

START-UP ECOSYSTEM - ROLE OF GOVERNMENT SUPPORT

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Abstract: In the past 2 to 3 years Government of India (GoI) has taken a lot of initiatives and launched schemes like Start-up India, Atal Innovation, Hackathon, Stand-up India, Invest India, Make in India etc. However, the information about these programs has not properly reached to the start-up domain following which the new set of entrepreneurs are not able to avail the benefits they could have. An attempt has been made in this paper, to examine the awareness about these programs, schemes, benefits and support by GoI, linking this with the financing. A comparison is drawn between India and China on the parameters of government support, financing, education and training systems, R & D transfers, cultural and social norms. From face to face interviews and secondary data collected from global entrepreneurship monitor (GEM) website, it has been inferred that the awareness and impact of the government program is not at the level as it should be. Since the awareness is lacking, the ease of access to finance is also getting difficult. Though the government is bringing beautiful policies, schemes and benefits, it is very important to create awareness through more prominent communication channels.

Index Terms- Start-up India, Start-up awareness, comparison between India and China, financing of start-up, role of government for start-up ecosystem, Global Entrepreneurship Monitor (GEM)

I. Introduction

Start-up guru Steve Blank defines Start-up as a “temporary organization designed to search for a repeatable and scalable business model”, while the small business runs according to the fixed business model. As per Department of Industrial Policy and Promotion (Government of India), a business entity is a Start-up if it is incorporated as a private company or registered as a partnership firm, limited liability partnership in India up to seven years from the date of its registration and in the case of biotechnology Start-up ten years from the date of its registration, if its turnover has not exceeded Rupees 25 crores for any of the financial years since registration and if it is working towards innovation, or if it is a scalable business model with a high potential to create employment and wealth creation provided that any such entity is not formed by reconstruction of a business already in existence.

According to (Garg, 2016) Start-ups are those just initiated firms which are new, young, small, self-financed (mostly) by the founders, seeking to offer a service or product which is not being offered so far in the best possible way that the particular firms intends to. To understand entrepreneurship (process of start-ups), it is necessary to analyse the network between the entrepreneurship, economic development and institutions (Acs & Amorós, 2008). The role of government has become the most important and crucial aspect when it comes to Start-ups. For the nation’s industrial and economic growth, now it has been realized that Start-up are going to play a fundamental role. Therefore the start-up ecosystem is being created and enabled. According to (David Pickernell, Julianne Senyard, Paul Jones, Gary Packham, Elaine Ramsey, 2013) “New and young firms are more likely to access government related external resources in the form of finance and advice, but are less likely to be able to access public procurement contracts from local or wider sources.” According to (Awasthi, 2011) for economic development (through employment generation, wealth creation, and alleviating poverty) the best is to develop the entrepreneurship in the country.

II. Literature Review

One of the biggest role the government plays is to create the ecosystem, which fosters entrepreneur activities. The key role in the creation of entrepreneurship ecosystems are played only by government actors and institutions (Sheriff & Muffatto, 2015). They have also found that poor coordination as well as lack of awareness of government programs, scant infrastructure, difficulties in accessing the government funds, developing a competitive clusters and creating an entrepreneurial society are some of the challenges in fostering the Start-ups. According to (María J. Alonso & Carmen Galve, 2012), lack of a consequent evaluation system for the government programs encouraging and promoting entrepreneurship is the biggest challenge in fostering the start-ups.

(David Pickernell, Julianne Senyard, Paul Jones, Gary Packham, Elaine Ramsey, 2013) found that new and young firms generally are able to access a broad range of (government and non-government sourced) advice and finance resources to a greater

extent than older firms, but perhaps unsurprisingly, they find it more difficult (regardless of growth orientation) to access public procurement markets, or advice from universities, than older firms. In order to examine the link with growth orientation, it is also necessary to examine how firms with the full range of growth orientations differ in terms of accessing resources. They also found a positive relationship between growth and government business advice. (Agarwal, 2015) has concluded that India is emerging as a start-up hub because of the positive business environment created through government policies and financial support.

(Stevenson & Lundström, 2015) has recognized that the entrepreneurship education needs to be imparted at the school level, for the development of entrepreneurship activity in a nation. (Garg, 2016) identifies the lack of resources in terms of infrastructure, competent employee, finances, and absence of mentorship as the difficulties and challenges faced by Indian Start-ups. He has concluded that the innovations are led by the Start-ups, however, they are in an urge of government support and motivation. Even the access to incubators/accelerator is challenging because of the mismatch between the ideas and field execution.

Though the various programs, schemes, support, benefits, policies have been launched and promoted by the government, the awareness is lacking. (Agarwal, 2015) identified that even though entrepreneurship is now picking up a quick pace in our country still work needs to be done in spreading awareness amongst people especially in rural and other backward areas about entrepreneurship and the various support systems that exist in our country to assist them in developing their own ventures.

India and China are the two fastest growing economies in the world. Studies have been conducted to see the comparison between these two countries on various aspects. (Wadhwa, Jain, Saxenian, Gereffi, & Wang, 2011) conducted a study to find out the Opportunities to Start a Business by those who are returning back to their home countries from USA.

III. Objectives

- 3.1 To know about the awareness among Indian Start-ups for availing benefits from the Start-up India and other Govt. programs.
- 3.2 To analyze the effect of Government support in financing of Start-ups
- 3.3 To compare opinion of start-up founders between China and India on Government role, financing, entrepreneurial education and training at the ground level, R&D (Research and Development) Transfer and cultural and social norms

IV. Research Methodology

This study is based on the primary as well as secondary data. Primary data is based on pilot study conducted for ICSSR major project from the founders of the start-up. 45 firms recognized by DIPP (Department of Industrial Policy and Promotion) have been randomly selected and approached. Responses from 14 firms were recorded. Though the data has been collected through the questionnaire, along with that face to face interview was also conducted. The input from the founders has been taken into consideration for our first objective. The secondary data has been collected from Global Entrepreneurship Monitor (GEM) website. This data has been analysed to get answer for second and third objective. (Acs, Desai, & Hessels, 2008) GEM was started in 1999 covering both developed and developing countries, for the annual assessment of entrepreneurship at the national level. As of 2008, it has covered 60 countries. "GEM project is the application of uniform definitions and data collection across countries for international comparisons." The data analysis has been done through SPSS software.

4.1 Data Collection

As a part of the ICSSR major project, a pilot study conducted with 14 start-up firms in the south Indian states of Karnataka (Bangalore), Tamil Nadu (Chennai) and Puducherry (Pondicherry) from different industries like agro-tech, IT, logistics, education, travel. The data collected from the founders of these firms through face to face interview, e-forms and telephonic conversation. The study has been qualitative in nature. A structured questionnaire has been designed on 5-point likert scale including few subjective questions as well. Notes have been taken during the interviews. To get further insight the data set, reports, graphs have been extracted from GEM website. GEM data is used to analyse the role of government support on the financing of Indian Start-ups. As this study is entirely based on the data available on the GEM website, it should be noted that the data had been collected through National Expert Survey, using likert scale of one (highly insufficient) to nine (highly sufficient). The GEM model suggests that the Entrepreneurial Framework Conditions like financing; government support are necessary for creating environment to boost the start-ups (Awasthi, 2011).

V. Research and Discussions

The data have been collected from the founders of the firms. The results were arrived with calculating the percentages of their responses.

5.1 Awareness among Indian Start-ups for availing benefits from the Start-up India and other Govt. programs

Around 43% founders acknowledged that they are not well aware of the benefits being offered under the Start-up India initiative even after getting DIPP recognized. One of the 14 start-ups has started, grown on their own. In the current financial year they have generated revenues on their own and became a fund rich firm. Now they are bootstrapping the company.

Almost all firms acknowledged that it is not easy for the young founder to locate the information they want from the Start-up India website. During this study, the Start-up India website got changed twice. It was difficult to locate the requisite information on the website and hence they find difficulties in availing the finances, funding resources and other benefits as well.

Here, few interpretation of the interviews are summarised related to the awareness and availing the benefits. As the original names of the firms have not been mentioned, the firms renamed as A, B, C, D....

Around 43 percent of the firms are willing to get/have got the patents. Firm A, an IT start-up has no awareness about the patent benefits offered by the government. The firm got 3 patents done but not availed any benefits of the Start-up India program. The founder mentions "Govt. is not doing anything and I have also not searched for much help." Founder of firm B which is into agro-tech industry working towards the betterment of farmers also mentioned that he was not aware of the patents and the facilities govt. is offering. Since his idea is unique it is very important for him to get the patents done. The researcher advised and connected the founder with patent facilitators. It has been observed that the firms are not even aware about such important information.

Founder of Firm C explained, "it was easy to get the patent done in the initial days of start-up India initiative, however, when I tried for the second time the facilitator asked for extra money/commission. I managed with offering endorsement etc." Firm D which is developing electronic devices and also active for waste management sector, has been facing the issues for getting the patent done. The founder was struggling since a long time for getting the patents done. Through the telephonic round of conversation, the founder acknowledged that "as the firm is not able to get the patenting done, they are not able to access a lot of funding opportunities where patents are the proof of being an innovative organization." As an extended support the researcher coordinated and connected him with the correct person and then finally the process for availing patents started for the respective firm. Interestingly, a mediator who has access for both the companies who have received a patent support and who is seeking for patent support, can easily coordinate between the two and help the firms for not only the patents but the other facilities or benefits as well. Hence, it can be stated that an established ecosystem can create a lot of difference for the success of the Start-ups. Firm E (agro-tech industry) and F (Clean Technology / Consumer) have received the patents, but they have not mentioned whether they availed the government benefits or not. There is only one firm which has availed the tax exemption benefits. Only two firms received the incubation at Indian Institute of Management, Bangalore and had received funding also.

During the interview with the founders it has been observed that 93 percentages of the founders had difficulties in accessing the finance. Hence, there is relationship between Govt. Support and the ease of availing the finance. To have understanding about the relationship among government support and policies (extent to which public policies support entrepreneurship), taxes and bureaucracy (taxes or regulations are either size-neutral or encourage new and SMEs), government programs (presence and quality of programs for start-ups at various levels) and Financing for entrepreneurs (availability of financial resources) correlation analysis is carried out.

Table 1: Relationship between Govt. Support and Financing for Entrepreneurs

		Governmental support and policies	Taxes and bureaucracy	Governmental programs	Financing for entrepreneurs
Governmental support and policies	Pearson Correlation	1	.756**	.896**	.654*
	Sig. (2-tailed)		.004	.000	.021
Taxes and bureaucracy	Pearson Correlation	.756**	1	.613**	.845**
	Sig. (2-tailed)	.004		.034	.001

Table 1 shows that the government support and policies go hand in hand with taxes and bureaucracy as well as the government programs. This means that because of favourable policies, entrepreneurs may get the support for financing. Correlation analysis shows that Taxes and bureaucracy also supports the government programs as well as financing. The relation between Government support and Policies, Taxes and bureaucracy and Government programs is positive which means they are supporting each other.

Table 2: Influence of Government Support on Financing

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	2.158	.396		5.449	.001
Governmental support and policies	.401	.161	.922	2.492	.037
Taxes and bureaucracy	.650	.197	.687	3.304	.011
R Square	0.715	F	11.309	Sig	0.004

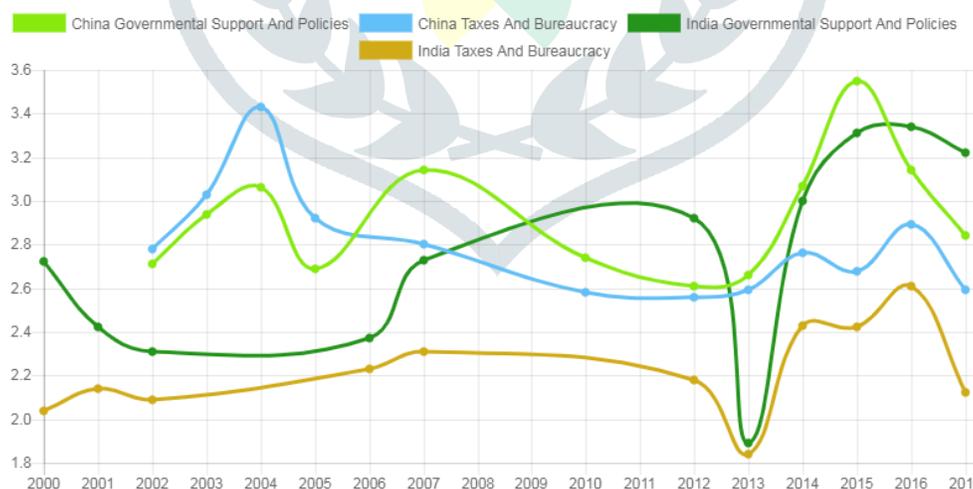
Regression analysis is performed by taking, Financing for entrepreneurs as a dependent variable and Government support and policies along with taxes and bureaucracy as independent variables. The result in table 2, shows that the two independent variables have an effect on the Financing for entrepreneurs. This means that ease of access of finance depends on Govt. support and incentive in the form of tax concessions. R square value is 0.715 which indicates that 71.5 percent of financing for entrepreneurs depends upon government policies and support as well as the taxes and regulation of the nation. As the F value is significance it can be stated that the model is significant and dependent variable is sufficiently predicted.

5.2 Effect of Government support in financing of Start-ups

As the India and China, are being the two fastest growing economies the comparison of is made between those two countries on availability of framework conditions for Start-up activities. It would be interesting to see the trends of these countries in terms of the countries' government support, financing, education and training systems, R and D transfers, cultural and social norms.

5.2.1 Govt. Support and Policies/Taxes and Bureaucracy

Government support considering entrepreneurship as a relevant economic issue, the policies regarding schemes, taxes or regulations are made to encourage new firms and SMEs. The following graph shows the opinion of founders of China and India on extent of Govt. support available to them.

Figure 1: Govt. Support and Policies/Taxes and Bureaucracy

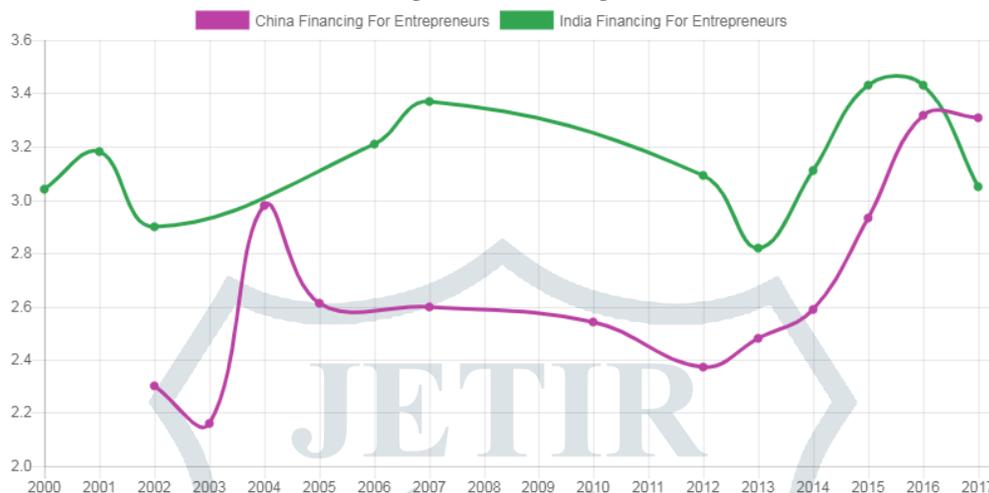
(Source: GEM data)

There is a steep decline in Govt. support and policies in India in the year 2013. However, it has improved and reached peak in the year 2015-2016 and that year is the best year in terms of getting the Govt. support, which is just after the launch of the start-up scheme by the Government of India (GoI). After that there is no growth. Though the GoI is offering a lot of schemes for taxes and bureaucracy under the start-up initiative, India shows a decline in 2017 for these benefits. China has shown peak in the year 2004 itself. There is a steady trend in China for taxes and bureaucracy support. However, the Govt. of China had been most supporting in the year 2015 but in the later years the support reduced.

5.2.2 Financing

Every start-up is in huge need of the funding for scaling and to also sustain in the long run. The access to the venture capital and other findings (including grants and subsidies) play a vital role. It also depends on the nation's micro and macro level economic policies and other support designed for the start-ups. In figure 2, the status of India and China have compared to understand the availability of financial resources (equity and debt) for new small and medium enterprises (SMEs).

Figure 2: Financing



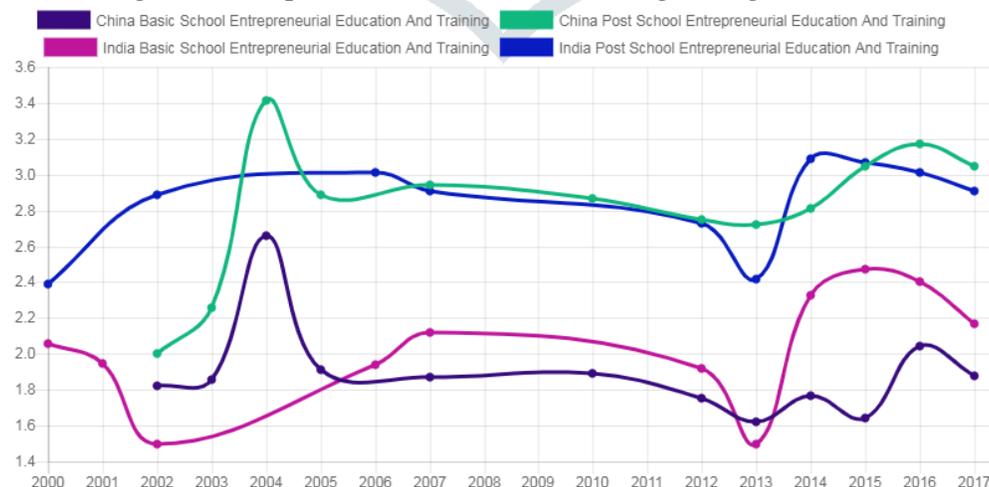
(Source: GEM data)

Interestingly, India and China shows somehow a same pattern after 2007 in the availability of finance to the entrepreneurs. The graph reflects that India is in a better position in terms of availability of financial resources (equity and debt) for Start-ups (including grants and subsidies) till 2016. The year 2015 and 2016 was significantly better in India. However, it shows a decline in the year 2017 for the availability of financing. China is consistently improving its position in accessing the finances in the recent years. All along china was behind India but in the year 2017 it has surpassed India.

5.2.3 Entrepreneurial education and training at the ground level

It is very important to understand the education level of the country to link the entrepreneurial activities with the economic development. To boost the innovation process, education and training system in higher education such as vocational, college, business schools needs to be encouraged. (Kulshrestha, 2018) emphasize on encouraging the students for entrepreneurship. If the education system itself is designed in such a way that it creates awareness and understanding of start-ups at the ground level, obviously the youth will be more concern towards founding a new venture. Subsequently, it will promote socio-economic development. Here a comparison between India and China, for basic and post Entrepreneurial Education and Training has been drawn.

Figure 3: Entrepreneurial education and training at the ground level



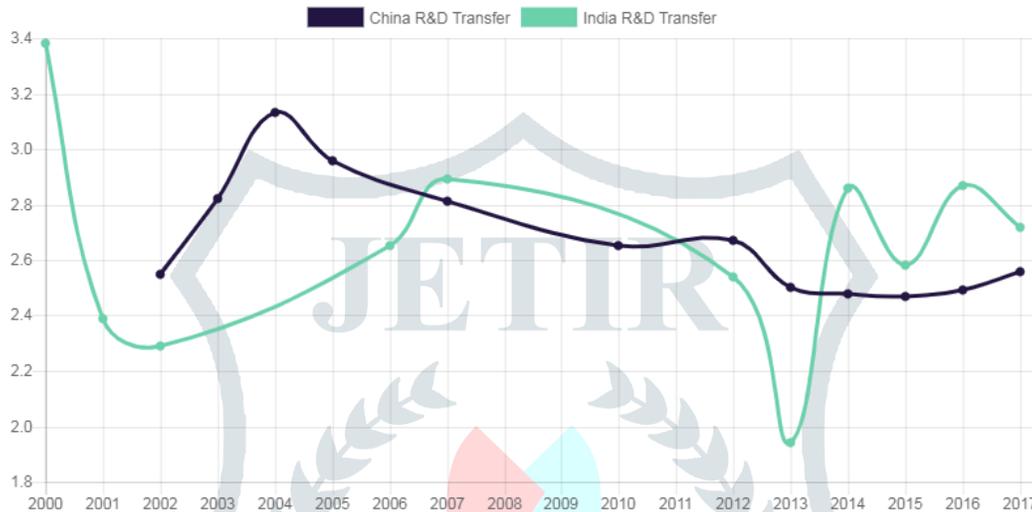
(Source: GEM data)

The year 2013 shows a slump for both the countries at basic school level entrepreneurial education. China moves with a very slow pace in the recent years. India takes a growth in 2014 and 2015 but starts falling down in 2016 and 2017 respectively. For the post school level, China shows a significant growth until 2016, but India has a rapid increase in 2014 but again the graph slowed down in the recent years.

5.2.4 Research and Development (R & D)

The research and development of any nations certainly lead to new commercial opportunities and should be available for the start-ups or the other new or small firms.

Figure 4: Research and Development (R & D)



(Source: GEM data)

For India, 2013 doesn't show a good sign, however, the graph show ups and downs in the following years. Whereas, China has been relatively low in the recent years but shows a consistent performance over a period of time.

5.2.5 Culture and Social Norms

In any country, the culture at micro as well as macro level plays a vital role when it comes to fostering an environment for start-ups. Social and cultural norms encourage or allow actions leading to new business methods or activities that can potentially increase personal wealth and income.

Figure 5: Culture and Social Norms



(Source: GEM data)

The year 2004 is considered as good year for China in many aspects including culture and norms. For India social and cultural norm has reached its peak in the year 2014. After that there is a steady decline China is behind India from 2005 till 2015 and it is showing better position in the year 2016 and 2017

VI. Findings

It becomes very important to see how the benefits and schemes are reaching to those for whom they are made. Start-up India initiative is intended to build a strong eco-system for nurturing innovation and Start-ups in the country that will drive sustainable economic growth and generate large scale employment opportunities. Since then government started strengthening Indian Start-up ecosystem by taking various initiatives including 19 point Action Plan that addresses all aspects of the Start-up ecosystem on 16th January 2016.

- 6.1 It is found that as the awareness of government program is not there the start-ups are not able to access the benefits offered and hence the impact of the government support are not there as much as it should be. The ecosystem is in existence but they are not connected.
- 6.2 Correlation and Regression analysis show that the financing of the start-ups depends on the government support and policies, taxes and bureaucracy along with the government support entrepreneurs. As it is evident the awareness about the government initiatives are not there among the founders, following that the founders shown that the funding has been the biggest challenge.
- 6.3 The comparison between India and China reveals that the year of 2013 had been a difficult year for both the countries. Both the countries are growing in the areas of the government support, financing, education and training systems, R & D transfers, cultural and social norms. However, in the recent years the graph shows a declining trend.
- 6.4 If the awareness about the government programs is there and all the stake holders of Start-up ecosystem are connected, then only the true beneficiaries will avail the benefits.

VII. Conclusion

India is showing an emerging trend for the start-ups. The Government of India has launched many schemes and policies to boost the start-up initiative. If the new ideas of the youth are supported with policies, programs, and fund then there is nothing to stop India to become the start-up capital of the world. However, the awareness about these programs is not spread to the new set of entrepreneurs. Hence, they are not being able to avail the benefits out of the government initiatives. Though funding/financing sources are available the firms are not able to access them in the absence of knowledge. A proper evaluation and monitoring of these programs is also lacking. Moreover, a very little literature is available for start-ups in the Indian context. If the programs and policies are well communicated, the actual beneficiaries can avail the resources designed/made for them and sustain in the long run. Hence, more awareness and monitoring programs are required so that it reaches to the right population. As India is in need of new ventures for the economic growth, it is essential to promote what is being offered.

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