

## Start-Up India: Opportunities and Challenges

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### Abstract

The Start-up India program is a pioneering series of initiatives sponsored by the Government of India to foster innovation, entrepreneurship and create a conducive ecosystem to promote and enable start-ups. This research study is aimed at providing a guideline about the action plan taken by the Government of India to promote and cultivate the spirit of entrepreneurship in a country that is on a trajectory of development. In addition to the action plan, the opportunities and challenges likely to be affected the Start-up program were grossly presented in this paper. Thus it was concluded that for any new idea to become successful venture it requires appropriate support and mentoring. This initiative holds the potential of creating the jobs when the manufacturing sector is having a downfall.

**Keywords:** start-up, ecosystem, action plan, entrepreneurship, new venture, innovation

### 1. Introduction

The “Start-up India” program was launched by Shri Narendra Modi, the Prime Minister of India on January 16, 2016 from Vigyan Bhawan, New Delhi. This initiative was aimed at fostering entrepreneurship and promoting innovation by creating an ecosystem that is conducive for growth of Start-ups. As our PM fondly said regarding this novice program that, “I see startups, technology and innovation as exciting and effective instruments for India's transformation.” The objective is that India must become a nation of job creators instead of being a nation of job seekers. Fostering a fruitful culture of innovation in the country is a long and important journey. This initiative will go a significant way in reiterating Government of

India's commitment to making India the hub of innovation, design and Start-ups.

**Definition of Start-up** - According to the Government of India Start-up means an entity, incorporated or registered in India not prior to five years, with annual turnover not exceeding INR 25 crore in any preceding financial year, working towards innovation, development, deployment or commercialization of new products, processes or services driven by technology or intellectual property.

- 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 Startup if its turnover for the previous financial years has exceeded INR 25

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crore or it has completed 5 years from the date of incorporation/registration.

- Provided further that a Startup shall be eligible for tax benefits only after it has obtained certification from the Inter-Ministerial Board, setup for such purpose.

## 2. Literature Review

In fact, there is extensive evidence of strong, statistically significant relationships between levels of entrepreneurship within a firm and a number of different indicators of company performance (e.g. **Miller & Friesen 1982; Zahra 1991; Morris & Sexton 1996**). In this paper an explorative study therefore failed to show any significant influence of Entrepreneurial Management on firm performance. However, due to the small sample size and the diversity of the sample set, this result should not be overemphasized. Further empirical research with narrower (i.e. less heterogeneous) but bigger samples is needed for drawing conclusions. For the moment, a simple saying that “entrepreneurial management is always the better strategic choice” does not hold in the light of empirical results.

**According to Ensley, Hmieleski and Pearce(2006)** the descriptive value of shared leadership goes over the vertical leadership. This suggest that the high profile cases of the reckless start-ups, whose separate creativity and innovation has led to the renown and destiny, are more folk tale than the actuality.

**Kumar (2015)** has done a detailed comparative analysis of Indian start-up ecosystem with other countries – USA, Israel, Singapore and New Zealand. Also he has studied the current online start-up trends in India, start-up initiatives by

other countries, and the industries where startups have gained more interests. He concluded his study saying that with a gamut of online payment gateways – SaaS model, micro financing, voice recognition, mass reach and mobile ad networks and a realistic business plan with a customer validation are the main factors to a successful start-up.

**Ravi M (2015)** A combination of increasing population, growing internet usage and mobile penetration, growing economy, being a major mobile market and exponentially increasing online retailing set the stage for India to be one of the biggest start-up destinations. India is already ranked 4th in the world for the largest number of start-ups according to the 2014-15 Economics Survey. This potential is being augmented by the Government announcement of Rs. 1,000 crores in the 2015 budget for start-up and entrepreneur promotion in the technology areas. A Self Employment and Talent Utilisation (SETU) mechanism is being created to take this initiative forward.

**Wagh Madhura (2016)** says in his study that Certification from inter ministerial board set up by DIPP will be required for startups. This can create another layer of registration and paperwork for startups. DIPP may publish negative list of funds which are not eligible for this initiative. This can limit the number of funds available for startups. Incentives like tax benefit also can prove artificial for startups as very few numbers of startups are able to book profits for first five years. As usual ideas are very good but problem is the implementation. Government has long history of good paper work and little implementation. If initiative is implemented properly, it will become big success story for

Modi Government and bring 'achhe din' for entrepreneurship.

**Datta (2016)** has put some light on the start-ups and the initiative taken by the Indian govt in her study where she studied various govt policies, plans, schemes and strategies related to start-ups. The start-ups are the kind of companies which are innovative in their course of development, analysis, evaluation, research for the target segment. Start-up is one of the

scorching event this era which everyone is talking about. This campaign is particularly based on enhancing the bank financing for the start-ups to encourage the entrepreneurship and job availability.

### 3. Research Methodology and Objectives

The study is entirely a descriptive analysis using secondary data from online articles, government websites, journals, reports, newspaper articles, etc. The following are the

**Table - 1 Start-up India Action Plan**



#### Simplification and Handholding

- Compliance Regime based on Self-certification
- Startup India Hub
- Rolling out of Mobile App and Portal
- Legal Support and Fast-tracking Patent Examination at Lower Costs
- Relaxed Norms of Public Procurement for Startups
- Faster Exit for Startup



#### Funding Support and Incentives

- Providing Funding Support through a Fund of Funds with a Corpus of INR 10,000 crore
- Credit Guarantee Fund for Startups
- Tax Exemption on Capital Gains
- Tax Exemption to Startups for 3 years
- Tax Exemption on Investments above Fair Market Value



#### Industry-Academia Partnership and Incubation

- Organizing Startup Fests for Showcasing Innovation and Providing a Collaboration Platform
- Launch of Atal Innovation Mission (AIM) with Self-Employment and Talent Utilization (SETU) Program
- Harnessing Private Sector Expertise for Incubator Setup
- Building Innovation Centres at National Institutes
- Setting up of 7 New Research Parks Modeled on the Research Park Setup at IIT Madras
- Promoting Startups in the Biotechnology Sector
- Launching of Innovation Focused Programs for Students
- Annual Incubator Grand Challenge

Source: Conceived using the information available on <http://startupindia.gov.in/actionplan.php>

**objectives of the study**

- To study the concept of Start-ups in India and analyze the action plan formulated by the Government of India.
- To find out the opportunities ahead of Indian Start-ups.
- To analyze the important challenges faced by the Start-ups in India.

**Action Plan**

In order to meet the objectives of the initiative, Government of India is announcing this Action Plan that addresses all aspects of the Startup ecosystem. With this Action Plan the Government hopes to accelerate spreading of the Startup movement - From digital/ technology sector to a wide array of sectors including agriculture, manufacturing, social sector, healthcare, education, etc.; and From existing tier 1 cities to tier 2 and tier 3 cities including semi-urban and rural areas.

The Action Plan is divided across three areas and for a brief overview refer Table 1:

- Simplification and Handholding
- Funding Support and Incentives
- Industry-Academia Partnership and Incubation

**According to a report published by PriceWaterHouse Coopers** it was noted that the Action Plan has certainly addressed key concerns, like simplifying the process to obtain certain regulatory registrations and approvals by rolling out the proposed Mobile App and Portal, enabling faster exits from a regulatory perspective, providing funding support and credit guarantee for Startups, and permitting certain specified tax benefits. And also the Action Plan is certainly a welcome and positive

step towards the philosophy of promoting Startup innovation in the country, it will also be important to consider tax exemptions for angel investors, seed capital funds and stock options offered by Startups to employees. Additionally, the Government should consider providing indirect tax incentives for Startups.

**Each key highlight of the action plan is discussed briefly here :**

**4.1 Simplification and Hand holding**

**4.1.1 Compliance Regime based on Self-certification** - Startups shall be allowed to self-certify compliance (through the Startup mobile app) with 9 labour and environment laws and in case of the labour laws, no inspections will be conducted for a period of 3 years.

**4.1.2 Startup India Hub** – Start-ups will work in a hub and spoke model and collaborate with Central & State governments, Indian and foreign VCs, angel networks, banks, incubators, legal partners, consultants, universities and R&D institutions. And also the hub will assist in their complete lifecycle and mentorship programs.

**4.1.3 Rolling out of Mobile App and Portal** - A Mobile App has been developed to provide on-the-go accessibility for: registering start-ups, tracking the status of registrations, filling the compliance forms, collaborating with various start-up ecosystem partners and applying for various schemes being undertaken under the Startup India Action Plan.

**4.1.4 Legal Support and Fast-tracking Patent Examination at Lower Costs** - The scheme for Startup Intellectual Property Protection (SIPP) shall facilitate filing of Patents, Trademarks and Designs by innovative Startups.

#### **4.1.5 Relaxed Norms of Public Procurement for Startups**

- In order to promote Startups, Government shall exempt Startups (in the manufacturing sector) from the criteria of "prior experience/ turnover" without any relaxation in quality standards or technical parameters.

**4.1.6 Faster Exit for Startup-** The Insolvency and Bankruptcy Bill 2015 ("IBB"), tabled in the Lok Sabha in December 2015 has provisions for the fast track and / or voluntary closure of businesses to make it easier for startups to wind up operations.

#### **4.2 Funding Support and Incentives**

##### **4.2.1 Providing Funding Support through a Fund of Funds with a Corpus of INR 10,000 crore**

- In order to provide funding support to Startups, Government will set up a fund with an initial corpus of INR 2,500 crore and a total corpus of INR 10,000 crore over a period 4 years (i.e. INR 2,500 crore per year). The Fund will be in the nature of Fund of Funds, which means that it will not invest directly into Startups, but shall participate in the capital of SEBI registered Venture Funds.

##### **4.2.2 Credit Guarantee Fund for Startups**

- Debt funding to Startups is also perceived as high risk area and to encourage Banks and other Lenders to provide Venture Debts to Startups, Credit guarantee mechanism through National Credit Guarantee Trust Company (NCGTC)/ SIDBI is being envisaged with a budgetary Corpus of INR 500 crore per year for the next four years.

##### **4.2.3 Tax Exemption on Capital Gains**

- Startups are not able to attract investment in their initial stage; With this objective, exemption shall

be given to persons who have capital gains during the year, In addition, existing capital gain tax exemption for investment in newly formed manufacturing MSMEs by individuals shall be extended to all Startups.

##### **4.2.4 Tax Exemption to Startups for 3 years**

- With a view to stimulate the development of Startups in India and provide them a competitive platform, it is imperative that the profits of Startup initiatives are exempted from income-tax for a period of 3 years.

##### **4.2.5 Tax Exemption on Investments above Fair Market Value**

- Under The Income Tax Act, 1961, where a Startup (company) receives any consideration for issue of shares which exceeds the Fair Market Value (FMV) of such shares, such excess consideration is taxable in the hands of recipient as Income from other sources.

#### **4.3 Industry-Academia Partnership and Incubation**

##### **4.3.1 Organizing Startup Fests for Showcasing Innovation and Providing a Collaboration Platform**

- To bolster the Startup ecosystem in India, the Government is proposing to introduce Startup fests at national and international stages. The fests shall have activities such as sessions to connect with investors, mentors, incubators and Startups, showcasing innovations, exhibitions and product launches, pitches by Startups, mentoring sessions, curated Startup walks, talks by disruptive innovators, competitions such as Hackathon, Makerspace, etc., announcements of rewards and recognitions, panels and conferences with industry leaders, etc.

**4.3.2 Launch of Atal Innovation Mission (AIM) with Self-Employment and Talent Utilization (SETU) Program** - The Atal Innovation Mission (AIM) shall have two core functions - Entrepreneurship promotion through Self-Employment and Talent Utilization (SETU), wherein innovators would be supported and mentored to become successful entrepreneurs AND Innovation promotion: to provide a platform where innovative ideas are generated.

**4.3.3 Harnessing Private Sector Expertise for Incubator Setup** - 35 new incubators in existing institutions. Funding support of 40% (subject to a maximum of INR 10 crore) shall be provided by Central Government for establishment of new incubators for which 40% funding by the respective State Government and 20% funding by the private sector has been committed. The incubator shall be managed and operated by the private sector. AND 35 new private sector incubators. A grant of 50% (subject to a maximum of INR 10 crore) shall be provided by Central Government for incubators established by private sector in existing institutions. The incubator shall be managed and operated by the private sector.

**4.3.4 Building Innovation Centres at National Institutes** - In order to augment the incubation and R&D efforts in the country, the Government will set up/ scale up 31 centres (to provide facilities for over 1,200 new Startups) of innovation and entrepreneurship at national institutes.

**4.3.5 Setting up of 7 New Research Parks Modeled on the Research Park Setup at IIT Madras** - The Government shall set up 7 new Research Parks in institutes indicated below

with an initial investment of INR 100 crore each. The Research Parks shall be modeled based on the Research Park setup at IIT Madras.

**4.3.6 Promoting Start-ups in Biotechnology Sector** - Department of Biotechnology endeavors to scale up the number of Startups in the sector by nurturing approximately 300-500 new Startups each year to have around 2,000 Startups by 2020.

**4.3.7 Launching of Innovation Focused Programs for Students** - In order to promote research and innovation among young students, the Government shall implement the measures like - Innovation Core Program, NIDHI: A Grand Challenge program ("National Initiative for Developing and Harnessing Innovations) and Uchhattar Avishkar Yojana: A joint MHRD-DST scheme which has earmarked INR 250 crore per annum towards fostering "very high quality" research amongst IIT students.

**4.3.8 Annual Incubator Grand Challenge** - An "Incubator Grand Challenge" exercise shall be carried out for identification of these incubators. The exercise shall entail - Open invitation of applications from incubators AND Screening and evaluation based on pre-defined Key Performance Indicators (KPIs)

#### **Opportunities**

- Start-up Initiative is a platform to provide monetary gains and secured jobs.
- New and quality brands can be conceptualized in an entrepreneurial environment.
- The quality of life can be improved and there is a liberty where the entrepreneur can be his own boss.
- The so-called dreams and visions can be converted into reality with pride and recognition.

- One can become economically independent when they consider startups as their career option.
- An entrepreneur can learn different forte and establish their own dreams.
- For startups youth make up the workforce that it so desperately needs and going forward youth can be a huge talent base for startups.
- For startups in the country, it is not essential to go overseas. India, with over a billion people, present a very large home market for any goods or services. A rising disposable income and growing aspirations of a mushrooming middle class have meant there is a large appetite for brands.
- High mobile penetration in urban and rural India has reshaped the economy of the country and how goods and services are offered. It has led to greater efficiencies and increased productivity. It has meant businesses profit through faster decision making, better logistics and even something like access to bank accounts.

## 5. Challenges

- Culturally Indians are not groomed to fail and failure is frowned upon. Entrepreneurship thrives on celebrations and a society that fails to appreciate business failures stifles innovation and creativity even before it can start.
- A startup that has raised funds can count the investors for some form of mentoring, but honest, unbiased, good business mentors are far and few in

between. For startups finding a good mentor is often an uphill task.

- For a startup, it is particularly difficult to attract and hire talent and skilled workers. A startup often cannot match the salaries drawn at larger companies nor is a job at a startup seen as a steady one.
- Capital and access to capital has been a perennial problem for startups. While, of late angel investors, venture capital and private equity have brought succor to some extent, a large number of startups still grapple to raise funds from institutional setup.

## 6. Conclusion

As usual start-up ideas are very good but problem is the implementation. Government has long history of good paper work and little implementation. If initiative is implemented properly, it will become big success story for Modi Government and bring 'achhe din' for entrepreneurship. According to Nasscom, India ranks third in global start-up ecosystem. More than 65% growth is seen in the year 2015. Start-up is an opportunity for an entrepreneur to educate and inspire others while some are thinking of how to do and what to do. Although, entrepreneurs are facing problems but still they are rising like a sun. For any new idea to become successful venture it requires appropriate support and mentoring. This initiative holds the potential of creating the jobs when the manufacturing sector is having a downfall.

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