

INDIAN STARTUPS: SURVIVAL STRATEGY

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This Study examines the scenario, various critical bottlenecks hindering progress of Start Ups in India and suggests a multidimensional strategy for improving their survival/ growth.

(I) STARTUPS IN THE INDIAN ECONOMY : MANIFESTATION /CONSTRAINTS

- **India's economic future** lies in encouraging startups which will bring dynamism, new thinking and create jobs to the Indian economy. However the success of the SSI and the growing Start Up sectors has been unsatisfactory- **high failure rate** - estimated. Some studies assert that almost 90% Start Ups in India fail in the first 5 years. This is a matter of grave concern and requires quick and effective redressal.
- In recent years, the **Indian startup ecosystem** has taken off and **acquired greater visibility**. Driven by **factors** such as availability of funding, foreign investors, evolving technology space and a burgeoning demand within the domestic market. Other factors: growing unemployment, declining jobs in organised sector, global trends, largely oppressive / exploitative rather than nurturant govt machinery, few tie ups with established industrial enterprises / large & medium enterprises.
- The **larger problems plaguing the businesses**, such as the unorganised and fragmented Indian market, lack of clear and transparent policy initiatives, lack of infrastructure, lack of knowledge and exposure, complications in doing business, etc. are **at least** now being **identified as issues** that need to be addressed. But various **stakeholders** such as the government, corporate, educational institutions and others have to join hands for the Start Up sector to take off.
- India is amongst the top five countries in the world in terms of Startups. US ranks number one on the list. But the start up ecosystem continues to be **concentrated in regions** like NCR, Bangalore and Mumbai which together contributed to 87% of total investment value and 84% of total investment volume in 2015. Upcoming regions are Chennai, Pune, Jaipur etc.
- Some of the prominent **global Startups** such as Uber, Cisco, Gram Power have commenced their operations in India. Growing interest in India globally has led to **foreign companies and funds** like Alibaba (China), Softbank (Japan) deploying funds to the new generation entrepreneurs.. **Investors** such as Accel Partners, Blume Ventures, Tiger Global, SAIF Partners, IDG Ventures, Helion Ventures, , Nexus Ventures and the Indian Angel and Mumbai Angel Network dominate .
- **Corporate leaders** like Mr. Ratan Tata, Mr. Narayanamurthy and Mr. Aziz Premji have shown considerable interest in the startup space . Rising number of **corporates** are in search of diverse information, creative people and processes in the smaller companies or start-ups:
- A clear **definition of a 'Startup'** in the Indian context will be affected by the subjectivity / complexity involved, considering various parameters pertaining to any business such as the stage of their lifecycle. Some conceptual definitions are available .The Department of Industrial Policy and Promotion (**DIPP**) **definition** for startups -an entity shall be considered as a Startup for up to 7 years (Biotechnology Startup for up to 10 years) from the date of its

incorporation/ registration, including scalable business model with high potential of employment generation or wealth creation.

- **Stages** of the startup lifecycle:- 1. PRE-STARTUP, 2. STARTUP, 3. GROWTH
- **Startup ecosystem**:- 1. Support organisations, 2. Big companies, 3. Universities, 4. Research organisations, 5. Service providers, 6. Funding organisations
- **Funding** by Angel investors/ Seed funds/ Venture capital / Public markets
- In India though emphasis has been on wage employment, it has been felt essential to promote self-employment or to be specific **Start Up entrepreneurship** as an entrepreneur would be in a position to create more jobs and there is a limitation on increasing wage employment.
- **Entrepreneurship in India** has largely been confined to being own-account workers with one or more helpers and did not expand in size beyond that. Initially the **small scale industries** (SSIs) were regulated by the Industries (Development & Regulation) Act, 1951 which led to absence of an institutional consultative mentoring mechanism. To promote self-employment as a means of job-creation and to promote entrepreneurship for further job creation, the **Micro, Small and Medium Enterprises (MSME) Act, 2006** was enacted.
- **Factors inhibiting entrepreneurial ecosystem :**
 - Handholding is required at the initial stage which is lacking,
 - The entrepreneur is saddled with regulatory hurdles and financial blocks in moving the startup ahead,
 - The availability of risk capital from banks or venture capital companies is limited,
 - Poor infrastructure availability increases the operational costs for the startups.
 - Entrepreneurial culture is also lacking as the institutions of learning train students for wage employment rather than in becoming entrepreneurs.
 - Unfavourable social attitudes towards risk and failure prevail.
- We hear of a so called **Start-up Revolution**, a change due to convergence of technology, integration across diverse fields and people willing to back an idea opened a new world for enterprise. Today there is improvement in financial and other support that provide the initial seed capital incubators, angel funds / venture capital funds - though a **lot more needs to be done**.
- **Policy initiatives**- Indian government aims to build an ecosystem that **promotes entrepreneurship at the startup level** and has recently taken a number of initiatives to ensure that the startup businesses get appropriate support
- **Startup India Action Plan: Key Highlights.**
 - 1. **Defining** the phrase 'Startup' – now, Startups will be 'startups' and not a 'Business' separated in various **policies** of the Government. 2. Startup India **Hub**– A single point of contact for the entire startup ecosystem and enable knowledge exchange and access to funding, Compliance Regime based on self-certification. 3.**Legal** Support and Fast-tracking Patent examination 4. Relaxed Norms of **Public Procurement** for Startups 5. **Funding** Support through a Fund of Funds – with a corpus of Rs. 10,000 Crore managed by a Board with private professionals. 6. **Faster Exit** for Startups 7. **Income Tax Exemption** to Startups for 3 years. 8. Harnessing Private Sector expertise for **Incubator Setup** – in public private partnership.
- The aim is to create a **startup ecosystem** through the new policy initiatives .

➤ **STARTUP SUPPORTING COMPLEMENTARY GOVT. INITIATIVES**

- **Make in India** - to promote the manufacturing sector by promoting companies to invest in the sector. . The government also took various steps to build a favourable environment to do business in the country
- **Skill India programme** to improve employable skills and cover skill mismatch.
 - **Standup India-** build systems for enabling startups-promoting entrepreneurship among women and scheduled castes and tribes.
- **Digital India-** to ensure that government services are made available to every citizen through online platform- broadband connectivity in rural and urban areas.
- set up Micro Units Development Refinance Agency (**MUDRA**) Bank and a Credit Guarantee Fund as a subsidiary of SIDBI to ease credit availability to StartUp.
- **Startup Exchange-** SEBI announced a new set of listing norms for Startups,
- **Atal Innovation Mission (AIM)-** operated from NITI Aayog - Innovation Promotion Platform to foster a culture of innovation.

Madhya Pradesh Incubation & Startup policy 2016- To bridge the gap between angel investors & venture capitalists (VCs), the policy envisages to create dedicated 'Innovative Incubation Network' & 'Angel Investors/Venture Capitalist Network' through an online portal.

- For host Institutes/Incubators, the policy offers range of fiscal incentives .competitions.
- For entrepreneurs/Startups, policy offers fiscal incentives such as interest subsidy, lease rental subsidy, patent & quality promotion subsidy and startup marketing assistance.
- Policy incentives shall be in addition to the incentives provided by Govt. of India
- Institutional Mechanism: implementation through MSME Department - yet to significantly take off

The implementation of these policies and programmes has been to varying degrees in different states / cities of the country. Government's initiatives have had some impact on only a small section of Start-ups and a lot more needs to be done to improve the survival and growth of the Indian Start Ups. This survival roadmap will now be considered.

(II). SURVIVAL STRATEGY: MEASURES FOR ENHANCING STARTUP SUCCESS-

In view of the alarming survival position of the Indian Start Ups , a **holistic multidimensional strategy-** improving implementation of policy initiatives already taken by the government/ other stakeholders , lessons from national/ international good practices ,considering the crucial yet neglected socio-psychological human elements, cultural specific traits (eg. 'jugaad') - will need to be carefully formulated and rolled out.

(A). Better Startup Policy Interventions

- **Better and wider implementation** of Start Up, Make in India and associated programmes.
- **CoreTech Skills development** eg. Increasing the quality of coding skills amongst the youth. Skills upon graduation remain sub par - Skill India program effectiveness requires to be greatly enhanced, and it needs to provide industry specific specialised training modules.
- **Other Tax Benefits-** more relevant tax benefits could be offered even to investors who are helping promote this sector. eg. angel investors lose money on several start-ups even if they make significant gains on one.

- **Mobile and Internet Infrastructure-** Until data speeds and internet access remain limited, the mobile tech sector in India specifically will continue to remain constrained.
- **Involvement of different Ministries and States-** While the Department of Industrial Policy and Promotion (DIPP) and the Ministry of Commerce are taking the lead on Startup India, other concerned ministries in the Government of India should adopt a more focused approach to promoting startups in their respective fields. eg. ministries dealing with Youth Affairs Education , as also involvement of States that are not quite engaged in the Start Up movement.
- Good practices from **better performing states** like **Karnataka** (eg. common instrumentation facilities ,R&D partnerships), **Kerala** (eg. accelerators, hi-tech technology incubators)could be propagated.
- **Mini-startup hubs** need to be promoted in even **Tier II, III (Non Metro) cities** across the country, to enable local entrepreneurs effectively tackle local problems by leveraging technology.
- **Exits and IPOs-** Easier exits and more liquidity through public listing.
- **All promising Startups**, regardless of being considered as innovative should get advantage of this programme - Start Up definition needs to be more broad based.
- **Youth** should be encouraged (via institutional Startup promotion cells -in parallel with Placement cells)to **compulsorily develop at least one minor Startup** concept from the **beginning of their professional courses** (eg. BTech..) so that they learn the ropes, make mistakes then ,instead of starting from scratch after graduation(usually after failing to get desired wage employment).

(B) Some General Business Development Best Practices applicable for Startups

- Providing adequately for the **4Ms of enterprise** - Manpower, Money (funds), Machinery (Technology) and Markets.
- Working with one's champions - i.e. **early adopters** who recommend StartUp products to others.
- **Removing barriers** - i.e. making it easy for the customer to try out StartUp products to others.
- Having **back-up plans** in place for what can go wrong, and how to overcome setbacks.
- Start-ups should be aware of what makes their product special and try to **secure patents** to prevent misuse.

(C) Role of Startup Incubators

- Startup incubators are companies that assist new startups in their initial phase of development by providing various facilities such as office space equipment and services such as accounting, computing, networking and legal services.
- Growing number of **educational institutes** have started setting up incubator programmes independently or jointly- eg. IIM Ahmedabad.
- **Big corporates** are also setting up incubator programmes to help startups eg. Tata Group launched T-Hub.
- Incubators have to acquire **more involvement and empathy** for StartUps and provide genuine mentoring during their initial fragile phase of take off.

Best Practice Incubation Centre: CIIE, IIM Ahmedabad

- CIIE has many features worthy of emulation.
- The Centre for Innovation, Incubation and Entrepreneurship (**CIIE**) at **IIM Ahmedabad** organizes the Grow Gujarat Awards for Gujarat-based startups.
- majority of the startups that currently come to CIIE are by young entrepreneurs - students or professionals who have quit their jobs at an early stage.
- Support cuts across **several sectors** - from energy to technology and from healthcare to agriculture.
- startups are advised **not to blindly chase growth but focus on the 'business' part** of the startup journey.
- CIIE is also promoting **clean technologies** and sustainable energy sectors.
- **synergy** required / being worked at by CIIE between a number of premier institutes in Ahmedabad and Gandhinagar such as NID, IIT Gandhinagar, NIFT etc. - many of which have incubation centers of their own.

(D) Creating an entrepreneurial mindset-

Though Startups can fail for any manner of reasons, from wrong recruiting to running out of funds, right mindset is one factor that determines a Startup's future more than others, one that is often not given adequate significance.

- Psychology is very significant predictor in whether a startup succeeds or fails - success takes place inside the brain - **socio - psychological attributes** are important determinants.
- one must **accept** from the start that **setbacks are inevitable** and that one will have to change one's original plans and overcome barriers,
- **Persistence** is the defining attribute of the entrepreneur.
- **Self-motivation, energy and strong self-belief** are essential to make an idea into a reality, as there will always be challenges to be overcome and barriers to be surmounted.
- This mindset should be **inculcated** through the school, college and professional education onwards.

(E) Mobilising 'Jugaad' for Enhancing Startup Success

- '*Jugaad*' - key coping strategy developed by Indians to **get tasks accomplished in the face of hostile/ obstructive government machinery/** Inspector Raj of controlled economy over decades - the inherent resilience and innovative problem solving acumen for which Indians are known the world over.
- Jugaad refers to the **innovation that occurs under constrained circumstances**. eg. connecting a phone with your emergency light to charge it when there is no electricity.
- Jugaad can grow into larger cost / time saving ideas/ alternatives and make innovative products for business leads.
- The **connotation of the word Jugaad should change** from 'doing it by hook or crook' to 'never giving up' persistence. Sometimes, not having enough resources can lead to better options by making one think and endeavour more to make best use of scarce resources.

(F). KEY LESSONS FROM GLOBAL GOOD PRACTICE STRARTUP COUNTRIES.

We now discuss case studies of some of the relatively successful global examples of Startup success which hold valuable lessons for improving the Indian situation.

(A) Case Study : USA

1. The **United States** is recognized globally for its culture of entrepreneurship, which promotes economic growth and job creation.
2. USA promotes **entrepreneurship through several mechanisms**, including but not limited to **partnering** with U.S. companies, non-governmental organizations, and investor groups; advocating for free markets and strong intellectual property protections; and creating new initiatives / networks.
3. **The Global Entrepreneurship Program (GEP)** – works to build direct partnerships that strengthen the overall entrepreneurial eco-system in countries around the world.
4. **The Global Entrepreneurship Week (GEW)**, each year celebrated in more than 250 U.S. embassies worldwide.
5. **People-to-People Exchanges** - through the Department of State's Bureau of Educational and Cultural Affairs (ECA) connect entrepreneurs from around the world with U.S. entrepreneurs / businesses so they can share best practices.
6. **Select USA** is a U.S. government-wide program created to facilitate investment into the United States.
7. **USAID's Grand Challenges for Development (GCD)** engage entrepreneurs, businesses, researchers, and scientists around specific, international development problems to identify innovative solutions.
8. **US-India Global Entrepreneurship** summit(held at Hyderabad, India in November 2017.)

(B) Case Study : UK

1. **Entrepreneur and investor-friendly UK Govt. policies** and pro-business climate make the UK particularly attractive for entrepreneurs and investors, particularly at seed stage.
2. **The London Start-up Ecosystem**- London has a progressive entrepreneurial eco-system that leads the European Market. The city supports a culture of innovation that facilitates new businesses to flourish, and provides opportunities for individuals to grow. Many accelerators and incubators flourish and there is a congenial culture for learning / networking opportunities

(C) Case Study: SWEDEN

1. High-tax, high-spend country, where employees receive generous social benefits and ample amounts of vacation time.
2. Sweden's impressive Start-Up record can also be attributed to some broader aspects eg. its social safety net, for instance, helps entrepreneurs feel safe to take risks - university education, health care are free.
3. Sweden has a high degree of "**intrapreneurship**," when coworkers collaborate on projects outside of their usual assignments. eg. Swedish company Ericsson has a division called Ericsson Garage where employees can work on innovative projects.
4. The country's start-ups benefit from supportive culture - Swedes share cultural traits that make them more likely to collaborate- sharing of knowledge between entrepreneurs makes them each more productive.

(D) Case Study - CHINA

1. The country is only second to the U.S. when it comes to venture capital spending, mostly investing in the technology, media, and telecommunications sectors.
2. Beijing compressed 30 years of startup learning into five years.
3. With its massive population, entrepreneurs in China identify unmet needs and use their resources to provide services / tools to meet those needs.

(E) Other Countries

➤ ESTONIA

1. Estonia, one of the three Baltic states so innovative, it's nicknamed "**E-stonia.**" Internet access deemed a basic human right and free Wi-Fi is the norm throughout the country.
2. Estonia is said to have the world's most digitized government and one of the fastest broadband Internet speeds in the world.

➤ SOUTH KOREA

1. South Korea has one of the fastest broadband speeds among all and is investing in 5G.
2. Government promotes its startup economy by funding startups and offering tax breaks for big companies that invest in startups.
3. Bloomberg Global **Innovation Index** ranked South Korea **first** among all by examining factors such as research and development capability, productivity, tech density, and patent activity

➤ ISRAEL

1. Entrepreneurship spirit comes from the fact that the country **itself has been called a startup.**
2. With little natural resources and constant political turmoil, Israelis are fighting for better lives by creating alternatives/ innovations.
3. The country has **more startups per capita** than any other country.

Comparison of Indian & Foreign Start Ups

- The average **investment** per round in a start-up is higher globally. A major concern would be the low proportion of startups that get funded in India.
- There is a **time lag** in the setting up and funding between global and Indian startups.
- The growth and the funding of the Indian startups in different sectors occurs later than what is seen for global startups.

CONCLUSION:

- It is imperative to ensure better survival and enhanced success of the Startup segment of the Indian economy.
- Formulation of **time bound, flexible, decentralized strategy** having an appropriate **mix** of aforesaid measures (to suit specific contexts) is urgently required for optimising the survival and growth of Startups in India, in today's difficult economic/ employment environment.

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