

Role of Startups in The Economic Development of India

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Abstract: Global development is entering a phase where entrepreneurship will increasingly play a more vital role. Entrepreneurship may spur economic development if appropriately supported by the state and may also make nations happier, but only upto an extent. As nations become happier, their need for entrepreneurship seems to decline. Startup business owners are well known for their capacity to provide employment opportunities and shape marketplace innovations. An entrepreneur is in an exclusive position to improve the economic condition and advance the society by creating new jobs. Other than delivering value to their customers, startups do have a direct influence on the cities they make their homes. The influence of Infosys in Bangalore is a classic example of this. When these startups evolve, they impact the growth of their cities as well. Employment opportunities for youth rise and new employment patterns come into picture.

Entrepreneurial Activity has a significant contribution towards national growth; several proposals are also suggested regarding the way governments can promote entrepreneurship including the scope of economic activities managed by the government, encouraging annual working hours and reduction in the complexity and cost related to the registration of a new business.

With great heights achieved in the industrial production as evidenced by the increase in the rate of growth during the current plan period, expectations of better capacity utilization and favorable investment climate reflected in the response of the capital market to the various issues. The prospects of the industrial sector in the current plan are also quite encouraging. Small businesses provide enormous opportunities to the entrepreneurs. It holds the key to success in the prevailing socio-economic environment. The study reveals that India, in spite of being amongst the fastest growing country still has the world ranking as 140th regarding the nominal GDP per capita. However, the study is optimistic about India's growth which as a result would provide a strong foundation for the startup ecosystem to flourish. (Handbook of statistics on Indian Economy June 2014)

Measures should be taken in supporting startups with tax clarity, incubation, affordability and licensing. Providing startup capital, resources to develop awareness, inspiration and increasing meeting space for the newest innovators & business leaders of tomorrow can also catalyze the entrepreneurial ecosystem. The major caveat is that for entrepreneurs to play a significant role, the role of the state stands extremely crucial. Strong states play a role of regulators and gatekeepers. In the absence of appropriate 'rules of the game' laid down for the startups, entrepreneurship may result in undesirable social outcomes, including corruption, crime, speculation and financial crisis.

Key Words: Startups, Capacity Utilization, Incubation, Licensing, Innovators, Gatekeepers.

1. INTRODUCTION

Impact of startups and the importance of their socio-economic contributions

We all well understand that a startup is always about an idea of how to have a significant impact on the customer. startup has a farreaching ripple effect on the socioeconomic fabric of the demography in which they operate. It is interesting to explore it further, and all the changes that some startups have brought in the cities, industries, global markets, and the changes they have brought in the socioeconomic fabric of the societies in which they operat. The question to ponder around policy and progressive government to encourage startups is not explored enough.

India now plans it on a priority and quite possibly Venture capitalists who fund startups should measure their success also by gauging the impact beyond returns.

"Entrepreneurship may include the creation of new organizations" as stated by Gartner, 1989 or may be pursued within already existing firms (intrapreneurship). "Entrepreneurs who choose to start a new firm are usually categorized into novice (founders of their first independent business) and habitual entrepreneurs (founders of several companies consecutively). We assume that, due to the liability of newness as stated by Stinchcombe, 1965 novice entrepreneurs lack human resource management competences". "As the company grows, the size of the entrepreneurial team and the dynamic of its composition increase" as opined by Chandler, Honing & Wiklund, 2005.

Startup business owners are celebrated for their ability to provide employment opportunities and create marketplace innovations. An entrepreneur is in a unique position to boost the economy and improve the community by creating new jobs. Expanding employees is a serious commitment. The entrepreneur wants his/her company to be one that lasts. With small companies, the performance of each worker has a big impact on the business outcomes.

When these startups grow, they directly impinge the growth of their cities as well. Employment opportunities for youth

increase and new employment patterns emerge.

Entrepreneurial Activity has momentous impact on the national growth; a couple of suggestions are also made about what governments can do to promote entrepreneurship including the scope of economic activities managed by the government, therefore encouraging the augmentation in the annual number of hours worked and bringing down the complexity and cost of registering a new business.

With the buoyancy achieved in the industrial production as proven by the enlarging rate of growth during the current plan period, expectations of better capacity utilization and positive investment climate mirrors in the response of the capital market to the numerous issues.

As India's vibrant entrepreneurial ecosystem is emerging, it would do well to grasp the idea of the role of startups and create support for them to flourish. As we see some of the Indian startup founders turning angel investors to support and stimulate new innovation in India, we will surely see the ripple effect of their endeavors in the long run.

How can we and our governments help support the startup growth? They should exert in helping startups with tax clarity, incubation, affordability and licensing. It could also assist by providing startup capital, resources to broaden awareness, inspiration and more and more meeting space for the newest innovators & tomorrow's business leaders. The Delhi Metro, Konkan Railway and Kolkata Metro have ameliorate productivity and travel safety for millions of Indians; and other such initiatives, like UID and online passport application. Urbanrural disparities need to be cut down; Goa and Kerala have less incongruity in this regard.

India still has a meandering way to go to catch up with the West's plane connections between academia, R&D, government policy, industry, investors and startups. Many entrepreneurs are still at the 'metoo' stage of copying Western startups. Delightedly a broad range of mainstream and online media are advancing the startup mindset in India, along with catalyst initiatives such as The Power of Ideas (DST, IIMA, ET), Sankalp Forum (Intellect), Spark the Rise(Mahindra), Eureka (IITM), and Samsung Innovation Awards. Government departments are also getting into the act (EDI, MSME, and NSTEDB).

Startups Can Make a Difference with 'Make In India'

We are residing in a global village. This international assimilation has led to the formation of a unique identity a montage of infinite sociocultural and economic exchanges from within and across the country/ies.

Make in India launched on 25th September 2014 is an attempt to keep India's money in India with an urge to strengthen India's manufacturing sector and build the its industrial base nationwide.

Although Make in India Campaign is a recent launch, the phenomenon had always been there at the backdrop, with a many native industrial giants having their manufacturing base

established in India itself. Companies like Tata Group, Dabur India Limited, Mahindra & Mahindra, Wadia Group, Zenith Computers, Reliance Group, Sahara Group, Videocon Group, Asian Paints etc. stand as examples to the emerging companies who look forward to invest in the manufacturing sector.

2. MAKE TECHNOLOGY IN INDIA

While the Government's motto was to focus on promoting the manufacturing industry, technology is one domain where consumer electronics and software merchandise are still majorly coming from overseas. According to BMI Research total consumer electronics spend in India will increase to USD 76.9 billion in 2016.

There are a few Indian companies in this domain who have focused on the 'Make in India' aspect like Micromax Mobile which manufactures its handsets at a Rudraprayag facility and launched one of its smartphones in January 2014 in Russia. And also DataWind, known for its development of the Aakash tablet computer, which is manufactured at the company's Hyderabad facility. While the slogan 'Make in India' is for the startups creating hardware products, a wide market awaits for those in the digital sector as well. Indian technology product startups like InMobi, Zoho, FreshDesk, Pubmatic, FusionCharts etc. have already established themselves globally, and there is a scope for others too.

Startups in India have never got the opportunity to pick the smoother route, especially if they carry determination of going global. It is difficult to gather funds and convince investors and leaders to get engaged. However, this campaign kindles a hope that these issues would soon get addressed. Nevertheless, it is high time, the Government reformed the business regulations in order to invest a hassle free platform for the emerging businesses to grow and ripen. If the Government indeed desires to make a difference with 'Make in India', it shall have to push ahead with implementing reforms at the earliest.

Over the last few years, the Indian Startup industry has witnessed tremendous success in providing innovative services to the nation, along with generating substantial employment opportunities. The financial allocation of Rs 1000 cr under the SETU – Self Employment & Talent Utilization program will drastically help to boost the startup ecosystem in India. The additional focus towards the strengthening of the IT infrastructure, the backbone of the Indian startup industry will accelerate the industry growth.

What will be interesting to see over the next couple of years is how well are initiatives like the incubation cell and nayi manzil are executed. Schemes like funding unfunded, special fund for startup are good initiatives. The economy has become very assured with the 'Skill development' and 'Make in India' giving the boost to the young entrepreneurs. It is also a sign of respite for the corporates to get tax exempted which will also reduce tax on businesses to 25% over four years from a current 30%,

with a view to fostering, spending and job creation.

Today India is globally the 4th largest in terms of initiating startups. Young Indians are highly inspired and motivated to build companies of their own. Consolidating startup approvals through ebiz portal by including state approvals would certainly bring down the complexities in mounting up business. Overall the focus on pushing the Make in India strategy by encouraging domestic monopoly and entrepreneurship and rewarding the Indian industries is a great impetus.

3. THE ROLE OF ECOSYSTEM FOR STARTUPS

Ecosystem is a word that is often used in the whole entrepreneurship paradigm and this is a word that has been borrowed from biology in fact. The ecosystem basically implies that numerous parts or numerous members or peripherals of a living system actually help each other and collaborate so that the whole system survives and grows.

In the entrepreneurial ecosystem we can equate these to investors, services providers like lawyers and accountants, customers, technology validators, incubators, venture capitalists mentors and advisors, the regulatory ecosystem, risk management ecosystems and so on.

If an entrepreneur has to succeed, it is actually vital for these ecosystem peripherals to work largely in favor of the entrepreneur. If that does not happen, this proportionate amount of time and financial investments are made to mitigate some of these issues which then jeopardize the viability of an enterprise.

The ecosystem in fact benefits from the other members of the ecosystem performing and doing their duties and providing a supportive environment because the success of one of the peripheral ensures that the entire system will be successful. Looking at the Indian perspective; we need to do a lot of work in a supportive ecosystem that helps an entrepreneur at every step of the way.

The expectations for an all new golden startup era are running high, and there is no doubt that many will feel that this might be the defining moment for the Indian economy as anticipated.

4. LITERATURE REVIEW

There are few studies conducted to analyze the role of startups in the economic development of India at the national and international level. Some of the representative literatures related to experiences in various countries is as follows: Some important studies that are relevant to the present study are discussed below:-

International Studies

- As opined by Baker and Aldrich in 1994[1] the hiring practices of entrepreneurs in the early stages of firm development. Finds that entrepreneurs tend to hire at the top and bottom of the organization, without focusing much attention on the middle of the organization, and that hiring

practices seem to be erratic and loosely planned.

- As opined by Cardon and Tolchinsky[2] Examines the roles different staffing methods can play in small and emerging firms. Offers the view that the mix of direct hire, contingent labor, and PEO based hires should vary in the firm based on the desired speed, flexibility, mental model, HR commitment, and control over firm dynamics.
- Heneman et al in 2008[3] States that Qualitative survey of the HR issues confronting SMEs and the current topics in HR related to SMEs—attempts to highlight the gaps in the literature. Highlights the need for more research into organizational fit and the development of multitasking individuals as the biggest gaps.
- McEvoy in 2004[4] examines the effectiveness of personnel management in small firms versus the expectations of such programs in larger firms. Finds that small firms seem to be overconfident about the effectiveness of their personnel programs and suggests that much of this may relate to employing few dedicated or trained HR personnel.
- Williamson et al in 2001[5] Examines the methods small businesses use to overcome recruitment hurdles. Suggests that organizational adoption of recruitment policies only because they have been successful for other firms may be in error. Firms should consider the potential employee's knowledge of the firm and their desire for legitimacy when adopting recruitment techniques.
- Williamson in 2000[6] has stated a strategic model of recruitment for small business, which focuses on the need to gain legitimacy and the need to develop individual firm character. Advocates that firms may need to duplicate the HR policies and processes of those firms they see as legitimate, in order to gain legitimacy themselves.
- As opined by Astebro and Bernhardt in 2003[7] his paper investigates the relation between the survival of new small businesses and bank loans. This is done using a model that included other loan sources, human capital variables, and company and industry descriptors. They found that there is a negative correlation between having a bank loan and business survival, and a positive correlation between having a non-bank loan and survival. However, having a bank loan remains a good predictor of the survival of startup companies otherwise. The investigation is based on data referring to a set of small businesses launched in 1987 in the United States. The data source contains certain background data for 1987 and business survival data for 1991 for these businesses.
- Opiner about Chirstopher A Pissarides September 2008[8] (The Interaction Between Technology) discussed that higher wages, and were both more attuned to, and realistic about, new technologies. The conclusion formed was that firms which survived generally displayed wider and deeper competencies than firms which closed. In the 'base year' of 1994-95 a sample of entrepreneurs, stratified by region, was

interviewed, using an administered questionnaire. Then follow-up interviews were made with the entrepreneurs of firms.

- Opined that Ferris et al in 2004[9] homogeneity is criticized for encouraging segregation of opportunities and restriction of perspectives and ideas. For instance the fact that SMEs are less likely to use formal recruitment procedures creates the potential for discrimination to arise.
- As stated by Martinelli in 1994[10] deplore that much of the literature on entrepreneurship can be divided into two broad camps focusing on individuals and structure, respectively. The first seeks to explain the prevalence of entrepreneurs in terms of instinctive traits and the second describes how social and cultural structures call to explain entrepreneurial action at the micro level.
- As stated by Delmar in 2000[11] that the entrepreneurial personality as risk taking propensity, internal focus of control, tolerance of ambiguity, and need for autonomy. Joseph Schumpeter the most influential writer on entrepreneurship said that the individual entrepreneur embodies the innovative function in society and stands out as a leader in an otherwise equilibrating world of habitual actors.
- As stated by Stevenson and Gumpert in 1985[12] further entail that innovation is the heart of entrepreneurship.
- Investments in human and social capital are widely believed to improve the performance of employees (Arthur, 1994; Bishop, 1994; Boselie, Paauwe and Jansen, 2001; Gelderblom and de Koning, 1996; Huselid, 1995; MacDuffie, 1995). CiteSeerX The value of human and social capital investments for the business performance of startups (2004) Indian Studies
- Sandesara in 1988[13] reviewed the Indian experience of promoting small scale industry over the last four decades based on official reports and academic studies on the subject. He traces growth patterns of SSIs from the perspective of employment generation. There has been substantial growth of these industries over the last few decades. However, it has been observed that growth and expansion of these industries have been uneven across the states.
- As opined by Shane and Venkataraman in 2000[14] that entrepreneurial opportunities are the first thing that individuals must have. Gaglio and Katz (2010) say that opportunity identification process is the most fundamental issue in understanding entrepreneurial behavior.

5. CHALLENGES AND SUGGESTIONS

Recognizing the lack of credit facilities as a dominant challenge in the sector, apportionment of Rs. 20,000 crore for Mudra Bank for SMEs will play a vital role by sanctioning the SMEs to gain access to basic things such as raw materials and other necessary resources important to run their business. Also, the allocation of Rs. 1,000 crore for technology startups showcases government's credence in young technology businesses. The government's focus should be on making the youth of India job creators and not job seekers, that will have very positive

impact on our socioeconomic scenario and if implemented in right manner this will have a long term smashup too.

Furthering the boost to electronic payment transactions, Online and at POS will also accelerate the growth of startups in our country.

Currently initial sum of Rs 150 crore was promised to create world class IT hub to take advantage of our competitiveness will also further the cause. Other concerns of IT industries for a more liberal system of raising global capital, incubation facilities in our Centres of Excellence, funding for seed capital and growth, and ease of doing business etc. should be addressed properly. Government are also establishing the mechanism of 'selfemployment' to support all aspects of a startup business. This would be beneficial to build a new or existing startups from the scratch.

India has perhaps one of the largest ever young populations in the history of mankind. The young by their very nature are willing to dare the opportunities exist. We must unleash their entrepreneurial potential, to make India become unstoppable.

The postponement of GAAR provisions by 2 years would improve the ease of investment climate in startups and making it applicable prospectively is a serious incentive in the right direction. GAAR provisions in the present form are regarded as draconian by the investor community and deferment with a possible revisit to the provisions making them practical, would certainly boost investment climate.

Reduction of corporate tax from 30% to 25% over a period of 4 years and tax exemption for startups for the first three years would bring India at par with many of the attractive business destinations of the world. Currently the average corporate tax rate is around 23%. However with gradual phasing out of exemptions, the overall change in taxation position seems marginal. The positive takeaway is the possibility of reduced litigation owing to taxation exemptions.

6. CONCLUSION

Until now, India's regulatory regime was so offputting that startups like online retailer Flipkart and digital advertising network InMobi have redomiciled in Singapore. Over half of all startups to receive early stage funding in India are expected to redomicile to Singapore because there regulations make it easy for companies to receive global venture funding. But with the 'Make in India' Campaign, Startup India and Startup Catalysts and the announcement of the 'Standup India ,Startup India' Policy by our Prime Minister , the future of startup and the face of Indian Economy definitely looks bright and shining more than ever.

The institutional trading platform is a welcome move to ensure broader access to capital to next generation startups, said Guru raj of Nasscom. The proposed shorter lockin periods, simplified disclosure norms, and more liberal valuation parameter disclosure norms should hopefully encourage many Indian

technology companies to consider listing on this new platform to access accredited and institutional investors.

Given the magnitude of India's challenges, it's imperative that big business gets involved, and that it integrates development and sustainability concerns into its core strategy. Development needs smarter solutions, and greater thought and better investments/funding for startups which will help to solve the major problems of unemployability and thus catalyze the economic growth of India. Looking to the poor as consumers, producers, or actors in their value chains will bode well for its longterm value creation.

In order to harness their potential and for their continued growth and development, it is necessary to formulate as well as implement appropriate and efficient strategies for stimulating, supporting and sustaining their efforts in this direction. Such strategies needs to be in congruence with field realities, and should specially take cognizance of the problems women entrepreneurs face within the current system.



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