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# ENTREPRENEUR ECOSYSTEM: THE INDIAN PERSPECTIVE

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***Abstract:*** In this paper researcher has discussed aspects of entrepreneur ecosystem and how they are collaborate with each other to generate employment. Different models regarding entrepreneurship ecosystem are suggested by eminent economist focuses on the entrepreneurial personality, the entrepreneurial process, and the entrepreneurial development of a region. Government policies, finance, culture, support, human capital and market are the key contributors to the entrepreneurship ecosystem. In India, public sector and large private sector organizations failed to generate adequate number of jobs. Hence India has geared up to adopt the culture of startups with 4200 startups till 2014. Indian government also supports this ecosystem by providing funds, technology and necessary infrastructure. With business friendly environment India can replicate the success story of IT and ITES sector which contributes 9 percent to Indian GDP.

***Keywords***: Startup, Entrepreneur Ecosystem, Angle Investor, Capital Venture Funds.

## 1 INTRODUCTION

India needs to create 10 to 15 million jobs per year for the next decade. Accelerating entrepreneurship and business creation is crucial for such large-scale employment generation. Indian public and private sector businesses failed to generate ample employment in the past few decades. Public sector and Government employment has declined in the last few years. Large private sector firms have also been slow in generating employment, due to increasing automation, digitization, and productivity gains. For example, the banking sector in India has recorded almost no employment growth in the last two decades despite multifold growth in its revenue and assets. India has the potential to build 10000 scalable start-ups in the next 05 years which are capable of generating revenues of Rs 10 lakh crore and creation of employment at the same scale as projected for IT and ITES industry.

However, there are significant roadblocks that hold back and dampen entrepreneurial activity in India. The country ranks low on comparative ratings across entrepreneurship, innovation and ease of doing business. The ecosystem for starting and running new ventures has many gaps. Regulations and procedures are restrictive and time-consuming and add significant cost for an emerging venture. Banks and financial institutions are wary of lending to first-generation entrepreneurs. Educational institutions are yet to actively promote entrepreneurship over careerism. Lack of collaboration between all stakeholders leads to further roadblocks.

## 2 OBJECTIVE

This paper is intended to study the different aspects of entrepreneur ecosystem and how they are collaborating with each other to generate employment and overall growth of the economy. It also focuses on Indian startup scenario and suggests measures to be taken to improve the situation of startup culture in country.

## 3 WORKING DEFINITIONS

***Startup:***

Startup is a newly created company based on innovation/new technology, having replicable and scalable business model. It requires lower upfront and operational costs. It involves more risk and with higher return on investment from the point of the investor.

***Entrepreneur Ecosystem:***

Set of individual elements such as leadership, culture, financial and human capital, which are intertwined in a complex manner. Each of these elements is relevant for a region´s entrepreneurial activity, but without the other elements it is not sufficient for a sustainable entrepreneurial ecosystem.

***Angel Investor:***

Angels are generally high net worth individuals (HNWIs), successful serial entrepreneurs or senior professionals. They not only provide capital but also act as great scouts of emerging ideas.

## 4 CONCEPT OF THE ENTREPRENEURIAL ECOSYSTEMS

It is now worldwide accepted that young and innovative companies are essential for a healthy economic climate. Due to their flexibility and innovative power they can react to a changing environment faster and are therefore less prone to crises. In addition, young companies also contribute considerably to the employment rate of a region.

### 4.1 Entrepreneurial Ecosystem:

The term “Entrepreneurial Ecosystem“, was explicitly mentioned in 1988 by Jude Valdez in order to explain the phenomenon of start-ups. According to Valdez, start-ups can be defined as the result of the relations of potential entrepreneurs, their immediate environment and current market circumstances. A potential entrepreneur is a complex personality who has a certain educational background, a certain attitude towards risk, an alertness with regard to opportunities, financial resources etc. at his disposal. The entrepreneurial environment comprises many several circumstances and influences the entrepreneurial decision of the potential entrepreneur.

Another interesting perspective on the entrepreneurial ecosystem is presented by Gnyawali and Fogel(1994). Here the authors develop a theoretical framework which categorizes the environmental factors in five dimensions and links them with the five core elements of the start-up process, which comprise entrepreneurial opportunity, ability to enterprise and propensity to enterprise

Isenberg (2010) defines an “Entrepreneurial Ecosystem” as a set of individual elements such as leadership, culture, financial and human capital, which are intertwined in a complex manner. Resources that are required for entrepreneurial activities (customers, workers, funding, suitable buildings etc.) are concentrated locally and attract each other. A sustainable entrepreneurship requires an ecosystem and an ecosystem in turn requires the resources which then can take effect together.

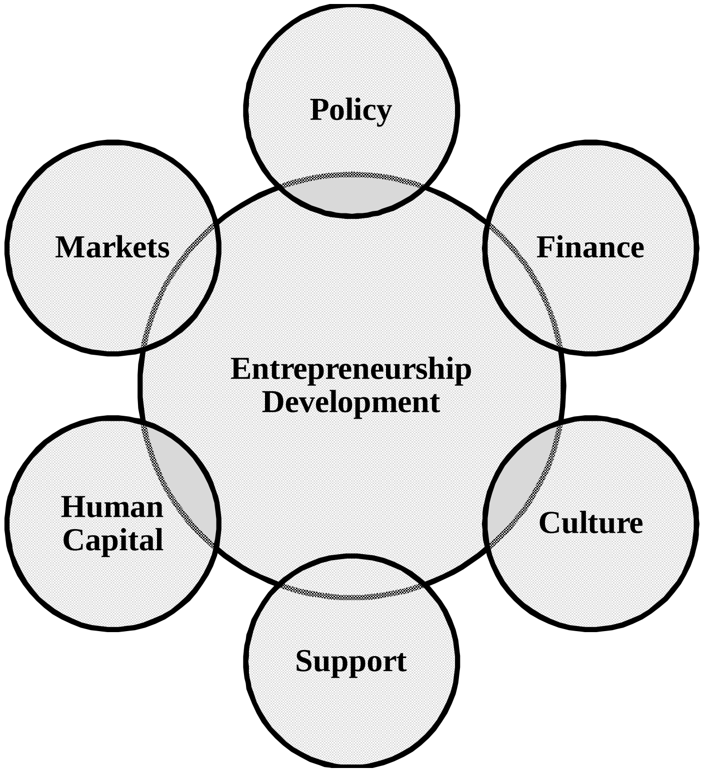


Fig. 1 : Isenberg's(2011) Model of Entrepreneurial Ecosystem

### 4.2 The entrepreneurial journey

The entrepreneurial lifecycle begins with an idea which needs start-up capital. Early sources of capital typically include:


**Figure 2:** The early entrepreneurial journey & the role of capital providers

*A. **Friends and family:*** This is the first source of funds for an entrepreneur with limited funds of his/ her own. In India, with a culture strongly rooted in communities, family has been the most important source of capital.

***B. Incubators:*** Incubators usually provide hard infrastructure and services such as mentoring, advisory, access to technology experts and potentially seed funding. Incubators could be run by government, private sector and educational institutions.

***C. Angel investors:*** Angels are generally high net worth individuals (HNWIs), successful serial entrepreneurs or senior professionals. They not only provide capital but they also act as great scouts of emerging ideas, helping them scale at a stage where institutional seed and venture funds would typically not invest.

***D*. *Venture capital and seed funds:*** These are institutional investors which invest capital in firms with a proven business model and need capital to scale the business up. Such investors typically follow incubation or angel investments.

***E*. *Corporate investments:*** Large businesses can play an active part in investing in emerging ventures, especially in ones that are strategically important for them. Such ventures could be their vendors. A good example is the automotive industry where large OEM's often invest in developing vendors that supply them components.

***F*. *Debt:*** Entrepreneurs, like any established business, need debt to finance working capital. Banks and financial institutions along with specialized vehicles which focus on new ventures are the best sources of such debt capital.

Beyond sources of finance, there are multiple elements of the entrepreneurial ecosystem.

***A*. *Policy and regulatory environment:*** Government and regulators play the most critical role in catalyzing entrepreneurship. Successful countries have created a framework of policies and procedures that makes it easy for entrepreneurs to create and operate new ventures, take risks, raise financing. Moreover, the government can itself play a key role as a provider of funds through grants, seed funds and other schemes

***B*. *End consumers:*** Entrepreneurship become successful when consumers market friendly and open to innovative products, services or even innovative delivery options for existing products. At the same time, it is important for entrepreneurs to design business models that are aligned to the market they serve.

***C*. *Hard infrastructure:*** Easy to use hard infrastructure – real estate, transportation and logistics, utilities, communication, economic zones ect. be available for proper development of Entrepreneurship.

***D*. *Culture:*** Entrepreneurs be celebrated above corporate executives, professionals or government employees. Such a culture not only encourages greater entrepreneurial activity but it also enables entrepreneurial ventures to access quality talent.

***E*. *Academia and educational institutions:*** They can design appropriate curricula, encourage research and experimentation, create incubators and create strong links with business and entrepreneurial eco systems

## 5 CURRENT STATUS OF ENTREPRENEURSHIP IN INDIA

India has witnessed unparalleled growth in startups in the last five years, following the success stories of technology based companies like MakeMyTrip.com and Naukri.com a decade ago. The focus on startups in India has, therefore, come to primarily centre on innovative, small companies leveraging technology to solve consumer problems. According to a recent study by NASSCOM, India has been ranked third in world with around 4200 startups that employ close to 85,000 employees. The ecosystem for both technology and traditional startups has been expanding at a quick pace. However, most of the startups as well as their backers and financiers are located in Delhi, Bangalore, and Mumbai. Furthermore, their focus tends to be on information technology enabled products and services including e-commerce, aggregators, analytics, Internet of Things, health-tech, and online payments.

According to a NASSCOM report total funding in technology startups were USD 2.2 billion in 2014 and it is expected to reach USD 4.9 9 billion in 2015. However, while there is clearly a great deal of capital flowing into the startup ecosystem, only a very small amount reaches startups. Key issue is the lack of early stage funding – angel and seed funding. Angel investments is emerging but still very limited in India, making up only 7% of early-stage investment compared to 75% in the US. Venture Capital funds in India generally invest in firms that are already generating revenues, therefore investing relatively late in the startup cycle. The total value of VC and PE deals in 2014 was $15.2 billion, with the largest investments in consumer, technologies, real estate and banking/ financial services/insurance. Likewise, India-based investors prefer to make a few relatively large investments of around Rs. 3 crores to Rs. 5 crores rather than spreading smaller investments across a large number of firms. Startups looking for funding of less than Rs. 50 lakh therefore often struggle to access investors. In fact, startups in India spend five times the amount of effort to raise funds as compared to US startups. Furthermore, the majority of investments are made in NCR, Mumbai and Bangalore, with the three cities accounting for 93% of total tech. startup investments, and 69% of angel investments.

Technical and vocational training institutes and courses are not currently geared towards a startup economy. The private sector notes that the current training of offer is generally outdated and out of touch with the needs of startups as well as modern industry. Likewise, schooling in India today does not foster skills for startup and entrepreneurship based economies given the emphasis on route learning and old-fashioned curricula that does not equip students with skills for a modern knowledge economy.

## 6 GOVERNMENT'S INITIATIVE TO IMPROVE STARTUP ECOSYSTEM

Government of India has understood the importance of Entrepreneurship Ecosystem in India. On 15th August 2015 Hon. Prime Minister of India has mentioned the "Startup India Stand up India" program. Since then India has come up with initiatives to facilitate start up culture like:

- India Aspiration Fund(IAF) with initial corpus of Rs. 2000 Cr. to finance micro small and medium enterprises.
- SETU program- Establishment of Techno-Financial/ Incubation program to support start ups and provision of Rs. 1000 Cr. in 2015 union budget.
- TBI- Technological Business Incubator scheme by Department of Science and Technology to facilitate knowledge driven enterprises.
- Atal Innovation Mission- Platform to promote culture of innovation and R&D with provision of Rs. 150 Cr in 2015 union budget
- Ebiz portal for reducing approvals required to start a business.
- Tax registration to be completed in 2 days.
- SEBI is planning to setup an alternative trading platform for startups.
- Easy import facilities and duty benefits.
- Minimize Excise and central sales tax
- Subsidized rates on purchasing land.

Recently on 16th January Hon. Prime Minister of India has launched new startup policy' which provides income tax holiday for three years. Government is going to establish incubators in different states.

## 7 CONCLUSION

India has got the advantage of demographic dividend. It is necessary to employ these youths properly. As there are limitations of public and large private sector organizations to provide jobs we need another drive like IT and ITES to generate employment in the country. With the advantage of technology we can proceed with the entrepreneurship development which has capacity to generate employment in remote areas also. Though India with 4200 startups is ranked 3rd in globally, we are way behind of USA which leading with 45000. This underlines the need of comprehensive policy to boost the startup ecosystem in India. Fortunately, Indian government is come up with various innovative policies related to funding, operations and technology to boost startup culture in our country. But it is not enough. Government should work on comprehensive policy to promote overall startup growth and foster an environment of entrepreneurship. Basic infrastructure, connectivity and transportation be provided for swift growth. Regulatory norms be relaxed for ease of doing business. Initiative be taken to improve the Angle funding alongwith subsidies and tax incentives. Smooth exit options should be be made available to entrepreneurs by making changes in Lay off rules.

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