

START-UP INDIA: STRATEGIES, OPPORTUNITIES AND CHALLENGES

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ABSTRACT

The whole world on Saturday (16th January, 2016) witnessed the launch of an ambitious programme in India. Also, India has seen a rise in its entrepreneurial spirit in the last ten years. The Start-up India initiative was launched with much appreciation in January last year, with the Prime Minister releasing a start-up policy to encourage entrepreneurship in the country. Government of India has been a forerunner in hosting an initiative such as Start-up India which is intended to build a strong eco-system for encouraging innovation and Start-ups in the country that will drive sustainable economic growth and create large scale employment opportunities. This paper aims to explain the entrepreneurial cultural scenario on the basis of current strategies, opportunities and challenges of this new policy.

KEYWORDS: Start-Up, Challenges, Strategies, Entrepreneurial Spirit, Innovation, Economic Growth.

Introduction

Start-up

The department of Industrial policy and promotion has defined a Start-up as an entity, incorporated or registered in India:

- Not prior to seven years, however for Biotechnology Start-ups not prior to ten years,
- With annual turnover not exceeding INR 25 crores 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.

Provided that such 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 Start-up if its turnover for the previous financial years has exceeded INR 25 crores or it has completed 7 years and for biotechnology start-ups 10 years from the date of incorporation/ registration. Provided further that a Start-up shall be eligible for tax benefits only after it has obtained certification from the Inter-Ministerial Board, setup for such purpose (Ministry of Commerce and Industry, India).

Start-up India

In order to meet the objectives of the initiative, Indian government has announced an action plan that addresses all aspects of the Start-up ecosystem. With this Action Plan the Government hoped to accelerate spreading of the Start-up movement:

- From digital/ technology sector to various other sectors including agriculture, manufacturing, social sector, healthcare, education, etc.; and
 - From existing tier 1 city to tier 2 and tier 3 cities including semi-urban and rural areas.
- The Action Plan was divided across the following areas:
- Simplification and Handholding
 - Funding Support and Incentives
 - Industry-Academia Partnership and Incubation (TCGTBI, IEST and Government of India, 2016).

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Entrepreneurship

According to J.B. Say, "An Entrepreneur is the economic agent who unites all means of production; land of one, the labour of another and the capital of yet another and thus produces a product. By selling the product in the market he pays rent of land, wages to labour, interest on capital and what remains is his profit". Thus, an Entrepreneur is someone who combines various factors of production to produce a socially viable product. An entrepreneur can be defined as a person who has the skill of taking initiative and has the motivation to set up a business or enterprise of his own and who always looks for big achievements. He is the catalyst for social change and works for the common good. According to Cantillon "An entrepreneur is the agent who buys factors of production at certain prices in order to combine them into a product with a view to selling it at uncertain prices in future". An entrepreneur is basically the person who takes the risk, brings together different factors of production, to exploit the existing opportunities in order to create demand, wealth and employment (Haryana Agricultural University, 2017).

Innovation

Innovation can be defined as the application of new ideas to the products, processes, or other activities of a firm that lead to increase in value. This value is defined in a broad way to include higher value added for the firm and also benefits to consumers or other firms. Product innovation is the inception of a new product, or a significant qualitative change in an existing product. On the other hand, a process innovation is the inception of a new process for making or delivering goods and services. Another feature of the two types of innovation is that the product or process must be introduced into the market place so that consumers or other firms can reap the benefit. This distinguishes an innovation from an invention or discovery. An invention or discovery enhances the magnitude of knowledge, but it does not immediately arrive in the market place as a full-fledged product or process (Princeton University, 2006).

Review of Literature

Nayar and Kiran argued that attitudes towards entrepreneurs and entrepreneurship are important determinants for future entrepreneurial activity. Despite the existence of certain business communities, the culture of India continues to remain risk averse. Stability and pride of a big company continue to be the middle-class' aspiration. This cultural attitude hinders the growth of entrepreneurial spirit among the youth. Distribution is a major challenge that Indian entrepreneurs face towards scaling up. The difficulties of setting up the firm's in-house distribution network coupled with the lack of internet penetration, places Indian entrepreneurs at a disadvantage in comparison with counterparts in other countries (Nayar and Kiran, 2012).

Agarwal and Mishra in their paper stated that the Indian start-up ecosystem has really grown because of factors such as massive funding, consolidation activities, evolving technology and a flourishing domestic market. This is certainly not a temporary trend. It's a revolution. And it's going to change the way the markets are working today in India. Their paper highlights some of the important aspects of the Indian start-up ecosystem and elaborates on the steps needed to make the environment more conducive for it (Agarwal and Mishra, 2016).

Jain in her paper aimed at understanding about the growth and prospects of start-ups in India. She also states India is a developing south Asian country. It is the most populous and 7th largest country by area. A large population implies a large prospective market and puts increased pressure for employment in the country. In the present decade, India is undertaking an essential shift towards start-up welcoming policies and a business-friendly environment. India is a populated country having high demand which is creating a competitive environment, forcing to create innovative systems. One of these systems is a start-up ecosystem (Jain, 2016).

Ding in her paper tries to expand on youth entrepreneurship in Qatar. She explains how in the wake of Arab Spring, many of the Gulf Cooperation Council (GCC) countries have raised entrepreneurship as a solution to address rising youth unemployment and to facilitate the transition to knowledge-based economies. Qatar has a high GDP and its population is growing which brings an encouraging atmosphere for entrepreneurial exploration. As the country moves toward the 2030 National Vision, reduction of legal barriers, connecting institutional resources and shifting cultural views toward risk and motivation, are essential components to creating a sustainable start-up ecosystem. Due to the current social contract between the government and citizens, a huge national change may be difficult; however, by bringing opportunities to youth as the first target group, Qatar can begin developing a foundation for future entrepreneurial growth (Ding, 2015).

Singh and Pravesh have presented the major challenges and burning opportunities of entrepreneurship development in India. They've further stated that the development of entrepreneurship is directly related with the economic development of the nation by contributing in national income and employment generation. The government is continuously encouraging entrepreneurship development for removing the problem of unemployment and poverty. India has major opportunities for development of entrepreneurship. There are various sectors of business that are undeveloped. This is creating new scope for development of entrepreneurship in India. Instead of big entrepreneurial opportunities, country has challenges for its development. Infrastructure and lack of entrepreneurial competencies are the major challenges faced by Indian entrepreneurs (Singh and Pravesh, 2017).

Gabriel, Engasser and Bound in their report argue that in India & elsewhere, the social enterprise activity tends to be restricted in entrepreneurial hubs-big cities where there are dense ecosystems of support, advice, finance, customers and services. Any incubator is likely to get more successful outcomes given a large pool of high quality companies to draw from and a rich entrepreneurial ecosystem. A major challenge for funders who want to direct business support to the poorest regions is to work out how to design interventions that succeed in these more challenging contexts, and indeed what success in these areas should look like. This country faces another challenge on the face of social enterprising and that is to spread activity to where it is needed the most. India's poorest people are concentrated in eight predominantly rural 'low-income' states, but most social enterprises, and support organisations, are based in India's big, bustling metropolises - cities like Mumbai, Chennai and New Delhi (Gabriel, Engasser and Bound, 2016).

Chakrawal and Goyal in their article have examined the various issues and challenges that need to be overcome for creating Brand India. A brand differentiates the product of one seller from those of the others. With the Indian Prime Minister's recent call to make in India, brand building is receiving greater attention and momentum in the country. India is the largest democratic country with the highest GDP, and global investment giants are eyeing it as a favorable destination. But, despite various strengths and successes in image building, the country faces challenges in creating a sustainable, conducive environment for making India a production hub of the world. Bureaucracy, corruption, delays in clearance of business proposals, ethical standards and work culture, tax reforms, political interventions, socio-economic barriers, regionalism, etc. are some of the challenges that must be looked after (Chakrawal and Goyal, 2016).

Start-up India: Strategies

Regulatory formalities requiring compliance with various labour and environment laws are time consuming and complex in nature. Often, small and new firms are unaware of the important details of the issues and can be subjected to invasive action by regulatory agencies. In order to make compliance for Start-ups friendly and flexible, simplifications were required in the regulatory process. Accordingly, the process of conducting inspections needed to be made more meaningful and simple. Under the new initiative, start-ups were allowed to self-certify compliance (through the Start-up mobile app) with 9 labour and environment laws. In case of the labour laws, no inspections were to be done for a period of 3 years. Start-ups were going to be inspected on receipt of credible and verifiable complaint of violation, filed in writing and approved by at least one level senior to the inspecting officer.

Many Start-ups were unable to reach their full potential due to limited guidance and access. The Government of India hence took some measures to improve the ease of doing business and also built an exciting and enabling environment for these Start-ups, with the launch of the Start-up India movement. The starts ups were provided with an environment where they could easily work with the Central & State governments, Indian and foreign VCs, angel networks, banks, incubators, legal partners, consultants, universities and R&D institutions. The government also promised to organize mentorship programs in collaboration with government organizations, incubation centers, educational institutions and private organizations who wanted to foster innovation (Government of India, 2016).

Start-ups require registration with relevant regulatory authorities. Delays or lack of clarity in the registration process may lead to delays in establishment and operations of Start-ups, thereby reducing the ability of the business to get bank loans, employ workers and generate incomes. Enabling registration process in a smooth and timely manner can reduce this burden significantly. Towards these efforts, the Government introduced a Mobile App to provide an on-the-go accessibility for registering Start-ups with relevant agencies of the Government. A simple form was to be made available for the same. The Mobile App had backend integration with Ministry of Corporate Affairs and Registrar of Firms for smooth

information exchange and processing of the registration application and tracking the status of the registration application and easy downloading of the registration certificate. Intellectual Property Rights (IPR) is emerging as a strategic business tool for any business organization to enhance industrial competitiveness. Typically, whenever a tender is floated by a Government entity or by a PSU, very often the eligibility condition specifies either "prior experience" or "prior turnover". Such a stipulation prohibits/ impedes Start-ups from participating in such tenders. Effective April 1, 2015 Central Government, State Government and PSUs have to mandatorily procure at least 20% from the Micro Small and Medium Enterprise (MSME). In order to promote Start-ups, Government exempted Start-ups (in the manufacturing sector) from the criteria of "prior experience/ turnover" without any relaxation in quality standards or technical parameters (Government of India, 2016).

In the event of a business failure, it is important to reallocate capital and resources to more productive avenues and accordingly a swift and smooth process has been proposed for Start-ups to wind-up operations. It promotes entrepreneurs to experiment with new and innovative ideas, without having the fear of facing a complex and long-drawn exit process where their capital remains interminably stuck. One of key challenges faced by Start-ups in India has been getting access to finance. Often Start-ups, due to lack of collaterals or existing cash flows, fail to justify the loans. Besides, the high-risk nature of Start-ups wherein a huge percentage fails to take-off, hampers their investment attractiveness. In order to provide funding support to Start-ups, Government has set up a fund with an initial corpus of INR 2,500 crores and a total corpus of INR 10,000 crores to be used over a period of 4 years (i.e. INR 2,500 crores per year). The Fund is to be in the nature of Fund of Funds, which means that it will not invest directly into Start-ups, but shall participate in the capital of SEBI registered Venture Funds (Government of India, 2016).

Start-up India: Opportunities

The government launched its Start-up India hub for all stakeholders of the entrepreneurial ecosystem in India to discover, connect and engage with each other. It was a step taken to assist start-ups in succeeding. The opportunities that could be drawn from the policy were largely the ones that were the major bottlenecks for any entity's success. Under the initiative, Start-ups were exempted from paying income tax on their income for the first 3 years. Around 80% rebate was provided on filing a patent application. The system for patent filing was made fast track. There was an exemption of tax on the capital gains. A mobile app was launched to enable start-ups to get registered within a day. The app also provided a simple application form for the registration. A web portal was also launched for issues regarding clearances, approvals and registrations. Another major advantage was that the compliance regime was based on self-certification. There would also not be any inspection for the first 3 years of start-up businesses in respect of manpower. The norms under the policy for exit strategies are much easier. Furthermore, there are relaxed norms of public procurement for start-ups which included no requirement of turnover or experience. Government has setup a fund with an initial corpus of Rs. 2,500 crores and total corpus of Rs. 10, 000 crores to be used over a period of 4 years (Saluja, 2016).

Acknowledging the long incubation period for Start-ups, the definition has been amended where an entity shall be considered as a Start-up for up to seven years (from earlier 5 years) and a Biotechnology Start-up for up to 10 years from the date of its incorporation/ registration. Also, the scope of the definition has been broadened to include scalable business models with high potential of employment generation or wealth creation. Additionally, no letter of recommendation from an incubator/industry association shall be required for either recognition or tax benefits.

Start-up India: Current Scenario

Out of the total applications received, 1333 have been recognized as Start-ups by the Department of Industrial Policy and Promotion. The hub has mentored more than 400 Start-ups for incubation, funding support, on business plans, pitching support, etc. A Start-up India Online Hub is also being developed which will serve as an online platform where all the stakeholders of the Start-up ecosystem can work together and synergize their efforts (Ministry of Commerce and Industry, Government of India, 2017). Under the scheme for Start-ups Intellectual Property Protection, 200 Patent applications have received the benefit of up to 80% rebate in patent fees and free legal assistance. Overall, more than 350 Start-ups have benefitted from the scheme. 35 Start-ups have availed benefit of fees rebate in expedited examination filing fees (Form 18(A)). Trademark Rules, 2017 has been recently amended to provide 50% rebate in Trademarks filing fee to Start-ups. In the Union Budget 2017-18, the Government has increased this period of profit-linked deductions available to the eligible start-ups to 7 years (Ministry of Commerce and Industry, Government of India, 2017).

INR 600 crore has been released to SIDBI. Total commitments stand at INR 623.5 crore to 17 Alternative Investment Funds. 65 Start-ups have received funding from various AIFs. Start-up India has launched an interactive online learning and development module to educate Start-ups and aspiring entrepreneurs, through different stages of their entrepreneurial journey. Over 1,40,000 applicants have signed up for the course, out of which around 4,800 applicants have completed 100% of the course successfully (Ministry of Commerce and Industry, Government of India, 2017). NITI Aayog (Planning Commission of India) has received applications for setting up Atal Incubation Centers (AICs) in public and private sector as well as scaling up of Established Incubation Centers (EICs).

The objective of setting up Research Parks is to drive successful innovation through incubation and joint Research and Development (R&D) efforts between academia and the industry. 7 Research Parks will be set up as per the Start-up India Action Plan. Research Park at IIT Kharagpur is under construction and INR 74.825 lakh has been released. The Research Park at IIT Gandhinagar is being set up by DST which has sanctioned INR 90 crores and disbursed an initial installment of INR 40 crore. The remaining 5 are being set up by Ministry of Human Resource Development (MHRD) and DST at IIT Guwahati, IIT Hyderabad, IIT Kanpur, IIT Delhi and IISc Bangalore. In addition, another Research Park at IIT Bombay is under construction and INR 7.70 Lakh has been released (Ministry of Commerce and Industry, Government of India, 2017).

On 16th June, 2017, Ministry of Corporate Affairs (MCA) notified the relevant sections 55 to 58 of Insolvency and Bankruptcy Code, 2016 pertaining to the Fast Track process and also notified that the process shall apply to Start-up (other than the partnership firm) as defined by DIPP. With this notification, Start-ups shall now be able to wind up their business within a period of 90 days from making an application for the same as compared to the 180-day period for other firms. 15 States viz. Gujarat, Madhya Pradesh, Karnataka, Telangana, Jharkhand, Uttar Pradesh, Odisha, Chhattisgarh, Bihar, West Bengal, Uttarakhand, Andhra Pradesh, Rajasthan, Kerala, Goa have formulated Startup Policies since October, 2014 (Ministry of Commerce and Industry, Government of India, 2017).

Start-up India: Challenges

However, the response to the scheme has been subtle. As per certain media reports, the main cause has been procedural roadblocks. The start-up selection and registration process is not automatic or system-driven. Rather, the approval process involves a lot of human involvement and discretionary powers, which again opens the way for red-tape and corruption. Even the application for registration under the scheme is lukewarm and drying up because Start-ups do not earn profits in the first few years of their operations hence the income tax exemption in the first few years is not attracting a lot of start-ups in the development phase. The fund created by the government is not helpful either, as the same can provide assistance only when other investors and VCs are investing in the company. Investment is market-driven, and hence, the usefulness of the fund created by the government is yet to be seen as the funds have not been withdrawn and put to use till date (Patnia, 2017).

A tax break of three years has been given in the scheme. Anyone who has business acumen knows that only a few of start-ups will be profitable in the first three years and so this handful can avail them of the tax break. When it comes to the 'fund of funds' under the initiative, Rs 500 crores has already been provided as fund corpus in 2015-16 and Rs.600 crores have been earmarked for 2016-2017. Cumbersome procedures to access funds from the Rs.10,000 crores. corpus have, however, made the plan a non-starter and SIDBI has committed only Rs. 129 crores to VCs so far so the progress has been slow. Under the scheme, bank only puts in 15% of the total corpus, while it is the VC that has to bring the remaining 85% to the table. And, this year, VCs have struggled to raise such a huge amount of money-as a result, funding has almost halved (Insights, 2017).

Another requirement is that the participating investors have to be registered with the Securities and Exchange Board of India. But some of the biggest VCs aren't, and the government has essentially shunned them. There is still no exemption from MAT (Minimum Alternate Tax) which could've helped businesses to cutlasses. A lot of entrepreneurs and investors think that demonetization and the lack of exits in start-ups by investors are adding to the trouble; After demonetization, the investors are afraid to exit their investment due to slump in the IPO (initial public offering) market (Insights, 2017). The scheme sets up an Inter-Ministerial Board led by the Department of Industrial Policy and Promotion which validates the innovative nature of an enterprise, thereby qualifying it as a start-up-and involvement of the government in this ecosystem is not desirable. It also exempts start-ups from inspection under a fixed number of labour laws. But, there are about 45 laws at the central level and about four times this number

at the state level. The Centre needs to collaborate with the States for harmoniously working towards ensuring a smooth rollout of the benefits under the Action Plan and avoid discord between policies at the two levels (Insights, 2017).

Conclusion

Start-up India was launched to provide a very promising future to the entrepreneurs of the country. The initiatives introduced were in great favour to make start-ups successful. Some of these initiatives like easier and faster registration, self-certification, zero inspection for first few years were a great aid to the people who wanted to pursue a business through this medium.

This paper attempted to analyze the benefits and challenges of the policy. According to the research done, we can conclude that the initiative of the government brought a deep and last longing positive spirit in the country for all people young and old who wanted to pursue their dreams of having their own successful start-ups. This can be seen by the large number of applications received by the government. But, a large number of the media reports reported that on inquiry they've understood that the benefits of the policy have not been completely delivered as promised due to bottlenecks due to corruption and insufficiency. The mood has also shifted its momentum and has slowed a bit. Entrepreneurs and investors are acknowledging the fact that after the January 16 event last year, the focus on entrepreneurship has certainly dramatically moved. Over the last year there was lot of out of the box thinking and a sense of direction was seen in the upcoming entrepreneurs of India.

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