, innovating, and bringing their knowledge to practice'.[25]

- Contribution to State finances: The participation in tax system through taxes paid to the government and subsidies availed can provide a record of the State benefits availed by start-ups, to show their 'net' contribution to State finances.
- Governance practices: In the midst of governance failure at the top in prominent start-ups including Byjus[26] and PhonePe (Chu and Tahiliyani, 2021) even before they went public, it is critical to encourage good practices among newer businesses, especially when there is no legal mandate for them to declare any such issues. In the interest of transparency every start-up must reveal its funding sources and an account of its finances to begin with. A statement that reveals the decision making process in the start-up can also be volunteered.
- Code of conduct: Each business can abide by an ethical code of conduct for its founders and employees to sensitise all stakeholders to the values of ethical behaviour in their business dealings. This code can be shared as a disclosure.
- Voluntary compliances: Regulatory compliance by the business can be declared as part of its social responsibility.
- Digital businesses: For businesses that rely on IT as they strive to build online platforms to do business, a policy on data privacy of their customers is akin to good business practice. Since some of these businesses may not have a face to the business operations, the customer care policies are a part of converting customers into stakeholders and making a long lasting relationship with them that yields revenues in a sustainable way.

The above points are not uniformly applicable for all start-ups and small businesses, as they may be in different stages of development, and are only suggestive and exploratory in nature.

[25] https://aim.gov.in/mentor-of-change.php
[26] https://www.newindianexpress.com/opinions/editorials/2023/jun/26/startups-must-iron-out-governance-issues-2588469.html

5. Conclusion

There is no clear rule/mandate for start-ups on how to be accountable to all the stakeholders, which a more established business is mandated to do by Securities and Exchange Board of India (SEBI). Recent news of massive layoffs[27] in many well-funded start-ups and issues of financial impropriety by the founders makes it critical to create an engagement with their stakeholders for them. A voluntary reporting structure that incorporates the suggested quantitative and qualitative information can serve multiple purposes. One, it differentiates start-ups and smaller businesses from the established registered firms that come under the lens of Ministry of Corporate Affairs. Two, it connects businesses and sensitises them to the need to take all stakeholders into account early on in the growth of the business. It is hoped that such sensitivity becomes 'natural' for a start-up, as it builds on its business model, supply chains and vendors, and expands its employee count. The idea is to make stakeholders' voices as important as shareholders say in the business, to ensure sustainability of the ecosystem in which the business operates. Since many start-ups are purpose based with environment at the centre of their products[28], it is easier for them to imbibe the spirit of stakeholder capitalism. Many business leaders have expressed how difficult is gets to change systems within the company to balance delivery of shareholder value with detrimental effects on some stakeholders (environment in most cases). Three, the compliance cost of such a report is expectedly much lower as compared to listed and bigger firms. The government can handhold start-ups to estimate their environmental imprints, as it is technical in nature. Four, an annual reporting by start-ups can serve as a valuable document for potential funders, who can not only evaluate the business, but also use it to decide which start-up to fund. In the current scenario, the 'pitch' made by founders to funding agencies and potential investors does not allow a standardised comparison across different founders. Given that most start-ups admit that funding their idea is the most pressing impediment, the suggested stakeholder based metrics can be a valuable tool for start-ups in the race to finance their ideas.

[27] https://economictimes.indiatimes.com/jobs/hr-policies-trends/over-17000-indian-startup-employees-laid-off-in-the-first-half-of-2023-as-funding-winter-refuses-to-thaw/articleshow/102263696.cms?from=mdr
[28] https://www.startupindia.gov.in/startup-india-showcase#/category/sustainability

To conclude, we propose that a reporting structure/format for start-ups can be useful not just for the business that is looking for funds, investors and infrastructural hand holding, but also for the ecosystem as it weaves stakeholder considerations in the business from its infancy. This could serve as a demonstration for newer businesses to adopt stakeholder capitalism as a model. This also opens the businesses to ESG financing in the future as the business creates a trail of its engagement with environment, society and government. As the size of a start-up grows with its success, it will signal the success of this model as well.

We acknowledge that the suggestions and proposals in this paper are exploratory in nature, and are amenable to changes and open to criticism. It may be argued that the suggested disclosures impose an added burden on start-ups, already reeling under infrastructural and financial impediments. We would like to contend that such disclosures must be seen using a stakeholder lens that is essential in the model of stakeholder capitalism, along with the possible benefits listed above.

References

- Bebchuk, L. A, &Tallarita. R. (2*022)* Will Corporations Deliver Value To All Stakeholders? *The Harvard John M. Olin Discussion Paper Series: Discussion Paper No. 1078.* *http://www.law.harvard.edu/programs/olin_center/* (Accessed on 18/09/2023)
- BRT (2019). Business Roundtable Redefines the Purpose of a Corporation to Promote 'An Economy That Serves All Americans' https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans (Accessed on 17/10/2023)
- Chu, M., & Tahilyani. R. (2021) PhonePe: Democratizing Payments in India. Harvard Business School Case 322-053. https://www.hbs.edu/faculty/Pages/item.aspx?num=61328 (Accessed on 11/09/2023)
- David, D., Gopalan, S. & Ramachandran, S., (2020). The Startup Environment and FundingActivity in India. ADBI Working Paper 1145. Tokyo: Asian Development Bank Institute. https://www.adb.org/publications/startup-environment-and-funding-activity-india (Accessed on 10/10/2023)
- Doane, D., & MacGillivary, A. (2001). *Economic Sustainability The business of staying in business*. New Economics Foundation. R&D_economic_sustain (researchgate.net) (Accessed on 16/10/2023)
- Freeman. R. E. (2007). *Managing for Stakeholders*

http://dx.doi.org/10.2139/ssrn.1186402 (Accessed on 11/09/2023)

- Korreck. S., (2019). The Indian Startup Ecosystem: Drivers, Challenges and Pillars of Support, *ORF Occasional Paper No. 210*.
- Krueger, P., Sautner. Z., Tang. D.Y. & Zhong. R. (2023) *The Effects of Mandatory ESG Disclosure Around the World*, ECGI Working Paper Series in Finance, Working Paper N° 754/2021
- Mahindra (2021) Integrated annual report 2021-22, 34 47 https://www.mahindra.com/investors/annual-report-FY2022/46/index.html (Accessed on 21/10/2023)
- Ministry of Corporate Affairs (2018), National guidelines on Responsible Business conduct, https://www.mca.gov.in/Ministry/pdf/NationalGuildeline_15032019.pdf (Accessed on 15/10/2023)
- Phillips, R., Freeman, R. E. & Wicks, A. C., (2003) What Stakeholder Theory Is Not, *Business Ethics* 13(4). 479–502. http://www.jstor.org/stable/3857968.
- Runyan, R., Droge, C. and Swinney, J. (2008), Entrepreneurial Orientation versus Small Business Orientation: What Are Their Relationships to Firm Performance? Journal of Small Business Management, 46: 567-588. https://doi.org/10.1111/j.1540-627X.2008.00257.x
- Schwab, K., & Vanham. P. (2021). *Stakeholder Capitalism: A Global Economy That Works for Progress, People and Planet*. 1st ed. Wiley.
- Westlund, H., (2011). Swedish Universities in Transition: From "Mode 1" to what? ERSA conference papers ersa11p840, European Regional Science Association.
- World Economic Forum (2020), *Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation*, https://www.weforum.org/stakeholdercapitalism (Accessed on 30/10/2023)