

Chapter: 08

GOVERNANCE FOR START-UP GROWTH: OPPORTUNITIES AND CHALLENGES IN THE INDIAN ECOSYSTEM WITH A FOCUS ON GOVERNMENT INITIATIVES

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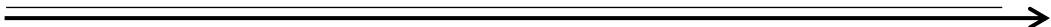
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ABSTRACT

The Indian economy is transitioning from one of development to one of rapid development. India's new driving force behind its progress is its startups. In terms of area, it is the seventh most populous country. India has a huge potential market and a high need for jobs due to its large population. India is making significant progress in the current ten years towards policies that support startups and create an atmosphere that is conducive to business. To this extent, the Indian government has taken the lead in encouraging bank financing for startups and providing rewards for entrepreneurship and employment development. As a result, the Narendra Modi-led Indian government has chosen to give a present as part of the "Startup India" national campaign. "Startup India is an innovative programme designed to assist those who aspire to launch their own businesses. The government will assist those individuals because they are capable and have ideas, helping them to develop and implement their ideas. If this strategy is successful, India's economy will eventually improve, and the country would become stronger. Startup India is all about questioning norms and igniting a revolution in distinctive and compelling business models created by entrepreneurs. It is the first step towards India assuming a central role in the new global order. This book chapter throws a light on opportunities and challenges in India for startups along with govt initiatives. The number of startups in the nation has significantly increased after the 2016 policy.

Keywords: *Startups, Entrepreneurship, Innovation, Government, Employment, Economy.*



1. INTRODUCTION

The term "startup" is becoming more and more popular because of its ambiguity and subjective nature. As a result, a specific definition is lacking. In everyday speech, a startup is a business that is just getting started. It seeks to produce a good or service that it believes there is a demand for. India is among the countries that has introduced its high-quality, unique products to the world. At of present time, startups are young businesses creating and marketing novel items with unique qualities. As a result, rising employment and economic growth are making nations wealthy. In India, startups continue to generate jobs and innovate in several kinds of industries. Since 2016, India's startup scene has expanded, and the government is helping them by providing incentives. Since 2016, India's startup sector has expanded, and the government is helping them by providing financial incentives. Driven by backing from the government, availability of funds, proficient labour force, and a nurturing atmosphere, our nation has become a global leader in the startup ecosystem. The government will provide them support so that they can execute out their plans and expand. If the initiative is successful,

India's economy would gradually improve, and the country will become stronger. The following domains are covered under the action plan:

1. Handholding and Simplifying
2. Financial Aid and Benefits
3. Industry-Academia Collaboration and growth.

According to 2021–2022, Over 656 Indian districts, there were around 81000 government-recognized startups. A startup has a 50% probability of success if its yearly revenue is at least 10 crores; by contrast, a company with an annual revenue of 25 lakhs has no chance of obtaining funding because investors only make investments when they see significant returns at little risk.

1.1 Startup Development Phase

Apart from the invention process, a startup company needs to establish a strong and dedicated founding team and work together to transform their idea into a valuable product and business model. This will enable the company to grow and capture the value created. In contrast to the abundance of self-education resources and tools accessible for the product side, there is an absence of information regarding entrepreneurship, team fundraising, and expanding and organisational issues. Professional investors, however, would all concur that team is the more crucial element if questioned. Typically, during the formation phase, concerns such as what, to whom, why, and how are addressed in relation to mission, vision, and strategy. Phase two validation concerns the idea's viability and the subsequent establishment and strength of the business.

1.2 Startup Ecosystem

The network of interrelated persons, organisations, resources, and support systems that help startups grow and succeed in a particular area or industry is referred to as a startup ecosystem. It includes government programmes, co-working spaces, educational institutions, venture capitalists, angel investors, incubators, accelerators, and more. In the end, a strong startup ecosystem creates an atmosphere that is favourable to the growth and viability of businesses by encouraging innovation, offering mentorship, and making capital more accessible.

1.3 Objectives

1. To review the different problems and advantages that startups face.
2. To review the different government initiatives provided to support the growth of startups.

2. RESEARCH METHODOLOGY

The main source of information for this book chapter is secondary data. The information was extracted from several research publications, journals, and government reports to understand, opportunities and challenges is face by Startup in India.

3. REVIEW OF LITERATURE

Mohammed Habeebuddin and D. Sakriya (2017) draw attention to the problems and obstacles faced by Indian start-ups as well as the opportunities and advantages that are open to them, such as the country's unique demographics and problems with infrastructure, health, education, and sanitation. Since India is undergoing significant change, these issues are particularly relevant to Indian start-ups. This article lists several difficulties that Indian start-ups face, including those relating to culture, mentoring, policies, hiring, fundraising, social issues, shifting problems with technology infrastructure, sustainability issues, regulatory issues, taxes issues, etc. A 2017 study by B.V. Naidu examined the difficulties faced by startups. It has also emphasised how technology can help entrepreneurs and how incubators and accelerators are expanding. Meenakshi Bindal, Sweetey Dubey, and Bhuwan Gupta (2018) The primary goals are to examine startup initiatives in India, comprehend the challenges that these businesses encounter, research the effects that startups have on society, and investigate public knowledge of these businesses. Its foundation is secondary data. It is discovered that for Indian startups to succeed, the government must support them in promoting themselves both domestically and internationally and develop laws that are conducive to startups. Tripathi et al. (2019) highlight the importance of several elements that are necessary for a successful startup ecosystem, including creative ideas, investors, technology, entrepreneurs, laws and regulations, financial institutions, cultural elements, and market conditions. These components are essential to creating an atmosphere which is beneficial to the formation and growth of new companies. SL Chaudhari and M Sinha (2021) goal is to look into the trends driving the growth of India's startup industry. The study's findings highlight 10 significant new themes that are driving the growth of the Indian startup scene. together with an analysis of their benefits and drawbacks and a list of opportunities for leveraging them to create profitable startups. Shah and Jokhi (2023)

study focus on how laws affect the startup scene, especially in India. The writers highlight numerous initiatives put in place by the Indian government with the goal of promoting innovation and entrepreneurship, this includes the Atal Innovation Mission, Fund of Funds for Startups, and Startup India. These programmes have made it easier to comply with regulations, run businesses, and give entrepreneurs financial support and tax reductions. Despite these positive steps, regulatory barriers, limited financial availability, and inadequate infrastructure in certain regions persist in hindering the overall growth of Indian businesses. Moreover, the nation's firms have experienced difficulties due to recent modifications in e-commerce regulations and data localization. This theme converges with the insights provided in the study by Kumar, S., Kumar, V., & Singh, A. which is shedding light on the intricate challenges and opportunities faced by Micro, Small, and Medium Enterprises (MSMEs) in India. The study highlights how government rules affect India's startup scene in both positive and negative ways.

4. STARTUP ELIGIBILITY FRAMEWORK

It should be a substance enlisted/consolidated as a:

- A Confidential Limited Company as defined by the 2013 Companies Act.
- Listed a partnership company in accordance with the 1932 Indian Partnership Act.
- The Limited Liability Partnership Act of 2008 established a Limited Liability Partnership.
- There shouldn't have been a five-year gap after the date of enrollment or fusion.
- The yearly revenue in any previous fiscal year, as defined by the Companies Act of 2013, cannot exceed Rs. 25 crores.
- A startup should aim to advance, improve, send, or commercialise new products, services, cycles, or innovations that are driven by licenced or innovative ideas.

5. CHALLENGES FOR STARTUP

- i. Supporting Infrastructure:** New business creation is greatly aided by a variety of support systems, including incubators, research and innovation parks, business improvement facilities, and hatcheries. Refusing admission to these kinds of support networks increases the risk of disappointment.
- ii. Financial Resources:** Obtaining adequate funding is always a challenge for entrepreneurs, as it is essential. Many funding options are available, including as grants, loans, crowdsourcing, and angel investments, family and friends, and

venture capitalists. As the firm grows, the requirement begins to rise. Timely cash infusion is necessary for business scaling. Effective financial management is essential to startups' success (Skok, 2016; Pandita, 2017). According to a recent study, 85% of newly founded companies are underfunded, which suggests that they may fail (Iwasiuk, 2016). This presents a dark image.

- iii. **Revenue Generation:** A few start-up businesses not succeed because of unfavourable income ageing as they grow. Since activities rise in parallel with declining earnings, new enterprises are compelled to focus on finance., so detracting from the importance of business fundamentals. The efficient management of consumption rate—which is also the rate at which start-up enterprises exhaust their capital—is justified by the fundamental nature of income age. It's not just about making enough money; it's also about continuing and advancing the development.
- iv. **Funding:** For new businesses, raising funding has proven to be challenging. Due to organisations' excessive consumption and lack of attention to unit financial concerns, it has become more difficult to proceed with later stage adjustments. On the other hand, holy messenger venture and seed speculation are easier to locate. Investing in assets has evolved into more of a celebration than it should be, with the goal of a business person joining the starting line. In several larger-scale studies in India, exceptionally limited financing is available. Within our ecosystem (India), we criticise the trailblazer rather than the organisation, and occasionally the organiser may be more adept at subsidised than the others.
- v. **Government Policies:** If business people represent the planets in the planetary group, then the public authority represents the sun, acting as the primary facilitator. Although public authority plans are steadily and progressively growing, it should be noted that, according to the World Bank research, India continues to carry out work tasks in an appallingly simple manner.
- vi. **Team members:** Trusted individuals with complementary skill sets typically form the foundation of a startup team. Typically, every member specialises in a certain aspect of the business. The first and most important prerequisite is putting together a strong team; otherwise, the startup may fail (Skok 2016).
- vii. **Lack of mentorship:** One of the main issues facing the Indian startup ecosystem is a lack of appropriate mentorship and assistance (Choudhury, 2015). In order to get their products to market, most entrepreneurs lack the industry, business, and market experience necessary to implement their amazing ideas and/or products.

It is a well-established example of how a great concept can only succeed if it is carried out quickly (Mittal, 2014). The largest obstacle that may put an end to a potentially wonderful concept is a lack of sufficient mentoring or supervision.

6. OPPORTUNITIES FOR STARTUPS

- i. **Huge population:** India's people represent a valuable resource for the country. By 2020, it is projected that the proportion of individuals in working age will surpass that of those in non-working age. This unique demographic advantage will be available to any startup. The market at the bottom of the pyramid and several infrastructure issues would offer entrepreneurs a tonne of opportunities.
- ii. **Connectivity:** With around 100 crore subscribers, the Indian telecom sector has gained traction with both urban and rural residents. The digital effort by the Indian government would advance data and connectivity. There will undoubtedly be interruption as the battle to get the cheapest data has begun. Everyone can access cheap data more easily, and startups will find it easier to enter new markets, expand into new areas, and even work with established companies.
- iii. **Huge Investment in Startups:** Significant investments are being made in Indian enterprises by both local and foreign investors. In 2015, over 300 projects totaling over \$6.5 billion (Rs 42,300Cr) in investments were completed by over 300 angel investors, venture capital/private equity players, and India emerged as the most sought-after investment destination. The Russian company DST Global, the Japanese telecom giant Softbank, Tiger Global Management, based in New York, Sequoia Capital, Accel Partners, and Kalaari Capital are some of the active players. More and more people will jump on board since this is the turning point in Indian business for investing in unicorns with the potential to generate substantial returns.
- iv. **Startups Recognized by Department for Promotion of Industry and Internal Trade (DPIIT):** The DPIIT, Ministry of Commerce & Industry, Government of India, has recognised 84012 businesses since the launch of the startup action plan in 2016. The programmers' significance, efficacy, and popularity among youthful, inventive entrepreneurs are evident from the year-over-year breakdown of enterprises that have been identified.

Table 1: Numbers of startups recognized by DPIIT

Year	No. of Startups Recognized by DPIIT
2016	452
2017	5147
2018	8689
2019	11328
2020	14534
2021	20089
2022	23773
Total	84012

Source: Ministry of Commerce & Industry

7. GOVERNMENT INITIATIVES FOR STARTUPS

i. ATAL Innovation Mission

The ATAL Innovation Mission fosters entrepreneurship and innovation at the national level. Atal tinkering labs, centres for innovation, incubators, and community incubation are few of the important initiatives included in this programme. In addition to providing funding, it facilitates simple access to services and information.

ii. Prime Minister Mudra Yojana

Under the PMMY, which was introduced in 2015, banks lend money to startups so they can operate profitably. More than 700,000 employments have been created by them, and they provide goods and services from a variety of industries, including IT, food, and health. They support the ventures in maintaining and expanding their businesses. Three categories are used to grant loans - Shishu upto 50,000 rupees, Kishore upto 5,000, and Tarun upto 5,000–10,000 rupees.

iii. Self-Employment and Talent Utilization

The government has budgeted Rs. 1000 crore to support the creation of new technology-related jobs. To help MSME's update their technology, the CLCSS Credit linked subsidy system was created in 2000. This could lead to a rise in their earnings.

iv. E-BIZ PORTAL

The government provides this platform, which consolidates 14 licences and approvals into one source, to speed up clearances and make doing business in India easier.

v. Royalty Tax

The Indian government cut the royalty fees that startups and businesses in India had to pay from twenty-five percent to ten percent.

vi. Startup India Seed Fund Programme

In order to assist companies with their early-stage financing needs for product testing, market entry, proof of concept, prototype development, and commercialization, the Startup India Seed Fund Scheme (SISFS), which was formed in 2021–2022, has a capital of Rs. 945 crores.

8. CONCLUSION

India's startup ecosystem has experienced tremendous expansion and development thanks to government programmes, financial resources, a trained workforce pool, and a supportive atmosphere. Launched in 2016, the government's Startup India programme is essential in helping emerging enterprises by offering a range of incentives and support including cash support, industry-academia alliances, and handholding and simplification. In addition to developing novel products, the startup development phase entails assembling a solid founding team and developing a workable business plan. Not with standing, several obstacles continue to exist, such as the requirement for auxiliary infrastructure, monetary assets, income production, financing availability, governmental regulations, and the pivotal function of a committed and proficient workforce. Notwithstanding these obstacles, India offers a plethora of startup chances, such as a sizable population that may be utilised as a resource, enhanced connectivity through digital initiatives, and sizeable investments from both local and foreign investors. Through programmes like the E-Biz Portal, credit-linked subsidy schemes, the Atal Innovation Mission, and the Prime Minister Mudra Yojana, the government has taken action to address issues and create possibilities. Although there has been significant progress in the Indian startup scene, more work needs to be done to solve issues like the lack of mentorship and to keep creating an atmosphere that is encouraging of creativity and entrepreneurship. The overall trajectory of India's startup scene points to a promising future for increased job creation and economic growth.

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