

# A Study of Startup Ecosystem

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## Abstract

From the study it has been found that ecosystem play key role in the growth of Startups. When Startup India initiative 2016 was not launched, startups faced many barriers related to documentation and other formalities but with launch of that there was sharp increase in number of Startups. Earlier only few States were providing supportive ecosystem for startups but when Government gave emphasis and introduced policies and programs it has improved the situation for Startups. To make ecosystem for startups vibrant, components making ecosystem need to be improved like Infrastructure, regulatory framework, funding and finance, technical personnel, mentors, advisors, local and global markets. From 2014 to today, improvement has been made in each component from setting up Startup India Hub to Rolling out of mobile app and portal, providing tax exemption to startups for 3 years, discount on patent fee and fast track patent animation, tax exemptions are provided on capital gains which will boost the investment from investors, to provide for funding needs of Startups. A corpus of Rs. 10,000crore funds of funds was created, and many more initiatives and programs were included to make Startup India a success. Thus, Startup ecosystem has improved over years and provide a scope of growth and easy entry to new Startups.

*Keywords: Entrepreneurship, Finance, Startup*

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## 1. Introduction

Startup companies are newly born companies, a firm/entity started with new concept or idea. These are something which is related to new product/ process for the entire market. Startups must not be confused with small business and its biggest difference is *innovation*. A startup is basically a new business that is at the initial stage of operation beginning to grow and is typically financed by an individual or small group of individuals. Startups are basically a scalable business model built on technology and innovation wherein the founders develop a product or service for which they foresee demand for their product or service.

The term Startup indicates many meanings – refers to people, particularly young dynamic people getting together and starting their own company (startup) to create values for customers as well as for themselves. The term startup has become synonym to growth , entrepreneurial traits, vision and futuristic approach.

## 2. Objective of Study

- To study the Ecosystem of Startup in India and changes that occurred over period of time.

## 3. Research Methodology

This Research is based on Secondary Data collected from different sources, To gather data related to Startup basics- Government Reports like- Startup Outlook Report 2019 Innoven Capital, States Startup Ranking Framework- 2019, ORF- Occasional Paper 2019 on the background of Startup, States' Startup Ranking 2018, Thornton\_ startups\_ report.

## 4. Review of Literature

- a) Gulati and Sharma (2013) talked about entrepreneurship in Indian scenario. **Purpose/ Objectives:** the study was to enlighten the scenario of Entrepreneurship in Independent India. **Design/ Methods:** Research was based on the secondary sources – government sites, journals, magazines, etc. **Findings/ Conclusion:** Results concluded that Indian society was risk averse, people usually seeks secure and long term employment such as- government job, social attitudes, lack of capital, inadequate physical infrastructure and lack of government support were major factors of hindrance.
- b) Hidalgo (2014): studied the startup ecosystem in the Republic of Ireland and Spain. **Purpose/ Objectives:** The aim was to find what makes a startup successful is evaluated. **Design/ Methods:** In the study analysis of secondary data available in the literature accompanied by semi-structured interviews with a group of founders

were carried out Ireland and Spain. **Statistical Approach:** Tabulation of data was done by frequencies and percentages. **Findings/ Conclusion:** findings suggested that it does not matter what country the startup is based on, the success or failure depends on the founding partners, their business experience and the relations within the founding team.

- c) Chandiok (2016): studied- India the world's fastest growing Startup Ecosystem: A Study. **Purpose/ Objectives:** the study was to study the awareness about startup in the light of recent changes in Industry. **Design/ Methods:** Primary data was collected using Random Sampling method 145 respondents were chosen randomly from Delhi& NCR. **Statistical Approach:** Data was analyzed using graphs, tabulation of frequencies and percentages.

**Findings/Conclusion:** findings of research paper was that tax exemption on incubation and seed funding is critical for Startup India. It's a major concern of entrepreneurs and easier exit clause for startups is critical to the success of the initiative- it provides protection to the risk taking businessperson who is concerned about what happens when the business fails.

- d) Kaushik(2017): studied relationship between HRM strategies and Entrepreneurial success for startup entrepreneurs in the Jaipur district of Rajasthan. **Purpose/ Objectives:** the study was to identify the role and significance of HR in the startups of Jaipur district of Rajasthan. **Design/ Methods:** Random Sampling method was used to collect the data. Jaipur city was selected and randomly 40 startups from Jaipur were selected and from that 5 respondents were selected for the study. **Statistical Approach :** Data collected was analyzed with the help of computer aided software like correlation coefficient and other statistical techniques i.e., Mean, standard deviation, The mean was used as “ average” that should be representative distribution of the values was obtained with the help of mean. Ms-

Excel was used to do a variety of calculations and to handle the data consistently. The reliability of the items was tested with the help of Cronbach alpha co-efficient. The reliability test was conducted using Cronbach alpha coefficient to find out the consistency of the statements used for measuring the values of the employees towards their job. **Findings/ Conclusion:** findings of the study explicitly inferred that there was significant positive relation between the effective HR policies and practices and the level of performance of the startup, hence it was concluded that HR practices, if perceived appropriate, increase the performance of the startup.

- e) Nair (2017) studied- START-UP'S and model start-up ecosystems- The need for future economic prosperity. **Purpose/ Objectives:** Aim was assessment of the underlying factors on which either success or failure of a startup-up depends. **Design/ Methods:** Study was based on the secondary data which has been collected from Journals, magazines, research papers, etc. **Findings/Conclusion:** finding suggested that instead of focusing on new firms emerging ewe should concentrate on catalyzing local ecosystems as because if the environment is startup friendly then not only the , number of companies will grow but also the quality will also be better.
- f) Upadhaya and Rawal (2017): studied- Startup; Let's Start Them Up- An Inside view in the Indian startup scenario. **Purpose/ Objectives:** the study was to understand the startups and their significance and to identify the driving forces and barrier in India's path of becoming a Startup hub. **Design/ Methods:** Paper was based on descriptive research method and undertakes secondary data into account. The information and inputs were gathered from various secondary sources to establish arguments and counter arguments for startups in India. **Statistical Approach:** Data was analyzed using tables, graphs, and comparative

analyses was also performed. **Findings/ Conclusion:** findings suggested that pattern of startups and their founder has revealed that highly educated and talented entrepreneurs are founding their passion in the form of startups. The number of such people, who do not want to work for other, but for them, is on the rise in India and it is one of reasons to celebrate.

- g) Sunanda (2017): studied- How to Start and manage Startup Companies in India, a Case Study Approach. **Purpose/ Objectives:** the study was to study the initiative taken by the Government of India for startup companies. **Design/ Methods:** study was based on secondary data collected from various websites, Journals and newspaper article. Study was descriptive and conceptual in nature. **Findings/ Conclusion:** Findings suggested that for any new idea to become successful venture it requires appropriate support and mentoring and the new initiative for startups from time to time for meeting their requirements. Pledges for rapid approvals for starting the business, easier exits, tax rebates, and faster registration for the patents made easy for startups survival in the long run.
- h) Patil (2018): studied- An Empirical work on Startup Financing for Entrepreneurs in India. **Purpose/ Objectives:** Study was to understand the main financing resource of startups in India evaluate its need in market. **Design/ Methods:** Data was collected using self- administered questionnaire as the research instrument by sample survey. The primary data was collected from 200 startups from Indore city. Questionnaire was designed using 5 point likert scale. **Statistical Approach:** For analysis of data- factor analysis along with it T-test, common factor analysis, CHI square, ANOVA one- way, Karl Pearson correlation Analysis and Spearman Rank correlation Analysis. **Findings/ Conclusion:** Findings suggested that 45% startups has government finance scheme available for projects, whereas 54.5% differs

with scheme not available and to get finance, entrepreneurs should have invested at least 30- 40% of the total project cost and innovation is most prefer aspect along with relevant qualification required.

I) Pandey (2018): studied- An Analysis of Startup Ecosystem in Metropolitan City in India. **Purpose/ Objectives:** Objective of study was to identify the factor that influence the initial funding of a startup and with the help of identified factor to build a regression model which predict the funding of a startup based on identified factor. **Design/ Methods:** Primary data was collected during period of January to June 2017 of 4 Metropolitan Cities- Bangalore, New Delhi, Mumbai, Chennai. A sample size of 50 from each city was taken with a total number of 200 from all the cities. **Statistical Approach:** Multiple Regression analysis was done to examine whether actually the funding of startup is based on education, institute, gender experience and the type of funding. Ordinary least Square method too has been applied. **Findings/ Conclusion:** Results revealed that although funding of startup is primary depends upon type of funding i.e., seed funding and private equity, but also other factor which has been assimilated in the research as independent variable has significance impact on the funding.

j) Roche et al. (2020): Studied different founders, different venture outcome: A Comparative analysis of academic and non-academic startups. **Purpose/ Objectives:** Objective of the study was to study what role do differences in founder's occupational background play in new venture performance. **Design/ Methods:** Data for empirical analysis was collected. Data set from the population of US startups listed on Crushbase, an online directory of Startups was collected. **Findings/ Conclusion:** findings suggested that startups created by academic founders takes relatively longer than startups initiated by non- academic founders to clear the exit market, moreover, draws attention to important

economic implications regarding the return on investments. For those investing in academic startups, any potential return on Investment will likely take longer to be realized and may, as a result, entail higher costs and possibly higher risks than investments into non-academic startups.

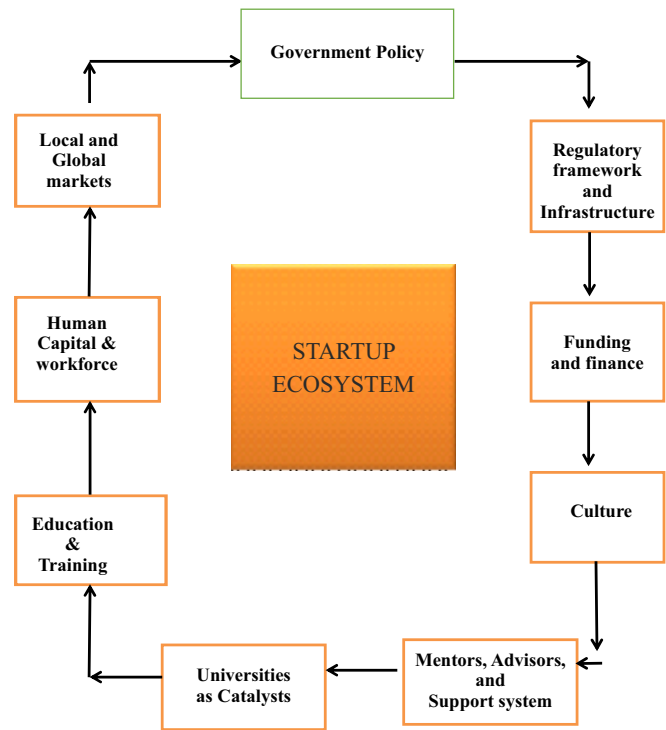


Figure 1. Components of Startup Ecosystem.

Source: Report of States' Startup Ranking 2018, Startupinida.gov.in

• **Government Policy and Regulatory Framework:**

In India government has realized the importance of startup, in the development of economy. Both Central and State government are putting their efforts to make startup India a success.

Key Steps taken by Government are as follows:

- **Scrapping Angel Tax for registered Startups:** To solve the problem of Startups and investors, Union

finance minister **Nirmala Sitharaman** made an announcement on August 2019- those provisions of Sec.56 of Income Tax Act, which is commonly called “**Angel Tax**”, shall not be applicable to a startup, registered with Department for Promotion of Industry and Internal Trade. As we know Angel investments commonly known as seed capital, are the main source of finance for startups and angel tax is acting as barrier to the investments that angel investors make for startups, this will help startups to raise more funds.

➤ **Simplification of process of assessment of Startups:** Circular No. 16/2019 dated 7<sup>th</sup> August, 2019 provides for the assessment of startups that are recognized by Department for Promotion of Industry and Internal trade (DPIIT) a simplified procedure.

➤ **Tax Rebate on Profits of Startups:** The startups that are incorporated after April1,2016 are eligible of getting a **100% tax rebate on profit for a period of 3 years** in a block of 7 years provided that annual turnover does not exceed Rs25 crore in any financial year. During the initial years of operation startups face a major problem of working capital requirement needs, that helps in meeting those needs.

- **Faster exit for Startups:** Ministry of Corporate Affairs notifies startups as “Fast track firms” by allowing winding up of operation of startups within 90 days which is 180 days for companies. For winding up procedure, firm hires an insolvency professional, who will look for all the procedures of liquidating its assets and paying off its creditors within the period of 6 months of filling an application.

- **Infrastructure Support and Incubators:**

We have heard term incubator very often, even some

consider it similar to accelerator, but both these terms have basic difference in them.

- **Incubator:** or business incubators are the institutions that helps startups to develop their business especially during their initial stages by providing technological facilities and advices, initial growth funds, Co-working spaces, Lab facilities, Mentoring and advisory support, network and linkages. Speeding up of early-stage growth and success of startups is geared by incubators.

- **Accelerator:** A business accelerator is a program for developing companies, or startups that have crossed the earliest stage of getting established by providing them access to mentorship, investors and other support that help them to become stable, self-sufficient. Startup that have entered into “adolescence” means they can stand on their own but needs business accelerator for their guidance and peer support to gain strength. An accelerator program can last from two to six months. The companies that are at initial stage use incubator instead of accelerator for support.

- **State Wise list of Incubator and Accelerator in India**

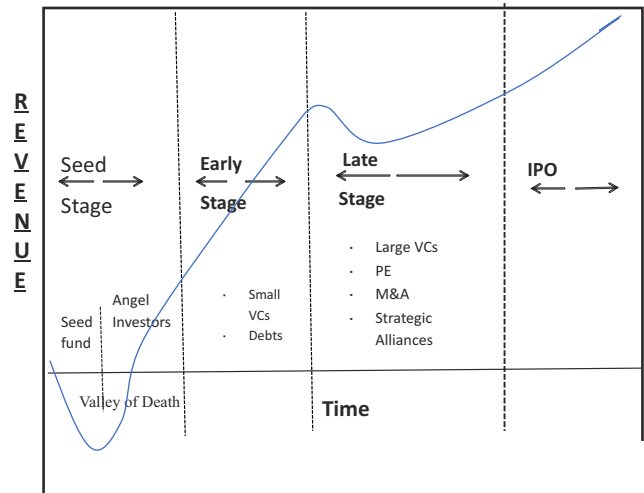
| State             | Incubator | Accelerator |
|-------------------|-----------|-------------|
| Andhra Pradesh    | 19        | 1           |
| Arunachal Pradesh | 0         | 0           |
| Assam             | 5         | 0           |
| Bihar             | 8         | 0           |
| Chandigarh        | 3         | 0           |
| Chhattisgarh      | 8         | 0           |
| Delhi             | 54        | 31          |
| Goa               | 7         | 1           |
| Gujarat           | 31        | 3           |
| Haryana           | 17        | 10          |
| Himachal Pradesh  | 2         | 0           |

| State             | Incubator | Accelerator |
|-------------------|-----------|-------------|
| Jammu and Kashmir | 3         | 0           |
| Jharkhand         | 5         | 0           |
| Karnataka         | 62        | 30          |
| Kerala            | 28        | 1           |
| Madhya Pradesh    | 25        | 0           |
| Maharashtra       | 55        | 30          |
| Manipur           | 0         | 0           |
| Meghalaya         | 0         | 0           |
| Mizoram           | 0         | 0           |
| Nagaland          | 1         | 0           |
| Orissa            | 22        | 0           |
| Punjab            | 11        | 0           |
| Rajasthan         | 26        | 1           |
| Sikkim            | 0         | 0           |
| Tamil Nadu        | 70        | 2           |
| Telangana         | 45        | 7           |
| Tripura           | 1         | 0           |
| Uttar Pradesh     | 39        | 7           |
| Uttarakhand       | 4         | 0           |
| West Bengal       | 11        | 0           |
| Total             | 568       | 124         |

• **Funding and finance:**

- **Funding** in simple terms means money needed by firm to start from idea of business to run a business. Funding, basically a financial investment in the company for office spaces, developing a product or service, inventory, manufacturing, expansion, sales and marketing. Usually, startups go for **self-funding or boot strapping** at initial stages, when startups are just starting their business. However self – funding is just not sufficient as they grow so many other options are explored - to raise the funds.
- **Startup finance needs at various stages of operation:** Various source of funding are available

to startups but what needs to keep in mind is the stage at which startup is currently operating. Now we will see at various stages which source of finance is best.



**Figure 2. Startup finance needs at various stages of Operation.**

Source : States Startup Ranking Report, startupindia.gov.in

➤ **Various Source of Finance at Different Stage of Startup:**

| A. Ideation/ Pre-Seed Stage                        | B. Validation/ Seed Stage   | C. Early Traction/ Series A Stage   | D. Scaling/ Series B & above Stage                             |
|--|---|---|--|
| a) Boot-strapping<br>b) Family<br>c) Business plan | a) Incubators<br>b) Government loan scheme<br>c) Angel Investor<br>d) Crowd Funding | a) Venture Capital fund<br>b) Bank /NBFCs<br>c) Venture Debt Fund<br>d) TRoDs | a) Venture Capital Fund<br>b) Private Equity/ Investment Firms |

➤ **Mentors, Advisors and Support System:**

Mentorship is considered as important part in startup ecosystem. A Startup mentor is one – who

possesses the experience and knowledge you seek to acquire. Mentors have gone through many failures and successes and they are able to share their experiences and knowledge they gained. With Government initiatives, it has created a pool of professional and experienced mentors on the online hub for the benefit of Startups, there are 594 mentors registered on Startup India site. Several groups – Bhartatiya Yuva Shakti Trust (BYST) and The Indus Entrepreneurs (TiE), also working together to boost the spirit of entrepreneurship.

- **Universities as Catalyst:** India, an ancient land, known for its Gurukuls and Universities such as Nalanda and Taxila, has always given importance to imparting special skills and knowledge to students that have shaped them into pillars of society and contributors to its economic progress. Now we will see the top college / University that have gone to found over 4900 startups in India Fig. 3.

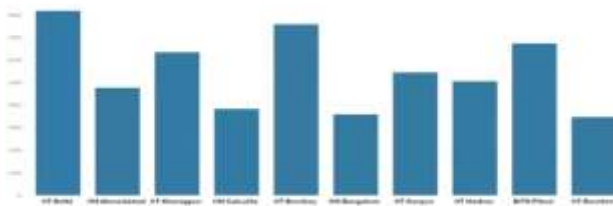


Figure 3. Startups from top Institutes.

Source: Traxcn

- **Human Capital and Workforce:** Human capital is an important pillar for growth of any company. Success of startups also depends upon access to management and technical talent staff availability. Startups have to search for talented pool of staff and offer them highly competitive compensation and motivation to them to be with organization. Usually, every firm wants to have experienced and knowledgeable employees but in when trained staff is not available, startups have to invest funds in

providing training in the office to employees. Startup employees are often required to fill multiple roles competently, which requires excellent time management, dedication and higher level of competence.

- **Local And Global Markets:** In India we have noticed, the share of consumer market is larger with increasing consumer disposable income. If we see, agriculture sector, Defence Sector and social sector-government has done major procurement in these sectors. By enabling Startups participation in public tenders their demand is enhanced. To simplify the process of public procurement: for the same Government e-marketplace(GeM) has been launched by government.
- **Government Policy:** In recent years, the NarendraModi led Government of India, has been focusing more on a wide universe of emerging startups. Government has recognized the importance of innovative startups and women entrepreneurship in country's growth and prosperity, so government is bringing new programs and opportunities to help the startups to innovate and nurture. Some of them are : **Make In India** – was launched in September 2014, with the aim to transform India into a global design and manufacturing centre, **Digital India** – is an electronically accessible service, which was launched basically to modernize the India economy from paper based system to online media, **STEP-Support to training and employment programme for women** – aim is to educate and train women who don't have access to formal skill education, in rural sector, **Startup India** –launched in 2016, with the aim of providing an environment to startups in which they can innovate and evolve without obstacles.

## 6. Conclusion

Startups are important for economic growth of a nation. One of main advantage of startup is that it create job opportunities for youth. India with growing population size needs 10 million jobs a year and as per global data it is startups, not large organization that create new job in any

country. Startups are no doubt center of Innovation and has brought latest technologies like Internet of Things, Artificial Intelligence, Robotics, etc. and are a great way to enhance employment creation in economy. Role of startups is important to our society to develop our nation, it's a need of hour to develop an entrepreneurship culture in our country for more startups.

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