

Contributions of Startups to the Growth of the Indian Economy: A State Wise Analysis

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Vishal Sharma. A

*II MBA, School of Management
Dwaraka Doss Govardhan Doss Vaishnav College
Chennai, Tamil Nadu, India*

Dr. Magiswary Dorasamy

*Associate Professor, Faculty of Management
Multimedia University, Malaysia*

Abstract

The paper investigates the complex effects of startups on the resilience and growth trajectory of the Indian economy. It explores the ways in which these young, creative businesses are promoting dynamism and adaptation, especially in the face of economic difficulties. The report clarifies government programs that give emerging businesses critical financial support, such as the Startup India Seed Fund Scheme (SISFS) and Alternative Investment Funds (AIFs) under the Fund of Funds for Startups (FFS). The article intends to reveal the role of startups in driving inclusive economic growth, fostering technological advancements, and creating jobs by analyzing their individual contributions across different sectors. The study also looks into how entrepreneurs are promoting India as an innovation hub and raising the country's global competitiveness. Policymakers, investors, and entrepreneurs will all benefit from this investigation's insightful findings, which emphasize how important it is to support a strong startup ecosystem in order to have a vibrant Indian economy.

Keywords: Startups, Indian Economy, Resilience, Startup India Seed Fund Scheme (SISFS), Alternative Investment Funds (AIFs), Fund of Funds for Startups (FFS), Government Initiatives, Innovation, Entrepreneurship Strategy.

Introduction

India's startup environment has changed dramatically over the years, going from being a relatively unknown idea to a major force influencing the country's economic direction. The idea has become less confusing for the general public thanks in large part to media coverage that is becoming more and more pro-startup. Startups, in contrast to small firms, are distinguished by their focus on innovation—bringing novel items or procedures to the market. The Indian government launched the "Startup India" program to assist and encourage entrepreneurial endeavors, realizing their potential as catalysts for innovation and growth.

India is ranked third internationally among technology-driven startups, with the United States and the United Kingdom occupying the top two spots, in the vibrant startup environment. This puts India at a pivotal moment. Technology is the main focus of Indian startups, which are frequently led by recent graduates from esteemed universities

like the IITs. Interestingly, many projects investigate unorthodox fields like medicine, which broadens the scope of startup activities. From this, a basic issue arises: How can startups impact the structural dynamics of the Indian economy and other economies of a similar nature around the globe? The influence of startups is immediately apparent, but only well-executed ideas stick around. Understanding the critical role that startups play, the Indian government works to create an atmosphere that supports their expansion. Following the lead of smaller countries that, despite their size and resources, have achieved exceptional economic growth via a commitment to invention, startups are considered as key contributors to the promotion of entrepreneurship and innovation. India's youthful population makes it the perfect place to support startup culture. The growing trend toward a "ownership mindset" is bringing in a new generation of innovative concepts that are implemented successfully.

Review of Literature

In their 2016 research paper titled "Start up India- New Opportunities For The Entrepreneur," Badra, Shailja, Dr., and Sharma, Vivek emphasize the importance of key initiatives such as faster company registration, self-certification for legal requirements, and a three-year tax vacation for the success of the Start Up India campaign. They also stress the need to include clauses for the 90-day liquidation of inactive businesses to simplify processes, aligning with the new bankruptcy bill. The government's commitment to providing initial capital and a credit guarantee for startup loans is seen as a significant boost for the Indian economy.

The 2016 report titled "Start-Up India- an Overview" by Grant Thornton for ASSOCHAM India highlights the thriving trend of startups in the Indian markets, with several homegrown unicorns emerging. The article underscores the consumer-driven growth potential in India, with a focus on early-stage investments and the nation's representation as a major investment opportunity globally.

Uruba Andaleeb and Singh, S.D., Dr., in their 2016 research paper "A study of Financing Sources for Start-up Companies in India," discuss India's evolution from an IT outsourcing destination to a hub for technology startups. The analysis identifies key growth stages, including the dotcom period and the rise of product startups. The Indian government's Start-Up India initiative, launched in 2016, aims to foster entrepreneurship and innovation, transitioning India into a nation of job creators.

In 2016, Nishith Desai Associates (NDA) authored a report titled "Start-Ups: What You Need To Know," emphasizing the importance of overcoming legal and regulatory challenges for startup success. The document advises startups to carefully consider the legal and tax environments, entity structuring, and regulatory compliance during their early stages.

Madhura Wagh's 2016 research paper, "Government initiative for Entrepreneurship development- Start up India," discusses the Stand up India initiative, addressing barriers to entrepreneurship in India. The recommendations focus on liberalizing policies, providing education and training, rearranging tax codes, and incentivizing entrepreneurship to create a robust ecosystem for innovation and startups.

Hosseini and Sharifi Omid Karbalaei's 2015 research paper, "Understanding The Financing Challenges Faced By Startups In India," highlights the challenges faced by startups in India, particularly in securing funding. The paper discusses the evolving landscape, emphasizing the perseverance required by entrepreneurs and the increasing difficulty in obtaining capital due to economic uncertainties and technological advancements.

Research Objectives

1. To understand the startups and the importance of them.
2. To highlight the different functions that Indian startups play.
3. To determine what factors are pushing India to become a hotspot for start-ups and what obstacles stand in the way.

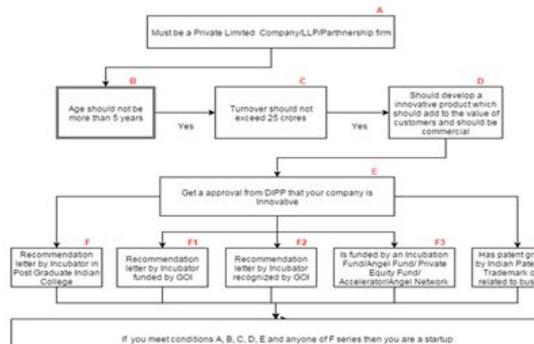
Hypothesis of the Study

The following hypotheses, which will be employed in accordance with the objective and tested for validity, serve as the primary framework for this research work.

- H1- Start-ups are playing the role of game changer in India.
- H0-Start-ups are not playing the role of game changer in India.
- H1- India has a healthy environment for start-ups.
- H0- India does not have a healthy environment for startups.

Introduction to Startups

Figure 1 - The flow chart of being recognized as Startup in India



Source - <https://yourstory.com/2016/01/startup-india-action-plan-eligible>

Figure 1 indicates the conceptual framework of the Research. AI mediated by HR Analytics impacts the variables such as job satisfaction, organizational commitment, advocacy, pride, and work efficiency which impacts employee engagement.

Oftentimes, start-ups are mistakenly associated with small businesses. This is especially true in India, where the start-up scene began to take off somewhat later than in other regions of the world. However, India is still suffering greatly as a result of its late start. Startups have been instrumental in forming India’s own entrepreneurial culture. Recent trends (which began after the year 2000 and were more intense after the year 2008) have consistently demonstrated that start-ups are associated with innovation or distinctive offers from a very diverse platform, which combined provide the company a distinct market position. The Indian government, led by Hon’ble Prime Minister Shri Narendra Modi, has unveiled the ambitious “Start up India- Stand up India” program. In words of Hon’ble Prime Minister Shri Narendra Modi -

“Startup India is a revolutionary scheme that has been started to help the people who wish to start their own business. These people have ideas and capability, so the government will give them support to make sure they can implement their ideas and grow. Success of this scheme will eventually make India, a better economy and a strong nation”.

In his address, the prime minister emphasized the importance of startups to the Indian economy and the growth of Indian entrepreneurship. He refers to start-ups as “game changers” and explains how the government can help these people realize their potential and launch their own businesses. A start-up policy is a combination of subsidies and incentives intended to support and foster Indian startups and establish India as a global center for start-ups. The government of India has taken deliberate and decisive action to ensure that entrepreneurial features and characteristics have never before grown so much in the nation’s seven decades of independence. The different provisions and agreements have aided new businesses operating in India. The age and educational background

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of start-up founders is a crucial component of Indian start-ups, which are more prevalent. Based on the “Indian Startup Ecosystem Maturing – 2016” NASSCOM- Zinnov startup study, India is now ranked third globally in terms of the size of its startup base. India is currently ranked second only to the United Kingdom. The research goes on to say that by 2020, there would be close to 10,500 companies thanks to current efforts and the ecosystem. This represents a 2.2-fold increase in startup growth.

According to Merriam-Webster, Start-up Means

“The act or an instance of setting in operation or motion” or “a fledgling business enterprise.”

The American Heritage Dictionary Suggests

“A business or undertaking that has recently begun operations”

Startup Definition (As defined by Department of Industrial Policy and Promotion)

Government of India has defined Start ups as those newly founded companies which fulfill the criteria set by DIPP; according to DIPP (Department of Industrial Policy and Promotion) Ministry of commerce and industries, Startup means an entity, incorporated or registered in India which is-

- Not prior to seven years, however for Biotechnology Startups not prior to ten years,
- With annual turnover not exceeding INR 25 crore in any preceding financial year, and
- Working towards innovation, development or improvement of products or processes or services, or if it is a scalable business model with a high potential of employment generation or wealth creation.

Exceptions of this Definition are as follows

- Provided that such an entity is not formed by splitting up, or reconstruction, of a business already in existence.
- Provided also that an entity shall cease to be a Startup if its turnover for the previous financial years has exceeded INR 25 crore or it has completed 7 years and for biotechnology startups 10 years from the date of incorporation/ registration.
- Provided further that a Startup shall be eligible for tax benefits only after it has obtained certification from the Inter-Ministerial Board, setup for such purpose.

Characteristics of Startups

Start-ups differ from pre-existing business operations in their qualities and traits, as the definition makes clear. These are extremely inventive, strangely formed organizations with little room for conventions or formality. To put it briefly, all the components of a large organization—such as an organizational hierarchy—are either entirely absent or severely weakened in start-ups. The subsequent research aims to determine the distinctiveness of startups.

Innovation/Disruptiveness: The primary attribute of start-ups is their superior innovation in terms of how they cater to the market and clients. Start-ups accommodate the highest amount of innovation compared to any other entity, resulting in disruption.

Company/Entity/Enterprise sizes: Start-ups usually have a small workforce, with no more than 30 or 50 employees. Their activities are likewise quite small, however they may expand in response to demand and other circumstances.

Organizational Structure: One of the key traits of a start-up is its extremely flat, non-hierarchical structure. Employees perform to the best of their abilities when the founder(s) collaborate closely with their team members and view them as collaborators rather than workers.

Unconventional Financing Sources: By definition, startups receive funding from sources other than banks and financial institutions that are not traditional. The majority of their money comes from angel investors, venture capitalists, individuals, and entrepreneurial funding organizations like Softbank.

Risk and Uncertainties: All start-ups focus on the uniqueness of their products and services and are typically highly inventive. More innovation means greater unknowns and hazards. One of the most significant characteristics of start-ups is their extreme riskiness because their market offerings are provided in a very unusual way, which raises the degree of risk and uncertainty.

Single product/service emphasis at first: Startups initially (or permanently) concentrate on offering a single product or service to the intended market. They are extremely focused on their product offers, unlike a firm. They first offer a single product or service to the market, but eventually they might add several variations.

Resources Available: Despite popular perception, startups don't have a lot of resources. They frequently fail in their attempts to draw resources because they struggle so much to do so. Only after their existence or product is noticed do they receive the critical resources. For corporations and other corporate entities, it is highly improbable.

General Atmosphere: Start-ups have a very distinct and lively general atmosphere and culture. The average age of employees at start-ups is typically relatively low, which contributes to a less bureaucratic and more productive work atmosphere that brings out the best in people.

Flexibility: One of the most crucial traits of startups is their extreme adaptability and responsiveness to market developments. Their product line and organizational scale enable them to easily implement the necessary changes to counteract changes that arise as a result of certain circumstances. To put it briefly, they maneuver really easily and smoothly.

Significance of Startups in India Economy

Because of their very nature, startups are essential to developing nations like India. In terms of economic contribution, start-ups are a huge and game-changer when it comes to innovation, opening up new markets, producing and consuming distinctive and innovative products for the consumer, and raising a generation that firmly believes that job providers should be hired rather than hired. Apart from that, the very fact that start-ups exist and are successful encourages others to take a similar path. In a sense, it transforms traditional economies into innovation-based economies by producing massive clusters of prosperous businesses. Additionally, startups foster a culture of reciprocal learning and employability through creativity. Apart from it, the following are some other important aspects of startups in the Indian economy:

1. The emergence of entrepreneurs and low-level jobs in the nation, which lessens the burden of unemployment and aids in the development of a developed nation.
2. The nation's inventive production and consumption patterns create a society with a greater standard of living. Such avenues are made possible by startups, which encourages innovative and unorthodox consumption in society.
3. A culture of entrepreneurial excellence and incubation is being fostered by the rise in start-ups, which is indicative of the nation's progress toward improved societal standards, technical innovation, etc.
4. Start-ups in the nation are responsible for the boom in research and development since they enable the creation of cutting-edge technology that spur creativity and ideas. The surge in research aids in the discovery of solutions to meet the needs.
5. Startups can also benefit from time and resource savings because they develop solutions that save their clients a great deal of both.

6. As the number of start-ups in the nation increases, so does the message and image that they convey. Having supplanted industrialization as the hallmark of contemporary global growth, nations generating the greatest number of start-ups are seen as highly developed.
7. Encourages educational establishments to concentrate more of their curriculum on innovation and entrepreneurship.
8. In general, start-ups are very important for India and other comparable countries since they help them break free from old income sources and open up new opportunities for employment, income, and production. Thus far, the experience has demonstrated that start-ups have the ability to alter India's overall consumption patterns with minimal assistance from the government and other relevant authorities. No one will find this adjustment uncomfortable, as it will benefit all parties involved.

Barriers Faced by Startups in India

To everyone's surprise, the FICCI research highlights the alarming statistic that "90 percent of startups either fail within the first two years of existence or realize the lack of a profitable business model." The explanation is straightforward yet difficult to understand since the startup ecosystem is so delicate. In countries like India, where priorities are set and situations are highly uncertain, any abrupt or time-bound shift has an impact on the viability of companies. distinct publications identify distinct issues and factors that contribute to the complete failure of startups in India, and as a result, they also present a variety of unique and varied solutions to the challenges that these businesses confront. However, the risk of startups closing their doors remains unabated even with the most thorough research and vast experience in company administration. For startups to play a unique role in the economic development of the country, the government needs them. However, just like any other business unit, startups have challenges. They face slightly different obstacles than do the regular business units. A few of the obstacles are listed here.

1. A founder's lack of experience in operating and overseeing a full-fledged company can occasionally cause difficulties for their startup, with the possibility of the venture closing.
2. The success or failure of any brilliant idea that is turned into a startup is greatly influenced by the quality of the research or the interpretation of the research findings.
3. In India, startups often fail or close due to inadequate planning and execution of a brilliant idea.
4. There may not always be an issue with the concept, but if it is poorly executed, it might undoubtedly lead to closure.
5. A major cause of companies' severe struggles is a lack of funding.
6. Product-related issues might occasionally cause obstacles or the demise of Indian startups. India's population is still fairly traditional, thus any product that is highly advanced and at odds with previous experiences is likely to fail.
7. In India, the primary reason for startup shutdown and failure is a failing business strategy. Due to their lack of prior business establishment experience, the founders are prone to making mistakes such as choosing and implementing the incorrect business strategy, which may result in lower than anticipated returns.
8. A genuine team and a casual team are quite different. Over time, the productivity of a startup will undoubtedly decrease if its staff members lack the same motivations, aspirations, and passion as the founder. Startups will ultimately fail as a result of this since there will be a lack of teamwork and motivation.

Analysis

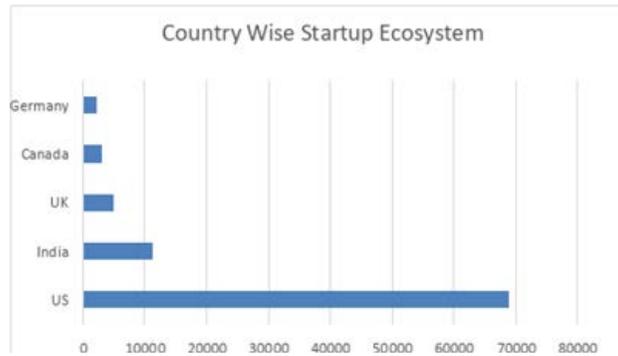


Figure 3.1 - Country wise startup ecosystem

Source- <https://rankingroyals.com/business/countries-with-the-most-startups/>

The startup environment is flourishing in the United States, where there are the most startups (68,893) and a culture that is very supportive of business endeavors. The United States has the largest percentage of unicorns, or startups valued at more than \$1 billion, with an amazing 64.7% share. With a significant total of 11,162, India is the country that contributes the second most to global startups. India is ranked fifth in terms of startup friendliness and holds 4.1% of the unicorn market share. It is the most sought-after location for startups in South Asia.

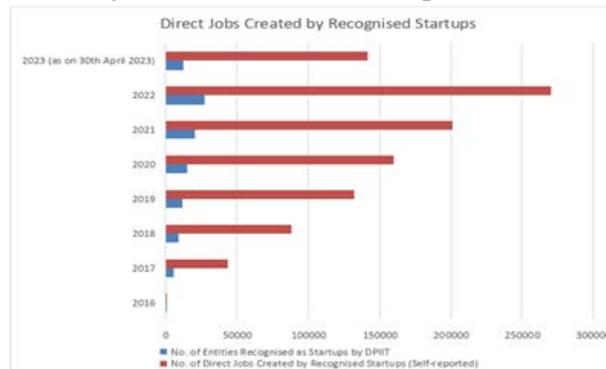


Figure 3.1 - Direct Jobs Created by Recognized Startups

Source - <https://data.gov.in/resource/year-wise-details-startups-recognised-and-direct-jobs-created-self-reported-them-launch>

The data from 2016 to 2023 reveals a robust expansion in India’s startup ecosystem, marked by a consistent rise in the number of entities recognized by DPIIT, growing from 428 in 2016 to 26,522 in 2022. A notable surge in job creation accompanies this trend, escalating from 271 direct jobs in 2016 to 270,196 in 2022. Particularly noteworthy is the substantial growth from 2019 onwards, with 11,216 startups recognized in 2019 creating 131,594 jobs, reaching 26,522 startups and 270,196 jobs by 2022. Despite pandemic challenges in 2020, the ecosystem demonstrated resilience, with a rise in recognized startups from 11,216 to 14,454 and job creation from 131,594 to 159,803.

increased to 2567, a 46.5% rise. Significant growth is also seen in Karnataka and Maharashtra, where there were 1724 startups in 2020 compared to 2563 in 2022 (a 48.6% increase), and impressive growth from 2657 in 2020 to 4801 in 2022 (an 80.6% increase) in Maharashtra. Other states that exhibit steady growth include Telangana, Gujarat, and Uttar Pradesh. Telangana saw a rise of 73.6% from 796 startups in 2020 to 1377 in 2022; Gujarat saw a rise of 161.5% from 866 startups in 2020 to 2274 in 2022; and Uttar Pradesh saw an increase of 88.8% from 1363 startups in 2020 to 2572 in 2022. This data highlights the national trend toward promoting startup ecosystems, with some states exhibiting very strong and consistent support for nascent businesses.

Research Findings and Suggestions

The study's findings from 2020 to 2022 indicate a dynamic and robust growth in India's startup ecosystem, with Delhi, Karnataka, and Maharashtra emerging as leading hubs. Delhi experienced a substantial 46.5% increase in startups supported by Funds for Startups (FFS), showcasing its pivotal role. Karnataka and Maharashtra displayed significant growth rates, with Karnataka showing a 48.6% increase and Maharashtra demonstrating an impressive 80.6% increase. Telangana, Gujarat, and Uttar Pradesh also exhibited consistent growth, emphasizing geographical diversity in startup activities. The findings present opportunities for policymakers to focus on states with emerging startup ecosystems and implement strategies to sustain and enhance the nationwide entrepreneurial momentum, showcasing a positive sectoral impact and inclusive development across diverse regions.

Similarly, the hypotheses of the paper are also tested based on the argument and observation. The null hypotheses are rejected and alternative hypotheses are accepted which state

1. H1- Start-ups are playing the role of game changer in India.
2. H1- India has a healthy environment for start-ups.

Conclusion

The economy and living standards of any country are significantly impacted by startups. The significance of these endeavors grows as we address issues in developing economies such as our own. Over the past ten years, the number of startups has increased rapidly, as has their contribution to employment and revenue growth. With 4,600, India has the third-highest number of startups in the world in 2016. Studies indicate that the number will likely increase in the future. The money and degree of consultation offered by the Startup India scheme clearly demonstrate the earnestness of the initiative. The efforts of other state governments had fruitful outcomes as well; India's Bangalore and Delhi have become globally recognized as Startup Hubs. Startups have enormous potential in terms of both talent demand and supply. Given that India is extremely wealthy overall, the issue of what is preventing India from reaching its full potential arises. The answer to this question is very unexpected: India's environment is to blame for the nation's extremely slow growth in terms of startups. For startups to grow and contribute as planned, their very culture must be fostered and maintained. It is becoming increasingly necessary to establish incubation and acceleration centers in non-urban and rural locations in order to draw the most creative ideas from the most remote corners of the globe.

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