

an analytical study on problems and challenges faced by startup india initiative and its role on economic development of india

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## **An Analytical Study on Problems and Challenges Faced by Startup India Initiative and its Role on Economic Development of India**

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**Abstract:** Startup is the most widespread term in present era. It has great impact on economy of the country. People who have innovative idea are starting their startups with minimum resources. Once startup is accepted by the society it contributes a lot in the development of the economy. Hence, this study focuses to understand the role played startups in economic development of an economy. The objective of this research is to examine the various challenges/problems faced by start up at the initial stages, to understand the initiatives taken by Government for startup India and to study the contribution of startups in economic development of the country. It is found that startups in India face lot of problems, like problem of creativity and innovations, problem of availability of good mentor, lack of funds, long formalities in compliance, problem of hiring good employees, etc. but the growth in the number of startups tell us a different story.

**Keywords:** Startup, Growth, Incubation, etc.

### **1.1 Introduction:**

Startup is the most widespread term in present era. It has great impact on economy of the country. People who have innovative idea are starting their startups with minimum resources. Skills are the only way to create our economy healthy while starting a new business setup Entrepreneurs seeks helps. These helps can be further divided into three categories Technical help, financial help and Managerial help. Institutions like MPFC, SIDBI, MSME are there to help a startups, some of the private supports are known as Angle Investors, Venture Capitalists. In India on 26th January 2015 Hon'ble Prime Minister Shri Narendra Modi has enthusiastically announced "Standup India-Startup India" under this scheme Government of India wishes to arouse Entrepreneurs to become Startup and help existing startups. The implementation part of this scheme is taken care by Department of Industrial Planning and Promotion (DIPP). According to DIPP, the definition of Startup would be Innovative and carry technology alongwith website, mobile application etc. The objective of this scheme is to implement the action plan based on three important pillars to enable funding support, make the process easy and develop Acadmic- Industry Partnership like Incubation. Startup India Hub supports the Startup in terms of Managerial and Financial whereas Incubation centres provides Technological as well as Mangerial supports. A corpus fund of Rs. 10,000 crore have been created for financial support. Tax exemption on capital gains, waived till 3 years of setup. The eligibility criteria for startup would be five years of incorporation, financial turnover should not exceeds Rs.25

crore and It should be driven by Technology or Intellectual property toward Innovation for commercialization of new products, services.

In present scenario, India is facing problem of job hunting due to the growing population. It is estimated that over the next 35 years India will suffer from a severe shortage of jobs. According to the Asia-Pacific Human Development Report, India has employed less than half of the labors seeking for jobs in the labor market since 1991 to 2013. Another insight, by United Nations Development Program (UNDP) the same period 1991 to 2013 the size of “working age” population increased by 300 million.

## **1.2 Statement of Problem**

According to the definition of the entrepreneur, they are first generation businessmen who have dream and hopes of start-up without any kind of business background. This inexperience becomes the main reason for the failure of entrepreneur in their early stage as they lack managerial skill, technical support and finances. For managerial skill and technical support education and knowledge plays a vital role. Whereas financial assistance is offered by the family and friends as they encourage the young entrepreneur to take their business to new heights. Sometime the saving and money laundered by family and friend is not enough. So in this case money lender is being preferred a lot because of easy availability, low documentation process and personal references. But for availing this finance, the entrepreneur mortgages the property and bears the high rate of interest charged by the money lender. Due to which an unorganized financial market is being promoted by them. But, once startup is accepted by the society it contributes a lot in the development of the economy. Hence, this study focuses to understand the role played startups in economic development of an economy.

## **2.1 Literature Review:**

According to Al-Mubarak & Busler (2015), innovation plays very crucial role as main drivers for sustaining economic growth from practitioners perspectives such as Government, Policy makers and funded foundation and academic Institution. Innovative indicators consists basic research, applied research, development and commercialization with contributing productivity improvements for economic benefits. Al-Mubarak and Busler, Indicated that Innovation programs will help the young firms especially in their early stage startup and maintain the balance between economic, social, organisational and political factors to define the success of innovation system while contributing the development and practising new technologies. This study focused on incubators programs in France, Spain, Netherland, Luxemburg and Portugal. Author discovered the strengths of each program through SWOT analysis in consideration of their missions and objectives with future possibilities and performance of individual program.

According to Manocha Sanjay (2012), innovation fulfils the ever changing needs of clients. It is also important for longevity of a business. Completions have a positive impact on invocation. Especially small businesses contribute in economy since it is directly associated with community. In this study the objective is to focus on entrepreneurship and invocation while examining the role of innovative entrepreneur in economy as well. It was descriptive a research design which used data from secondary sources. Here the finding of the study was that invocative entrepreneurship effects economy at three different levels i.e., aggregate level, consumer level and firm level. It also indicates

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that increase in jobs new investments and income comes under aggregate level. It consumer level, products were improvised though innovation as per consumers need with low prices. And for competing with other company innovation is to be need at firm level. Innovation is an important trait in entrepreneurial skills. The least likely sources of innovation are from new knowledge bright ideas.

Diana M. Hechavaria, Charles H. Matthew, Paul D. Reynolds (2015) in their study brings different entrepreneurial dynamics with the measurement of startup financing with respect to time. This study starts with question that's why few entrepreneurs starts their venture so fast, few shuts their venture so fast and why few accept their failures and still hopeful to implement new firm. Startup speed calculation involves the time between conceiving an idea and creating a venture. Event history helps study to analyze the relationship between startup financial structure and time up outcomes. Risk regression applied which same event occurs many times and similarly new events happens at a unit time both risk regression (Cox 1972).

### **3. Research Methodology:**

#### **3.1 Research Design:**

In the present research, descriptive research design is used to describe the problems faced by startups at the initial stages and also to describe the role start up plays in economic development of an economy.

#### **3.2 Objective of the research:**

The present research has following objectives:

- a. To examine the various challenges/problems faced by start up at the initial stages.
- b. To understand the initiatives taken by Government for startup India.
- c. To study the contribution of startups in economic development of the country.

#### **3.3 Data Collection:**

In the present research, primary data has been collected through structured questionnaire distributed to startups in order to understand the problems faced by them and their contribution in economic development of the economy. In the research, secondary data is also collected from the official website of government and also the information is collected from nineteen action plan taken by government for Startup India.

#### **3.4 Sampling Technique and Sample Size:**

For the purpose of this research, convenient sampling technique has been used to collect the data of problems faced by startups. For this purpose a sample of 50 startups has been taken and data has been collected by distribution of structured questionnaire.

#### **4.1 Schemes under startup India program:**

Definition of startup India states that an entity shall be considered as startup for 7 years, and a Bio-technology startup for upto 10 years from the date of its incorporation, the major key point that Prime minister's action plan for Startup India Program includes the following:

- a. Inclusion of self-certification in respect of nine labour and environment laws, viz., gratuity payment, contractual labour, EPF, water and air pollution acts, etc. There will be no inspection during the first five years of incorporation.
- b. Creation of Startup India Hub as a single point of contact for entire startup-ecosystem.
- c. The process of starting a business has been simplified as there is no requirement of recommendation letter from an incubator or industry association.
- d. Patent application would receive free of cost legal service and 80% rebate in patent application fee. 50% rebate is also provided in Trademark filing fee to startups.
- e. The process of liquidation and winding up is also made easy.
- f. Government has created a corpus of Rs. 10,000 crore to support the startups. The fund is being managed by SIDBI.
- g. A credit guarantee mechanism shall be started through National Credit Guarantee Trust Company/SIDBI with a corpus of Rs. 500 crore per year.
- h. A separate section of 54EE under Finance Act, 2016 and Section 54 GB under Income-Tax Act 1961 to provide exemption under capital gains.
- i. Profits of startup set up after 1<sup>st</sup> April, 2016 for a period of 3 years in a block of 7 years are exempted from Income Tax.
- j. Investment of venture capital funds in start ups above fair market value are exempted from tax.
- k. In order to promote innovation, Atal Innovation scheme has initiated which provides awards for innovation.
- l. New research parks are setup where more than 100 companies are working to propel innovation through incubators and joint research and development between industry and academia.
- m. Innovation care programs will be started in 5 lakh schools across India

These are some of the highlights of initiatives taken by Government to promote startup in India.

#### 4.2 Challenges Faced by Startups

An attempt is made to find the challenges faced by startups and for this purpose researcher collected the following data relating to problems faced by startups:

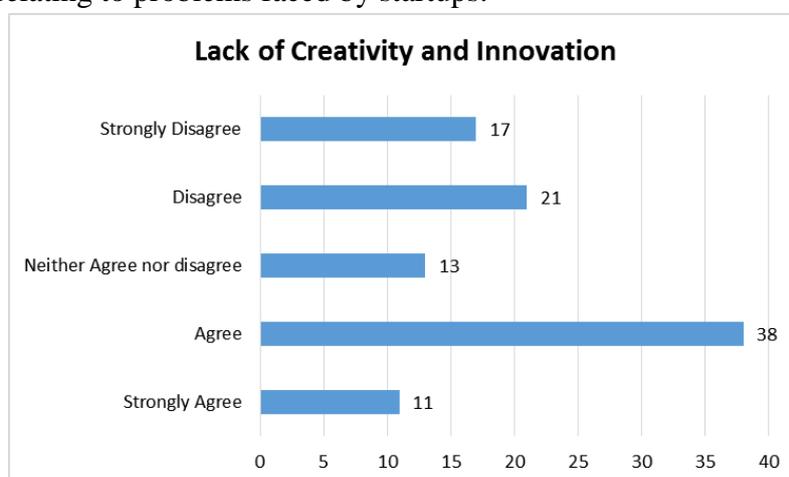


Fig. 1 (Source: Primary Data)

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From the above figure 1 it is found that majority i.e. 38% of the startups agree that the major reason behind failure of most of the startups is lack of creativity and innovation, which is supported by 11% of respondents who strongly disagree to this. However, 13% of respondents neither agree nor disagree to this. Whereas, 21% of respondents disagree to this and 17% strongly disagree to this.

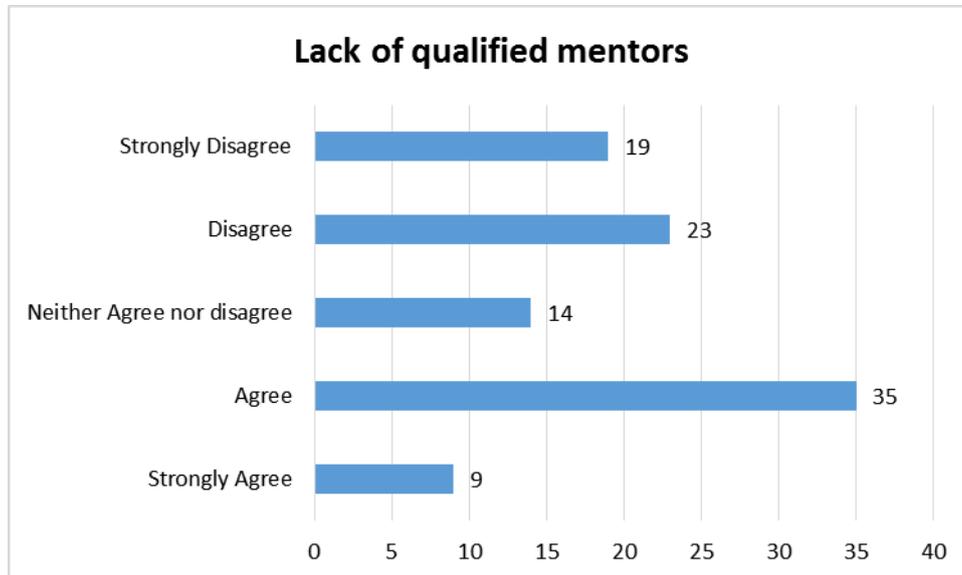


Fig. 2 (Source: Primary Data)

It is found from the above figure 2 that majority i.e. 35% of the startups agree that another reason behind failure of most of the startups is lack of availability of qualified mentors, which is supported by 9% of respondents who strongly disagree to this. However, 14% of respondents neither agree nor disagree to this. Whereas, 23% of respondents disagree to this and 19% strongly disagree to this.

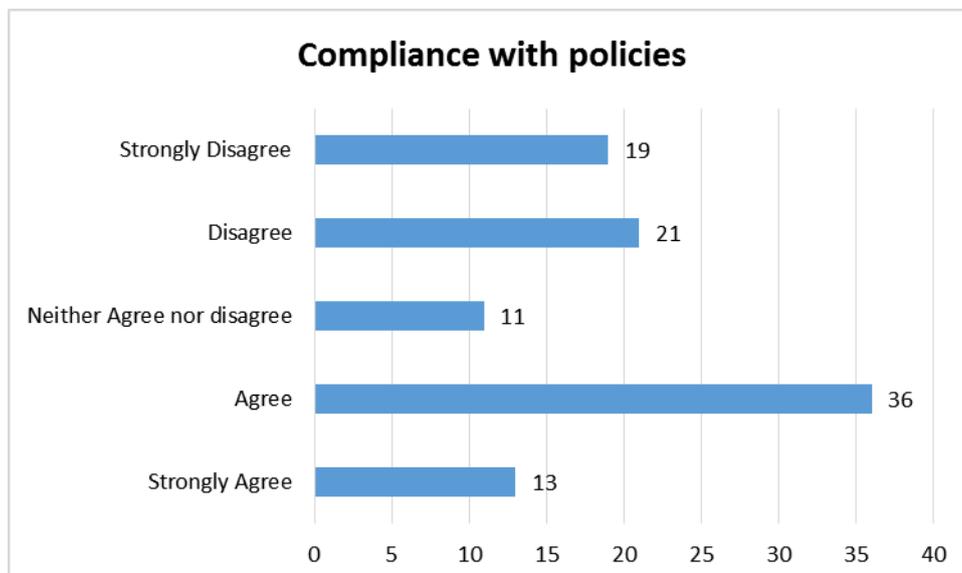


Fig. 3 (Source: Primary Data)

It is observed from the above figure 3 that majority i.e. 36% of the startups agree that another reason behind failure of most of the startups is lengthy compliance with government policies, which is supported by 13% of respondents who strongly disagree to this. However, 11% of respondents

neither agree nor disagree to this. Whereas, 21% of respondents disagree to this and 19% strongly disagree to this.

Fig. 4 (Source: Primary Data)

It is observed from the above figure 4 that majority i.e. 34% of the startups agree that another reason behind failure of most of the startups is non-availability of investors and funds for their startups, which is supported by 17% of respondents who strongly disagree to this. However, 13% of respondents neither agree nor disagree to this. Whereas, 24% of respondents disagree to this and 12% strongly disagree to this.

### **4.3 Contribution of startups in economic development of the country:**

With the introduction of startup India program, there were rise in the investor activity in the year 2016. According to a report published in Nasscom-Zinnov, over 1400 new startups emerged in 2016 alone with the launching of Startup India program. Report from government show that there is 40% increase in the number of incubators and 25% increase in the number of startups in the year 2016. During this period India ranked third in tech innovation globally.

The advanced manufacturing and in particular the Internet of Things has also seen drastic growth. With around 1000 companies operating in a wider space, this sector witnessed the growth of 100% during the year 2016-17 (Chatterjee 2020). While there had been an increase of 40% in B2B sector as compared to 37% in 2016 in the overall startup base.

There were nearly 5200 start ups as of 2017, among which the health-tech sector showed an increase of 28%, Fintech start-ups attained a growth of 31% and e-commerce showed 13% growth year on year in overall number.

### **5. Conclusion:**

Earlier it was very difficult to convert the thought into business, but now due to the efforts of government of India the things are becoming much easier, which helps the young entrepreneurs to enter into startups. Even though they face lot of problems, like problem of creativity and innovations, problem of availability of good mentor, lack of funds, long formalities in compliance, problem of hiring good employees, etc. but the growth in the number of startups tell us a different story. The rise in number of incubators and startups helps the economy to grow faster and thereby helps in overall economic development of the country.

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