

# The Impact of Startups on Economic Growth in India: An Assessment of Trends and Challenges

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## Abstract

The ecosystem for startups to launch in India has emerged as a significant factor in the country's overall economic expansion. Startups have become critical in promoting innovation and widespread acceptance of new technologies, and they have been particularly effective in creating new jobs for the young. Because to their efforts, India is now recognized as a center for innovation and entrepreneurship around the world. This research paper examines the impact of startups on India's economic growth. It highlights the positive contributions of startups in terms of job creation and innovation across various industries. The paper also identifies key challenges, such as regulatory barriers and access to funding, and evaluates government policies supporting startups. The findings emphasize the importance of startups in driving India's economic development and the need to address the challenges they face. This study highlights startups' importance to India's growth. Businesses must solve their issues to sustain their growth and innovation for the nation. This study advises academics, politicians, and entrepreneurs on how to maximize startups' economic impact in India.

**Keyword:** Startups, entrepreneurship, economic development, job creation and innovation

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## Introduction:

Over the course of the last ten years, the startup ecosystem in India has undergone a period of remarkable development and transformation. The emergence of startups as a dynamic force that significantly influences the economic landscape of the country is a recent phenomenon. It is absolutely necessary, in light of the fact that the Indian economy is working hard to maintain its current level of growth and development, to have an understanding of the function that is served by new business ventures. This research paper sets out to provide an in-depth examination of "The Impact of Startups on Economic Growth in India: An Assessment of Trends and Challenges." The topic of this investigation is "The Impact of Startups on Economic Growth in India." In doing so, it attempts to put light on the numerous contributions of startups to India's economic development while acknowledging the various problems that they confront. Moreover, it is hoped that this will encourage more entrepreneurs in India. This subject is of the utmost importance as India continues on its path toward economic development and innovation (Smith, 2022). It is of the utmost importance to investigate the revolutionary role that startups play

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and to determine the challenges they face in order to develop policies and strategies that can harness their full potential in driving economic growth across the nation. The startup ecosystem in India has witnessed a remarkable development, transforming from a growing movement to a cornerstone of the economic landscape of the nation in recent years. In India, where there are hundreds of startups working in a wide variety of industries, these new businesses have become important actors in the country's overall growth story. The impact of startups to job creation, creativity, and the adoption of technology has been enormous, which has fueled economic development and enhanced India's ability to compete globally.

However, there are obstacles to be found in this landscape. It is possible for the regulatory environment

to be confusing, which can create obstacles for the operations of a firm and its growth. It can be a challenging endeavor for many new businesses to acquire sufficient finance, particularly in the early

phases of operation. As a result of the intense competition in the market for talented experts, these businesses face additional difficulties in the areas of talent acquisition and retention.

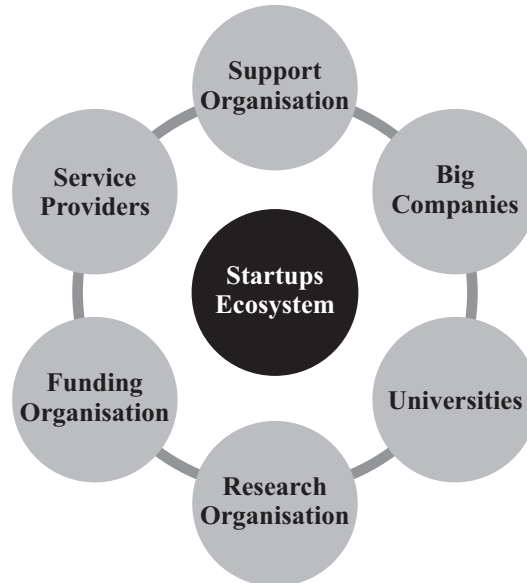


Figure 1. An Exemplary Model of a Start-up Ecosystem

Similar startup ecosystems in different regions may differ due to differences in entrepreneurial culture and resources. Internal variables affect ecosystem processes and may be influenced by them, leading to feedback loops.

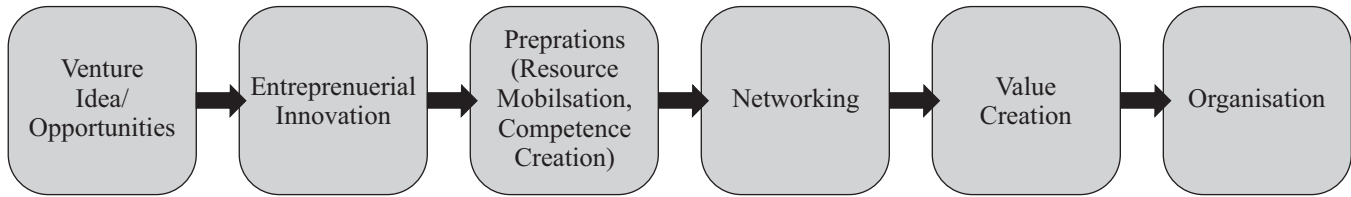
Some resource inputs are influenced by external variables like financial climate and market shocks, while the availability of resources within an ecosystem is determined by internal factors such as individuals and organizations' contributions. Internal considerations such as startup success, succession, and available talents come into play. Human activity in ecosystems has a significant impact on external elements such as the financial climate.

### Lifespan of the Start-Ups

A Startup Lifespans is summed in the figure 2. A startup undergoes six stages of development throughout its lifespan. The discovery stage validates if a startup is solving a fundamental problem and if everyone may conceivably contribute to the solution. This stage encompasses team building, customer interviews,

product creation, incubator membership, family and friend funding, and gathering mentors and advisers. The process takes 5-7 months. In the second stage, entrepreneurs seek early validation of product interest through attention or purchases. In this stage, product features are altered, user growth is achieved, metrics and analytics are implemented, seed funding is secured, and product fit is ensured. Startups aim to improve their business structure and client acquisition process at the third stage, which is efficiency. Startups must efficiently acquire clients to avoid scaling with a void bucket. Stage lasts 5-6 months. The fourth stage involves startups focusing on aggressive growth. Increased customer acquisition, department creation, executive hiring, and scalability are among the activities (Blank, Eesley, 2012). The fifth step involves profit maximization. At this level, the customer base is strong and products are selling, resulting in a positive profit margin.

“Startups in this level are sustainable and can easily transition to the renewal stage. When a startup is mature enough to sustain itself, entrepreneurs can launch new projects without much supervision (Startup Genome, 2011).”



Source: Salamzadeh, A., & Kirby, D. A. (2017)

**Figure 2. The Process of Start-ups creations**

## Role of Startups in driving economic growth

### *Job Creation:*

The creation of new jobs is a crucial function of startups, particularly among young people and professionals in the early stages of their careers. As these new businesses expand, they will need a workforce to support their operations and the efforts they are making to innovate. As a consequence of this, a wide variety of persons, ranging from marketing gurus to technical specialists, are sought after for employment. The lively and entrepreneurial atmosphere that frequently comes hand in hand with employment prospects offered by startups might be especially appealing to younger members of the labor force. In addition, startups frequently offer a platform for the development of skills and the accumulation of experience, which enables individuals to take on new and more difficult roles. The final consequence is a drop in unemployment rates and an increase in personal income, both of which encourage increased consumer spending and overall economic expansion.

### *Innovation:*

The very definition of a startup encourages an inventive mindset. A great number of new businesses are established based on original concepts, game-changing technologies, and unorthodox organizational structures. They are not constrained in any way by preexisting systems or established standards, which enables them to tackle issues and industries with novel points of view. This compulsion toward innovation frequently results in the development of ground-breaking solutions and technologies that have the potential to completely transform whole industries. This innovation is not confined to the development of new technologies; rather, it can also include creative methods of providing products and services, as well as optimizations of

supply chain processes and marketing techniques. By doing so, startups not only improve their own competitiveness but also stimulate innovation in established organizations, so producing a ripple effect that catalyzes economic growth. Moreover, this innovation in established companies benefits not just the economy but also consumers.

### *Technological Advancement:*

The adoption and creation of new technologies often begins with startups, who are often at the vanguard of this movement. Startup companies are frequently the first to capitalize on new technological developments, whether those developments are in the areas of artificial intelligence, biotechnology, renewable energy, or digital platforms. This not only boosts their competitiveness but also has wider-ranging repercussions for the economy as a whole. Efficiency increases can occur in a variety of different industries as a result of the adoption and development of sophisticated technology by startups. These areas include healthcare and manufacturing. In addition, these innovations have the potential to entice foreign investments and partnerships, which will further support economic expansion.

## Literature Review

The influence of startups on the expansion of the economy has attracted considerable interest among scholars and policymakers alike. Startups are widely seen as catalysts for innovation and economic revitalization, a notion that holds special significance within the Indian context, where the pursuit of sustainable economic development is a paramount objective. Numerous scholarly investigations have underscored the significant role that startups play in fostering economic development, with a particular emphasis on exploring diverse facets of their influence. One aspect of this phenomenon is the generation of

employment opportunities by new companies. According to a study conducted by *Khan and Sharma (2019)*, it was found that “startups in India have played a substantial role in generating employment opportunities, with a special emphasis on the youth demographic. The research emphasizes that the rise of technology-focused startups has not only resulted in the employment of a significant number of individuals but has also facilitated the cultivation of skills and entrepreneurial spirit among young professionals.”

Moreover, extensive documentation exists regarding the impact of startups on innovation and technical progress. *Verma and Das (2020)* conducted an investigation which revealed that “startups have had a significant impact on promoting innovation inside conventional industries and instigating technological disruptions within the corporate environment of India. The ability to innovate is evident across multiple areas, including finance, e-commerce, and health tech, where startups have brought revolutionary business models and technology that have significantly transformed customer experiences and industry norms.”

Despite these favorable attributes, the startup ecosystem in India is not devoid of its obstacles. According to *Mishra and Patel (2018)*, “the growth of startups is frequently hindered by regulatory difficulties, as evidenced by their analysis of the legal and regulatory obstacles encountered by these

enterprises.” “The persistent issue of accessing finance has been extensively examined in a study conducted by *Rao and Gupta (2017)*. Their research sheds light on the challenges faced by startups in obtaining early-stage financing and the subsequent implications for their growth trajectory.”

The acquisition of talent is a noteworthy challenge, as evidenced by a study conducted by *Rajput and Singh (2021)*, which highlights “the escalating competition between startups and established companies in the recruitment of qualified individuals, resulting in shortages of personnel in specific industries.”

**Objectives of the study**

- Analyzing the role of startups in driving economic growth by examining indicators such as job creation, innovation, and technological advancement.
- To Observe and Analyze the Trends in Startup Growth in India.
- To Calculate and Assess the Mean Compound Annual Growth Rate (CAGR) of Startups in India.
- Assessing the challenges faced by startups, such as regulatory barriers, funding constraints, and talent acquisition difficulties, and their implications for economic growth.

**Table 1: No. of Startups from Financial Year 2018 to 2022 and Year on Year Growth %**

Years	Number of Startups	Year on Year Growth %
2018	8635	-
2019	11279	31%
2020	14498	29%
2021	20046	38%
2022	26542	32%
Mean	16200	
CAGR	25%	

Source: Department for Promotion of Industry and Internal Trade (DPIIT), Statista

The data in Table 1 provides information regarding the number of startups in India for the financial years ranging from 2018 to 2022, accompanied by the corresponding year-on-year growth percentages. The

table offers significant insights into the progressive expansion of the startup ecosystem in India during the specified timeframe.

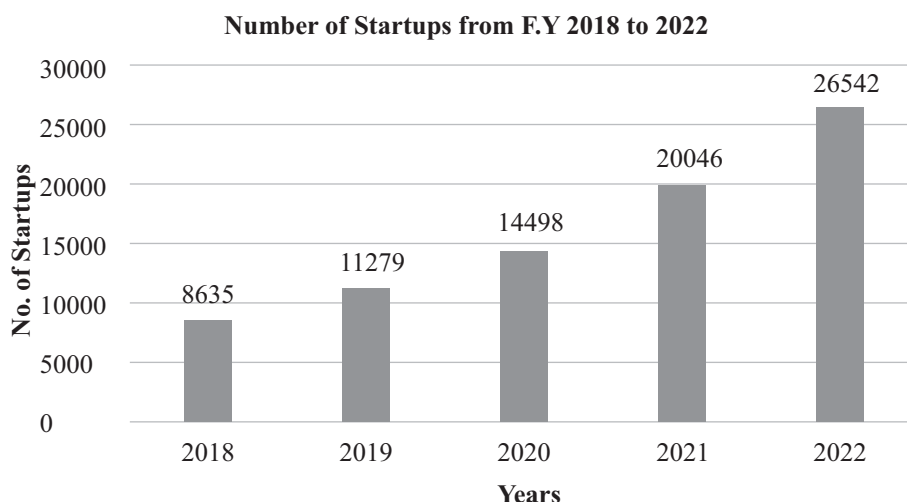
- *Years:* The years 2018 through 2022 are broken down into their respective totals in this column.
- *Number of Startups:* The total number of startups that were launched during each of the given financial years may be found in this column, which is titled “Number of Startups.” For example, there were 8,635 new businesses that started in 2018.
- *Year on Year Growth %:* This column displays, on a year-on-year basis, the percentage increase in the total number of new businesses when compared to the prior year. It determines the pace of expansion on an annual basis for new businesses in India.

The data indicates a notable and steady rise in the number of starting companies across a period of five years. In the year 2019, there was a notable rise of 31% in the number of startups as compared to the preceding year, 2018. The aforementioned pattern persisted, exhibiting a notable 29% expansion in the year 2020,

followed by a huge 38% growth in 2021, and subsequently, a further 32% rise in 2022. During this particular time frame, it can be observed that the average number of startups amounted to around 16,200. In addition, the Compound Annual Growth Rate (CAGR) for the entirety of the five-year duration is recorded at 25%.

This table illustrates the remarkable growth of the startup ecosystem in India and the positive trends in entrepreneurial activities during the specified years. This resource holds significant value for policymakers, investors, and scholars who seek to comprehend the dynamic and changing environment of startups within the nation.

The data sources cited in the table's footer show that the information was acquired from the Department for Promotion of Industry and Internal Trade (DPIIT) and Statista, thereby enhancing the reliability of the reported figures.



Source: Department for Promotion of Industry and Internal Trade (DPIIT), Statista

**Figure 3: No. of Startups from Financial Year 2018 to 2022**

Indian Startup Growth 2018–2022 shows India's five-year startup growth. Each financial year, more startups are founded, as shown in the chart. For 2018, the first column is the shortest, reflecting the few businesses at the start. The columns get taller from left to right, representing the rapid development in startups. Importantly, the 2019 column jumps 31% year-over-

year. In 2020, 2021, and 2022, the columns expand 29%, 38%, and 32%, correspondingly. The columns' steady rise shows India's thriving startup scene. The period saw significant growth and encouraging trends in entrepreneurial activities. The rapid growth of Indian startups is clearly shown in this graphic.

## Challenges faced by Startups

### *Regulatory Barriers:*

New businesses frequently face challenging governmental procedures and convoluted regulations. It takes time and money to figure out all the rules and permits you need to operate legally. To safeguard consumers, data, and product safety, industries like FinTech and healthcare may have particularly onerous rules for startups. Startups may have to spend a lot of money on paperwork and lawyers instead of focusing on growing and innovating.

Regulatory hurdles have economic repercussions because they discourage entrepreneurship and investment. Therefore, creative ideas and job prospects may be wasted, stifling economic expansion. Establishing a framework where businesses can thrive without undue costs requires transparent regulations and simplified procedures.

### *Funding Constraints:*

One of the most common problems that new businesses have is a lack of funding. Initial startup capital needs sometimes include significant sums for things like R&D and expanding distribution channels. However, companies typically have trouble raising the funds they need because of the high perceived risk or because they have no collateral to offer. Startups may be forced to put off product development and growth plans due to a lack of capital, which can ultimately lead to the company's end.

**Implications for the Economy** Lack of capital hampers the expansion possibilities of new businesses. If there aren't enough new, high-potential companies, growth in the economy, especially in growing industries, would stall. The growth of companies and the economy as a whole depends on a healthy supply of funding options, such as venture capital, angel investors, and easily accessible loans.

### *Talent Acquisition Difficulties:*

Another difficulty for new businesses is competing with more established ones for the best employees. It is

difficult for startups to attract and keep qualified workers since established organizations can offer higher compensation, better benefits, and job stability. Product development and innovation might be stymied by a company's inability to attract and retain skilled workers.

**Financial Consequences:** A company's capacity to put its business goals into action may be hampered by difficulties in recruiting and retaining top talent. As a result, the company's growth potential may be stunted, innovation may be stifled, and market prospects may go unrealized. The continual influx of talent that promotes economic productivity is crucial to a vibrant startup ecosystem.

## Conclusion

In a nutshell, newly established businesses in India have proven to be significant contributors to the country's overall economic expansion. They have been responsible for a large portion of the job creation, inventiveness, and technological progress that has taken place. However, they are confronted with obstacles, such as regulatory roadblocks, financial restrictions, and difficulty in the recruitment of talent. The potential for their expansion may be hampered by these obstacles. It is vital that politicians and other stakeholders create an environment that fosters entrepreneurship, streamlines regulations, enhances access to capital, and facilitates talent acquisition. Only then will policymakers and stakeholders be able to fully realize the influence that new businesses have on economic growth. This would make it possible for startups to continue encouraging economic growth in India and to stay at the forefront of both innovation and the creation of new jobs.

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