



Role of Governance in Startup Entrepreneurial Ventures and Startup Ecosystem

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Abstract

Even though governance is such a widely used term both nationally and internationally but there is not one commonly accepted definition of governance. Governance is mostly accepted as the role of the governing to ensure proper delivery of goods, services and opportunity to all the citizenry alike in an equitable, fair and transparent manner. Government for people does not exclusively mean only individuals but is also inclusive of government organisations, corporate houses and even small scale businesses including startups. The startups success or failure is thoroughly dependent on the policies and plans of the government. It's the government policies that induce an enabling environment for the startups to flourish or flounder badly. Thus, it is the duty of Government through Good Governance to enable the startups to make their mark and do meaningful contributions to the Indian economy and fulfill their mission.

Key Words: Good Governance, Startups, Entrepreneur, Development and Promotion.

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1. INTRODUCTION

Governance is a term which is perceived differently by different people. Countries with dissimilar political systems perceive, it differently. People with inclination to certain ideologies like capitalists, socialists, liberals, etc. have a disparate idea of governance. The common people also discern governance in a particular manner and expect the government to function accordingly. Thus, there is no concrete definition of governance but its generally accepted as process by the elected Government to govern, exercise authority and regulate affairs of the state. According to UNESCAP (United Nations Economic and social Commission for Asia and the Pacific) "Good Governance has 8 major characteristics. It is Participatory, Consensus Oriented, Accountable, Transparent, Responsive, Effective and Efficient, equitable and Inclusive and follows rule of law."¹ The role of good governance is to ensure that people get an environment where expansion and development of economy, infrastructure; growth of individual and the community remain unhampered. Thus, it's the duty of the Government through good governance to enable the people to make effective use of resources and opportunity to give an equitable chance to prosper in their lives. In the context of Indian startup ecosystem, one often glimpses disparity in the growth and success of startups. As of May 2023 there are around 1400 unicorns across the globe, and India is home to 108 of these unicorn startups. Yet it is jolting that India has a mere 108 unicorn startups when over 1,00,000 startups are officially recognised by the DPIIT. India has the third largest startup ecosystem globally. This stark contrast between the total number of recognised startups and the number of unicorns is ginormous. Statistically citing from the above data with over 1,00,000 recognised startups only 0.11%. Startups accomplished becoming a \$1 billion valued company. Thus, we need to ponder upon the reasons why Indian startup growth and success is not as decent as it should have been. In this paper particular focus has been put upon the role of Indian Government in alleviating the startup ecosystem.

2. LITERATURE REVIEW

In the paper titled '**Startup Environment and Funding Activity in India**' **Dharish David, Sasidaran Goplan and Seema Ramachandram**, the authors start with the Inflection point of Indian startups where the Indian startup ecosystem started to evolve in 2014-15. This led to a flow of venture capital and private investments to Indian startups. They further divulge into the details of venture capital investments in Indian startups and how this could lead to India being a hub and testing ground for innovation and startups. Apart from venture capital they also enumerate government programs supporting Indian startups. They tabularised and chart Indian startups funds from different sources and conclude by explaining how government can play a positive role in furthering startup policy post 2020.

Dr. R. Jayanthi in her research paper titled '**A study about Entrepreneurship in India and Its Promotion under STARTUP INDIA scheme**' explains entrepreneurship and enumerates functions, characteristics and need for entrepreneurship. She lists factors affecting entrepreneurial growth and challenges faced by entrepreneurs before starting their business. Dr. Jayanthi then describes in detail the support given by government of India to bolster up innovation and

¹ <https://www.unescap.org/sites/default/files/good-governance.pdf>

entrepreneurship in India like Make in India, Jan Dan-Aadhar-Mobile (JAM), Trade Related Entrepreneurship Assistance and Development (TREAD) even though she lauds government efforts to promote startups she concludes by stating that the role of entrepreneurship still remains a mystery for many policy observers.

Dr. Ravindra Abhiyankar in his paper '**The Government of India's role in Promoting Innovation Through Policy Initiatives For Entrepreneurship Development**' starts by highlighting India's young population and cites that there is great scope for innovation but is underutilized. He explains how colonial rule and closed economy till 1991 lead to very few innovations and entrepreneurship. The author then enlists in detail India's national innovation systems (CSIR, ICAR, ICMR, DRDO, SIRO, IIT, IIM, Universities, etc.) and financial institutions (IDBI, SIDBI, etc.) which were mostly working in standalone mode and were not interconnected towards a same common goal i.e. forming an innovation ecosystem. The author divides the innovation ecosystem into two categories (i) the knowledge economy driven by fundamental research and commercial economy driven by market place. The author further lists the challenges before India's entrepreneurs and then explains the government initiatives to prop up startups/entrepreneurs.

Dr. Ajay Sharma, Ritu, Dr. Navneet Rawat in their paper '**Role of government schemes in supporting startups in India: A Quantitative Investigation**' state that India has emerged a global hub for startups. The researchers tabulated data from 230 respondents interpreting role of government schemes in supporting startups in India. It was found that 94% of respondents agreed that startup India scheme provides funding support, mentorship and other resources to startups. The research also found 73% people agreed that government schemes may have a positive impact on country's economic growth. 73% respondents agreed that MUDRA Yojna provides financial support to small businesses, including startups. A whopping 90% of respondents agreed that Indian government has introduced many programs and initiatives to assist startups. The authors conclude that even though there are some challenges like complex process and regulations but there is an overall positive effect of government schemes in building a healthy startup ecosystem and would ultimately lead to a positive impact on economic growth of India.

Through this paper further it has been enumerated and elucidated how there remain some gaps and loopholes on the part of the Government when it comes to aiding the startups and other businesses. These are: -

(I) Frequent Policy Changes

An organisation plans ahead anticipating the future and makes provisions, plans, politics, etc. accordingly. But with frequent policy changes by the government, the firms have to keep altering their course of action which leads to certain undesirable situations. Large firms hedge over such circumstances but it becomes more challenging for startups to modify their trajectory as they don't possess the might or finances of the large business organisations. Even slight unanticipated change in Government policies might lead to winding up of the startup businesses some examples are:

(A) Taxes: In the past three decades the business houses have been made to comply three different tax structures. The central sales tax, 1956 were being continued till 2005, in 2005 the system of Value Added Tax, 2005 was introduced and then again in 2017, the Goods & Services Tax, 2017 was implemented. This is particularly difficult for startups as they are stretched on finances as well as human resources to quickly adapt to such tax policy changes. A rise in taxes or change in slab rates or even revision of goods under different categories render the startup in a catch-22 to situation.

(B) Different Laws and Law Implementing Bodies: Its frequently complained by startup founders that fast changing laws or amendments to laws which directly or indirectly affect a startup act as roadblocks, in their functioning. Because policy changes have a long lasting impact on a startup and it is not facile to maneuver the business to fit new laws. Sometimes new laws render a business unviable or illicit. Another issue with such laws is that different agencies are incharge of implementing such laws. So the firms have to coordinate and seek permissions from different ministries for the same work and have to file multiple compliances certificates and repeated inspections from different ministry and government officials. "Multiple laws and regulations in India take about 30 days to comply when compared to just a 9 days in OECD countries".²

(C) International Treaties: Indian government at different international forums signs various treaties which have a direct impact on the business environment of firms. Eg. (a) From change in import export duties to signing of FTA, Preferential Trade Agreement (PTA), Comprehensive Economic Cooperation Agreement (CECA), Comprehensive Economic Partnership Agreement (CEPA), have a huge impact on startups. Eg. FTA with SAARC, Thailand, Sri Lanka, CECA with ASEAN & PTA with Mercosur. (b) The policy change due to new agreements signed at WTO or WTO issues panel reports on different trade dispute matters that also sometimes has a fatalistic outcome on startups.

(II) Lack of Development in Certain Sectors:

(A) Infrastructure: For startups to function at their optimum level an integrated and well functioning business ecosystem is required. For such a well functioning ecosystem the foremost requirement is that of infrastructure, i.e. well built and connected roads, railways, high internet penetration and usage, warehousing and processing facilities improved logistics, dedicated zones for manufacturing, etc. The infrastructure development in India is lop sided and highly unequal, for a better working business environment well built and world class infrastructure is a must.

(B) High Potential Sectors: Very little attention has been given to sectors with high potential like food processing and electronic goods. These are industries with high percentage of growth, employment and profit generation. Well developed high potential sectors give a change for startup entrepreneurs to find rich markets or build a market in tertiary sectors of such industries.

² http://www.ejifmr.com/2018/apr_2018/40.pdf

(C) Poor performance of Traditional Sectors: The sectors like textiles, footwear, engineered goods in which India fared well in the past is nowadays performing unsatisfactorily. India is facing tough competition in these sectors from other countries. This had led to a double disadvantaged not only leads to losses but also as many opportunities and jobs are not only lost but closing of such sectors leads to a break in the ecosystem of businesses and loss of opportunity for entrepreneurs.

(D) Poor IPR in India: Startups are projects with high growth coupled with innovation at its core. Innovation is the indispensable instrument which leads to cutting edge technology. But India has poor IPR laws which dissuades people from working on Research & Development and new innovations. Because ones continued hard works for years get copied by others in no time and the creator is left without any legal remedy or lengthy court proceedings. The upshot of penurious IPR laws results in age old technology apparatus being put to use again and again in place of innovative and contemporary solutions.

(E) Failing to Make India a Global Supply Hub: India's participation in providing raw materials and other resources for manufacturing companies abroad is as low as 1.77% of global merchandise exports and commercial export at 4% of total global exports in 2021. In order to provide Indian businesses and startups more opportunities and a chance to create niche market and new avenues, India has to level up its presence in the global supply chain.

(III) Corruption & Lack of Transparency:

One more quandary faced by Indian startups is the corruption and red tapism present in the Indian public system. The time taken for startups to procure various permissions and to file compliances is a lengthy process often leading to unnecessary delays and loss of work hours and money. Corruption and lack of transparency pose as one of the biggest roadblocks for growth and success of Indian startups. Often it takes a huge prodigious time for startups to access loans from the financial sector. These are terms of the reason for India ranking 63rd out of 190 countries in ease of doing business.³

(IV) Growing Incidences of Violence, Environmental & Natural Hazards and Weak Sustainable Development Planning:

The first and foremost requirement for a business entity is the safety and continuity of its business operations. Recent incidences of factory violences, riots, protests, etc. have lead to an increase in threat perception to businesses. The natural environment hazards like floods, earthquake, etc. cannot be prevented but after natural calamity responsiveness, rehabilitation and resilience has to be strengthened by the Government. The ecosystem should be sound so as to its easy to restart and rebuild. The government should also work on making the infrastructure long term and sustainably developed so that it can benefit and function for decades to come while being socially and environmentally responsible, generating large scale employment opportunities.

³ <https://dpiit.gov.in/ease-doing-business---world-bank>

The following steps have been taken by the Government through good governance which has yielded positive results on startups environment.

(I) Schemes to Promote Startups:

(A) Easy availability of Loans and Funds: The government with its flagship Startup India scheme has ensured that startups get loans with least amount of security and sometimes central government or state government acts as guarantor for startups. The loan under Standup India can range from 10 lakhs- 1 crore. Startups can also procure loan under Pradhan Mantri Mudra Yojna (PMMV), also exemption from Angel Tax to startups has been provided.

(B) Easy Registration & Timely Winding Up: Under Startups Indian Scheme the Government has given benefits like self certification to comply with easy winding up of company in 90 days under insolvency & bankruptcy Code, 2016. The introduction of Single Point registration Scheme (SPRS) by NSICC (National Small Industries Corporation) for MSME's is a huge step for startups to easily incorporate and wind up.

(C) Access to Training by Incubators & Accelerators: Government has initiated training and skill enhancement of startup entrepreneurs how to run a startup and accelerators help them increase the growth of their business. Government has set up many public accelerators and incubators like Start Nest incubators, ASPIRE (A Scheme for Promotion of Innovation, Rural Industries and Entrepreneurship).

(D) Startup India, Make in India, Digital India & Skill India: All these scheme individually and in sync are creating more and better changes for startups in India, thus creating more opportunities for Startups with schemes like Design Clinic Scheme, Zero Defect Zero Effect (ZED) Scheme.

(E) PRAGATI (2015): Its an interactive and integrated platform for addressing the grievances of common people, at the same time monitoring government projects and programmes, schemes. Startups can also login on the startup India portal to get their grievances solved through the portal.

(F) Good Governance through E-Governance: The government is now moving towards providing such schemes and assistances through ICT and business intelligence models to ensure speedy, responsive and reliable service to its citizens.

(G) IPR: If startup is registered under Startups India Scheme then government gives timely IPR protection with upto 80% rebate in filling patents and the support for International Patent Protection in Electronics and Information Technology (SIP-EIT) is a scheme by Government to assist technology startups and MSME in India.

(II) Incentives:

(A) Fund of Funds: The government has created a fund corpus of Rs. 10,000 crore to finance startups over a period or 14th & 15th finance commission cycles.

(B) Tax Exemption: Tax holiday upto 3 consecutive years for startups.



- (C) Definition of startup changed to incorporate businesses with turnover upto 100 crore and date of incorporation upto 10 years.
- (D) Easy availability of funds through eased FDI norms, no tax on angel investments, promoting a culture of venture capital for startups, Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), etc.

(III) Startup Ecosystem Development:

With project like Bharatmala, Sagarmala, bullet train, highways, freight corridors, new SEZ, etc. the Government is ramping up its efforts to build a well functioning and sustainable startup ecosystem. It has also rolled schemes like Multiplier Grants Scheme (MGS) to encourage startups to work with top Government's universities, Research & Development Organisations to develop their products.

3. CONCLUSION

Concluding it can be said that governance is a holistic approach involving all the attributes like accountability, impartiality, transparency, responsiveness, rule of law etc. The Indian economy has its own benefits and drawbacks affecting the startups and its ecosystem. The Government needs to take an unparalleled part in moulding a conducive environment for startups because neither the market nor the civil society can perform the role of facilitator as effectively as the Government. The Government should always adopt a non-discretionary approach towards decision making and initiate a two way communication with the startups. It is imperative to eliminate interferences in delivery of services and to always analyse the policy work thoroughly and improve wherever necessary. The Government needs to take the singular responsibility to create an enabling environment where Government policies aids not stifle creative minds.

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