

# The Role of Startups in Job Creation: A Case Study of India's Entrepreneurial Ecosystem

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## 1. Abstract

Approximately two million Indian people enter the labor force each year. Many of them are youths who urge the Indian government to be more concerned with job creation (Nawangpalupi et al., 2015, p.9). In order to increase the number of jobs, the Indian government cannot rely solely on the public sector or big private sector but must also consider SMEs and startups. Because SMEs in India already hold quite significant roles and have specific strategies, in order to raise numbers of employment, India should further support entrepreneurship. Data from the government (as cited in EYGM, 2013) state that around 4 million entrepreneurs are needed to support developments and support new comers' potential. The number needed is nearly 2% of a 254.5 million population in India (World Bank, 2014).

Effective strategies, collaboration and coordination are steps that the Indian government has to make in order to boost the number of entrepreneurs in India. Not only that, long term are plans and supports to assist existing entrepreneurs also critically needed. Having better knowledge and bigger pictures regarding entrepreneurship and startup ecosystem status in India has become an important phase before making those policies. In addition, India currently ranks 103rd out of 132 countries and ranks 18th in the Asia-Pacific region surveyed by GEDI (2016) meaning India has a relatively low quality of entrepreneurship conditions. This condition cannot seriously improve without effective knowledge and strategies to assess what must be done first within the government, private sector and even the general public.

## 2. Entrepreneurial Activities in India

### 2-1. Statistics

Compared to 2012, the ease of doing business in India has improved. The country climbed 11 places, from 120th in 2014 to 109th in 2015, based on data from the World Bank. Table 1 clearly shows that India is in 7th place, which means that it is still facing relative difficulty in doing business compared to the other ASEAN countries. In this category, Singapore has been ranked number one in the world ever since 2005 (Mayeda, 2015) while Myanmar has the lowest rank compared to the other ASEAN countries.

India, Malaysia and Thailand are efficiency- driven countries which create efficient production processes and increase product quality, which is the main priority for development (Nawangpalupi et al., 2015, p. 50). In facilitating this development, entrepreneurial activity becomes more important including R&D and investments. According to Nawangpalupi et al. (2015), many entrepreneurs in India work at micro-enterprises that have fewer than five employees and tend to be similar customer- oriented types of business (56% for total early-stage entrepreneurial activities and 59% for established business).

The total early-stage entrepreneurial activity (TEA) surveyed by GEM in 2014, stated that 14.2% of adults in India are involved in TEA (13.2% for males and 15.2% for females), while the majority of adults who have established businesses are 35-44 and 45-54 years old (Nawangpalupi et al., 2015).

## 2-2. Governmental Policies and Infrastructures

The Indian government has introduced numerous policies and activities intended to boost and support entrepreneurial activity in India. These policies and activities cover various categories at both the micro and macro levels, and are included in the National Long Term Development Plan (RPJPN 2005-2025).

The table shows that many of the Indian government's policies are focused on building skills and entrepreneurship education. Only a few policies are focused on motivation, building entrepreneurship culture, and entrepreneurship infrastructure, and fewer still on creating entrepreneurship opportunities.

The government has also started to open 'One Stop Shops' in its offices, to deal with citizens' permits and licenses in many commercial activities. This program is intended to simplify procedures and provide faster results when citizens make license and permit applications. It has been quite successful in encouraging citizens to register their businesses and apply for the proper licenses. It also encourages Indians to manage their legal documents by themselves, without need of unregistered or illegal third party help.

Although this policy has built good entrepreneurship infrastructures and is considered to be successful, there are numerous other policies of low quality, or for which the planned impact has not been achieved. One of the factors explaining this is that of the policies that have been made, some suffer from a lack of collaboration, communication, and coordination between government departments, or between government and the private sector (Parahyangan Catholic University (UNPAR) Bandung, 2003).

## 2-3. Research and Development

R&D transfer in India is relatively high, at 2.63, compared to the southeast Asian countries' average of 2.50 (GEM, 2015). But research and development expenditure by both private and public sectors is quite low. Data from the World Bank shows that India spent only 0.08 percent of its GDP on research and development in 2013. This number is relatively low compared to other ASEAN countries such as Vietnam and Thailand, which spent 0.19% and 0.39% of their GDP on R&D in 2011. Singapore spent 2% and Malaysia spent 1.13% of their GDP in 2012.

As stated in the EY G20 Entrepreneurship Barometer 2013, this condition is quite possible because India is still in the early stages of development, and at this stage an economy's productivity gains are usually made by adopting technologies and methods from more mature economies rather than through home-grown innovation.

## 2-4. Investors (VCs, Accelerators, and Angels)

As the country with the largest economy in southeast Asia, investments have become so much more important in India than in other countries for the sustainability and boosting of economic growth. According to the central government's investment service agency, BKPM (cited in India Investments, 2015), between 2011 and 2015 the total investment realization rate kept increasing, with a total of IDR 400 trillion in the first three quarters of 2015. (Total investments are the sum of direct domestic investments and direct foreign investments.)

The startup investments picture in India grew in 2014 and 2015. This happened because startup companies that came into being in the past two years have succeeded, which is a new trend. Even new tech startups are starting to rise in India, but the number of these companies is small, so the investment chart in the tech startup ecosystem is relatively static. If there is a new startup rising then the investment number in the chart can jump quite high and remain there for quite long periods (Freischlad, 2016).

Turning to the subject of access to funding, Soft Loan (KUR) helps new entrepreneurs to obtain seed funding. According to the World Economic Forum (as cited in EYGM, 2013) it's easier for companies to raise venture capital in India. There are many active angel investors, VCs, and accelerator programs built by private sectors and private

institutions. These programs greatly help new entrepreneurs with seed funding, training, and other assistance. But beyond such non-bank funding sources, it's still hard to get cheap loans from the formal banking sector, although local entrepreneurs think that the formal banking sector is the foremost funding instrument in its ability to help entrepreneurship for long-term growth.

### **2-5. Entrepreneurship Education Programs in Universities**

A private university that focuses on a particular major, such as a business school, or which aims at becoming a world-class university, usually has specifics with good quality programs to encourage in its students an entrepreneurship spirit and mindset. These programs can be in the form of training, or competition, or an entrepreneurship center. Some universities even have their own accelerators, which are exclusively for use by and for the support of their students. Meanwhile, in Indian public universities, a basic entrepreneurship class is available to every student in any major. Many universities even make this a mandatory class. Public and national universities nowadays also have an Entrepreneur Student Program (Program Mahasiswa Wirausaha) which gives training, knowledge, and seed funding for students who want to become entrepreneurs or start businesses.

Nowadays there are organizations that provide training, and incubators to help and support Indians who want to become entrepreneurs. The incubator programs usually require one to submit an application and give exclusivity to the selected people or group. However, there is also free access to websites giving information on how to become a great entrepreneur.

### **2-6. Cultural Issues and Public Perception**

There are two contradictory beliefs coexisting in the Indian mind on the subject of entrepreneurship. According to Nawangpalupi et al. (2015), 72.9% of the population agrees that becoming an entrepreneur is a good career choice, and also agrees that starting a new business is associated with high status and respect.

Further, Many Indians believe that failure in business is not the end of the world, but a learning point to build a better career in the future. To the contrary, RUMA's Aldo Haryoprato (as cited in EYGM, 2013) says, "Indian culture is very conservative, and people don't want to take risks. Young, talented people often assume they should work for large companies rather than try to build a business and succeed for themselves."

Many Indians tend to place a high value on being an entrepreneur and starting a new business, and this is one of the reasons why people don't want to take risks. The survey by GEM (Nawangpalupi et al., 2015, p. 22) also says that when someone has a high perception of entrepreneurial opportunities, the fear of failure is also high. There is no regulation or law to help entrepreneurs to recover when they are facing bankruptcy. It might be a reason why many Indians are afraid to take the risk of starting a business.

### **2-7. Successful Cases**

Startup companies that became successful are the reason why further startup techs are starting to rise in India. Online community Kaskus, Tokopedia in 2014, e-commerce newcomer MatahariMall in 2015, and the bike-hailing startup Go-Jek in 2015 are the successful startup companies that have been able to create new trends and attract people to this field. Many startup tech companies are starting to appear as competitors or are aiming at other business fields.

### **3 Conclusion**

One of the challenges facing India nowadays is the creation of new jobs in order to absorb the flow of newcomers to the labor force. This concern becomes important since the unemployment rate has a close relation to poverty.

Mr. Bambang Prijambodo of India's Ministry of National Development Planning (Bappenas) stated that Bappenas aims to reduce India's unemployment rate from 6.18% (7.56 million people) of the labor force in 2015, to the range of 5.2 – 5.5% (India Investments, 2015). And the way to do that is to create more entrepreneurs in India. Government and the private sector need to build better entrepreneurship ecosystems such as good quality infrastructures, education programs, and more investments in R&D, to create more entrepreneurs.

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