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Indian Entrepreneurial Ecosystem: A Study



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ABSTRACT

Entrepreneurship does not exist in a vacuum (Moore, 1993). A business unit to start and survive in an economy is dependent upon certain elements/factors operating in the environment concerned. 'Environment of entrepreneurship' is referred to here as the Entrepreneurial Ecosystem (EE). An extensive study of literature indicates Finance, Human Capital, Incubators and Accelerators, Regulatory framework (including Infrastructure) and Culture as the most essential components of an environmental ecosystem. Developing and maintaining a strong entrepreneurship ecosystem is a priority for any government. This is truer for a developing nation like India with a population of around 1.38 billion with nearly 40 per cent aged 13 to 35 years (youth) standing on the verge of starting employment.

However, the unemployment rate of India is standing at 8.30 per cent in September 2022. In the absence of ample job opportunities, encouraging entrepreneurship is the only way out for steady economic growth. In this context, our study revolves around understanding and evaluating "the components of the entrepreneurial ecosystem" in the Indian context.

Keywords: *Entrepreneurship, Ecosystem, Components of the Entrepreneurial Ecosystem, Entrepreneurial Ecosystem.*

1. INTRODUCTION

Entrepreneurship is a priority for any government in nations, which look to grow, become self-dependent and overcome economic uncertainty. Especially, in a developing country like India with a population of around 1.38 billion people, and with 40% of those people on the verge of starting a career (indiastats.com), we do not have enough jobs for them to offer. Encouraging entrepreneurship is the only way out for steady economic growth. But a business to start and survive in an economy is dependent upon certain elements/factors. It needs an ecosystem, more specifically, an entrepreneurial ecosystem. The stronger the support system, the higher the chance of success for firms operating in that system. In this context, the study revolves around identifying the components of the entrepreneurial ecosystem and its position in India.

2. OBJECTIVES OF THE STUDY

The study revolves around the following objectives –

- To identify the components of the entrepreneurial ecosystem.
- To assess the position of the identified components in the context of India.

3. METHODOLOGY

The first objective of identifying the components of the entrepreneurial ecosystem

has been done through an extensive review of the literature. For ascertaining the position of the identified components in the context of India, as in the second objective, data is collected from various secondary sources and analysed.

4. ENTREPRENEURIAL ECOSYSTEM

Isenberg (2010) in the “Harvard Business Review” and Feld’s (2012) in his book “Start-up Communities” have popularized entrepreneurial ecosystem amongst entrepreneurial leaders and policymakers. Disregarding its popularity, entrepreneurial ecosystem does not have a generally accepted and approved definition. From the study of the definitions and explanations made by different experts and academicians in the field of entrepreneurship, it is understood that entrepreneurial ecosystem can be referred to as bundle of actors and factors that exists simultaneously, are interrelated and interact among themselves to foster entrepreneurship.

• Identification of the Components of the Entrepreneurial Ecosystem

Prominent experts in the field of entrepreneurship like Daniel Isenberg, Vogel, C. Mason and Brown, Stam and Spigel and others in their work have suggested various components of entrepreneurial ecosystem. To identify the components, a brief review of the literature is done. In 2004, Neck et. al conducted a study in Boulder country,

Colorado and suggested that entrepreneurial ecosystem consists of six key components: “incubators, spin-offs, informal networks, formal networks, physical infrastructure and culture.” Daniel Isenberg (2011) suggested that an ideal EE should consist of “leadership, government, funding, cultural norms, success stories, human capital, universities, entrepreneurship organizations, infrastructure, support services, networks, and early customers to have self-sustaining

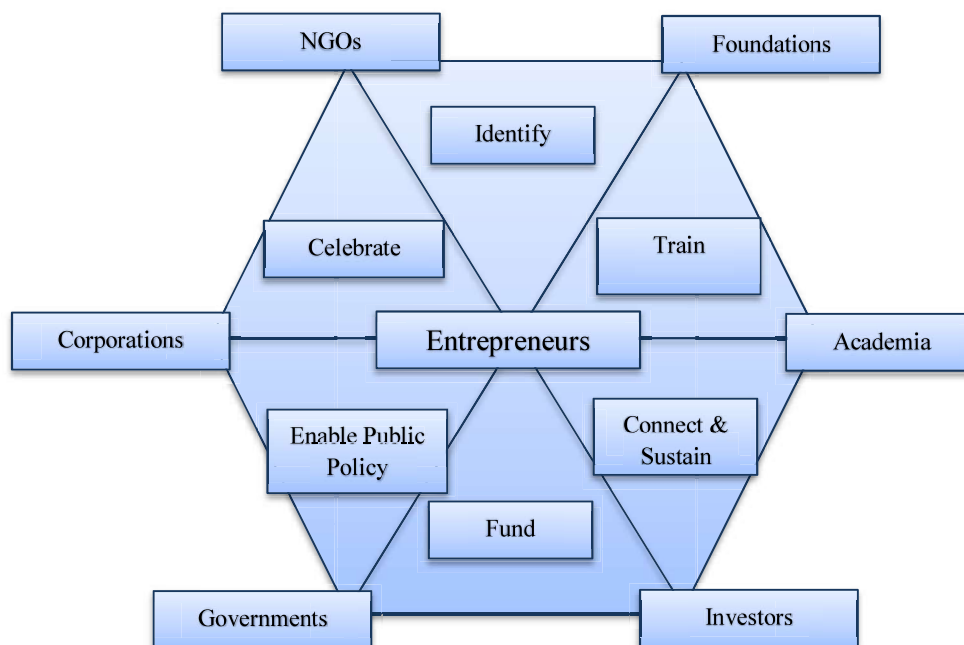
entrepreneurship. He further consolidated these participants into six domains: policy, finance, culture, supports, human capital and markets.” World Economic Forum conducted a study around the globe by inquiring over 1000 entrepreneurs and identified eight ecosystem pillars. Foster et al. (2013) advanced the study by identifying the individual components underlying these eight pillars as summarised below:

“Components of Entrepreneurial Eco-System Pillars”	
Accessible Markets	Human Capital/Workforce
▪ “Domestic Market - Large Companies as Customers”	▪ “Management Talent”
▪ “Domestic Market - Small/Medium Companies as Customers”	▪ “Technical Talent”
▪ “Domestic Market - Governments as Customers”	▪ “Entrepreneurial Company Experience”
▪ “Foreign Market - Large Companies as Customers”	▪ “Outsourcing Availability”
▪ “Foreign Market - Small/Medium Companies as Customers”	▪ “Access to Immigrant Workforce”
▪ “Foreign Market - Governments as Customers”	
Funding and Finance	Support System
▪ “Friends and Family”	▪ “Mentors/Advisors”
▪ “Angel Investors”	▪ “Professional Services”
▪ “Private Equity”	▪ “Incubators/Accelerators”
▪ “Venture Capital”	▪ “Network of Entrepreneurial Peers”
▪ “Access to Debt”	
Regulatory Framework and Infrastructure	Education & Training
▪ “Ease of Starting a Business”	▪ “Available Workforce with Pre-University Education”
▪ “Tax Incentives”	▪ “Available Workforce with University Education”
▪ “Business-Friendly Legislation/Policies”	▪ “Entrepreneur Specific Training”
▪ “Access to Basic Infrastructure” (e.g., water, electricity)	
▪ “Access to Telecommunication/Broadband”	
▪ “Access to Transport”	
Major Universities as Catalysts	Cultural Support
▪ “Major Universities Promoting a Culture of Respect for Entrepreneurship”	▪ “Tolerance of Risk and Failure”
▪ “Major Universities Playing a Key Role in Idea-Formation for New Companies”	▪ “Preference for Self-Employment”
▪ “Major Universities Playing a Key Role in Providing Graduates for New Companies”	▪ “Success Stories/Role Models”
	▪ “Research Culture”
	▪ “Positive Image of Entrepreneurship”
	▪ “Celebration of Innovation”

Source: “*Entrepreneurial Ecosystems Around the Globe and Company Growth Dynamics World Economic Forum, 2013*”

Koltai and Company LLC (Kol Co, 2014), led by Steven Koltai works on “Six+Six Entrepreneurship Ecosystem Model.” The model represents the six pillars leading to a

prosperous entrepreneurship ecosystem including the six participants responsible for the accomplishment. The figure below depicts the model -



Source: *Six+Six Model (Source: Koltai, 2014)*

From the above discussion, it is evident that “components of the entrepreneurial ecosystem” as suggested by different experts on the field are neither all the same nor entirely different, they are in most cases overlapping. Based on the study we would restrict our analysis on the following “components of the entrepreneurial ecosystem” viz. Finance, Human Capital, Incubators and Accelerators, Regulatory framework (including Infrastructure) and Culture.

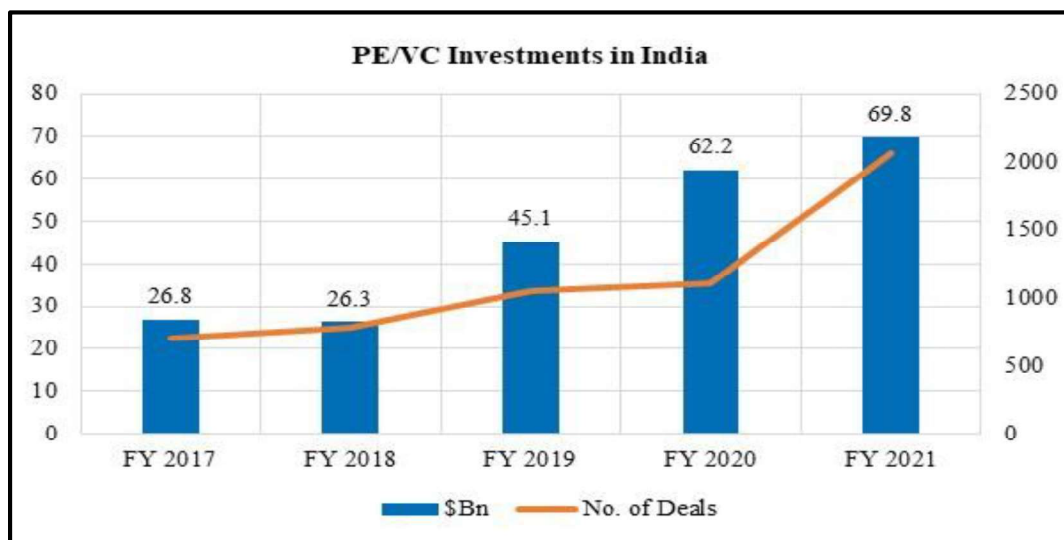
• **Assessment of components of Entrepreneurial Ecosystem in the Indian Context**

i) Finance: Finance is the most important component of the entrepreneurial ecosystem. On average 9 out of 10 start-ups fail and one of the key reasons for such failure is lack of finance (Krishna A. et al., 2016). A business needs funds to start and subsequently operate. Self-financing is the major funding source at the very early stage of a business. Even at the later stage, self-financing remains the key source of funding for many entrepreneurs. An entrepreneur seeks external finance, if he or

she does not have enough funds to run the business or the business’s cash flow is not sufficient to continue. Different modes of external funds are available at different stages of the business lifecycle. The finance and

funding ecosystem in India has been analysed under two sub-parameters viz. Private and Venture Capital Deals and Bank Credit to Industry.

Figure 1: Private Equity and Venture Capital Deals



Source: “Indian Private Equity and Venture Capital Association”

Table 1: Distribution of Deals

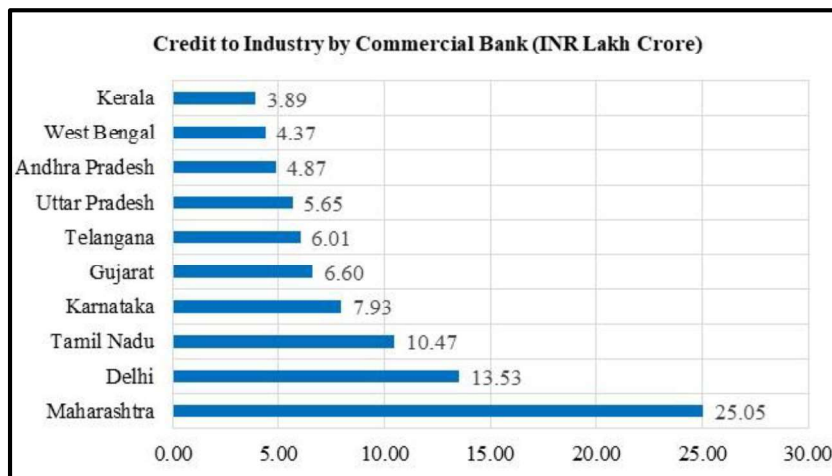
State	No. of Deal	Share	State	Amount (Mn USD)	Share
Karnataka	230	35.83%	Karnataka	13601.33	58.75%
Maharashtra	130	20.25%	Maharashtra	3103.58	13.40%
Haryana	99	15.42%	Haryana	2316.23	10.00%
Delhi	65	10.12%	Uttar Pradesh	1136.53	4.91%
Tamil Nadu	29	4.52%	Delhi	661.27	2.86%
Telangana	21	3.27%	Tamil Nadu	313.16	1.35%
Uttar Pradesh	13	2.02%	Telangana	210.16	0.91%
Others	55	8.57%	Others	1810.39	7.82%
Total	642		Total	23152.66	

Based on PE/VC deals tracked from August 2017 to March 2021, from multiple sources like trak.in, VC Circle, INC 42

From Figure 1, it can be inferred that “private equity and venture capital investments in India have steadily increased over the years”. If we now track the distribution of the deals among

the Indian states, it is noticed that the largest chunk of the investment belongs to Karnataka (58.75%) followed by Maharashtra (13.40%) and Haryana (10.00%)

Figure 2: Credit to Industry by Commercial Banks (INR Crore) as on March 31, 2021



Source: Reserve Bank of India (2021)

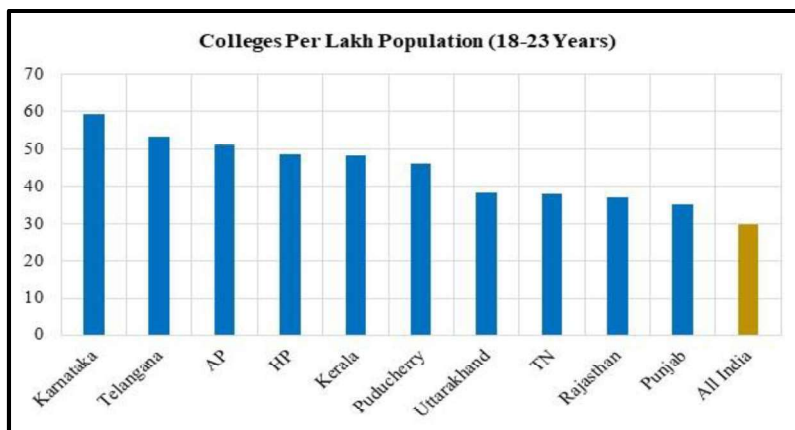
Credit to the industry by commercial banks is an important indicator of entrepreneurial activities. From the above analysis in Figure 2, it can be inferred that entrepreneurial funding activities are predominant in the state of Maharashtra followed by Delhi, Tamil Nadu, Karnataka, Gujrat and Telangana.

ii) Human Capital, Education and Training

A business to be successful needs skilled manpower or human capital. This could be the entrepreneur himself or his employed staffs.

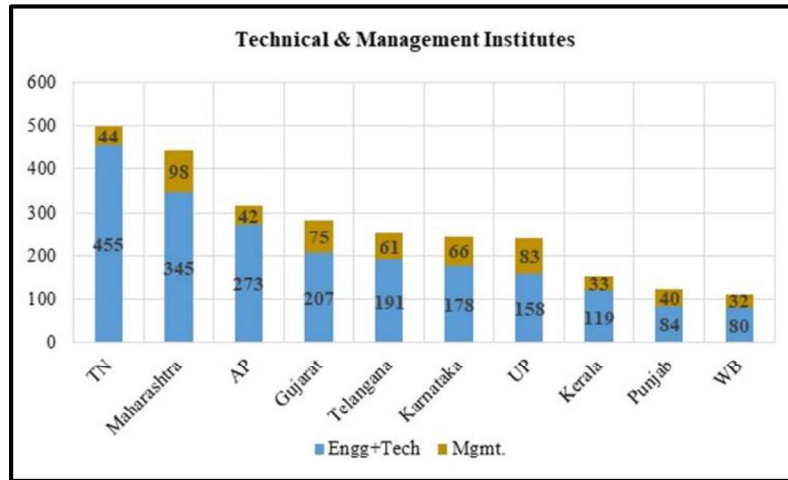
Growth in entrepreneurship has a direct relationship with skilled and trained workforce. Human capital, in turn, is an outcome of higher educational institutions. So human capital and higher educational institutions (HEIs) are crucial for entrepreneurship support system. HEIs include colleges, universities, IITs, IIMs, AIIMs, and other colleges that provide post-secondary education.

Figure 3: College Density



Source: Ministry of Education as on March 2020 (the latest available statistics)

Figure 4: Penetration of Technical and Management Institutions



Source: Ministry of Education as of March 2020 (the latest available statistics)

- College density (the number of colleges per lakh eligible population in the age group of 18-23 years) is very high in the states as depicted in Figure 3 (In the graph, the top 10 states and the national average have been taken into account).
- With an average of 30 in India, the college density ranges from 7 in Bihar to 59 in Karnataka (rounding off).
- Tamil Nadu, Maharashtra, Andhra Pradesh, Gujarat, and Telangana have a higher penetration of technical and management institutions (Figure 4).

Considering the above parameters, the following states are found to be the hubs of high educational institutions - Karnataka, Tamil Nadu, Maharashtra, Telangana, Andhra Pradesh,

Gujrat, Kerala, and Punjab.

iii) Support (Incubators, Accelerators, Mentors, and Professional Services)

The presence of incubators, accelerators, mentors, and professional services is of utmost importance for boosting entrepreneurship. However, it cannot be denied that incubation and mentorship in India are still at a nascent stage as evidenced from the data extracted from www.startupindia.gov.in. Based on the collected data, a list of states/UTs with the highest concentration of incubators, accelerators, and mentors has been compiled.

Table 2: State-wise Break up of Incubator, Mentor and Accelerator

State/UTs	Incubators	% of Total	Mentors	% of Total	Accelerator	% of Total
Karnataka	97	11%	87	11%	41	23%
Tamil Nadu	95	11%	46	6%	5	3%
Maharashtra	90	11%	164	21%	35	20%
Delhi	68	8%	167	21%	35	20%
Uttar Pradesh	62	7%	73	9%	10	6%
Telangana	61	7%	35	4%	17	10%
Gujarat	60	7%	43	5%	4	2%
Kerala	40	5%	17	2%	3	2%
Rajasthan	36	4%	12	2%	1	1%
Andhra Pradesh	28	3%	8	1%	2	1%
Haryana	24	3%	44	6%	17	10%
Punjab	19	2%	2	0%	0	0%
West Bengal	15	2%	16	2%	3	2%
Others	154	18%	75	10%	2	1%
All India	849		789		175	

Source: *www.startupindia.gov.in*

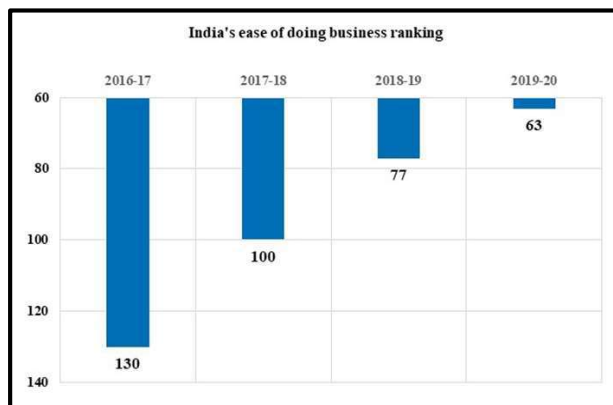
On consolidating the data in Table No.2, we find that – Maharashtra, Karnataka, Tamil Nadu and Delhi are ahead of other states in terms of the above-mentioned parameter.

iv) Regulatory Framework and Infrastructure

The complexity of regulatory processes, difficulty in compliance, and insufficient infrastructure are cited as major hindrances to economic development. Without these, it is difficult for entrepreneurship to flourish in a country. “Department of Industrial Policy and Promotion, Ministry of Commerce and Industry, Government of India in collaboration with World Bank has instituted Business Reforms Action Plan for States and Union Territories for improving the regulatory

framework for business from December 2014”. The broad categories for reform areas include “construction permits, environmental and labour registration, obtaining electricity connection, online tax-return filing, inspection reform, access to information and transparency, single window, land availability, and commercial dispute resolution”. The findings of the implementation of the reforms by the states and UTs are taken into consideration and the Ease of Doing Business Ranking is declared. We have considered the ranking of India as per the World Bank Ease of Doing Index and the ranking of the states as per the ranking published by DIPP to assess the position in terms of the favourable business environment of regulations and infrastructure.

Figure 5: India's Ease of Doing Business Ranking



Source: *www.archive.doingbusiness.org*

Figure 5 reflects the movement of the rank of India in the World Bank Ease of Doing Index. Rank has steadily improved from 130 in the

year 2016-17 to 630 in the year 2019-20 (latest available data).

Table 3: Ranking of the states in India on Ease of Doing Business as per the latest announcement in 2019-20

Rank	States/UTs	Rank	States/UTs
1	Andhra Pradesh	6	Chhattisgarh
2	Uttar Pradesh	7	Himachal Pradesh
3	Telangana	8	Rajasthan
4	Madhya Pradesh	9	West Bengal
5	Jharkhand	10	Gujarat

Source: “The World Bank and the Department of Industrial Policy and Promotion (2019-2020)”

Without any further analysis on this, we are adopting the latest available ranking of the Ease of Doing Business Index as an indicator of the quality of regulatory framework and infrastructure among the states in India. Accordingly, we can infer that Andhra Pradesh, Madhya Pradesh, Uttar Pradesh, Telangana and Jharkhand are providing the best support in this parameter.

v) Socio-Cultural Factors

Culture is “the mix of norms, values and beliefs that are shared by a particular community”. The socio-cultural environment in India is discussed under the following heads:

- **Tolerance of Risk and Failure:** Typically, in India, failure is seen as a sin. There is a very low tolerance for failure. However, a new business is susceptible to failure. Failure guides the way to success.

- Values and Beliefs:** We usually grow up with elders telling us what to do and what not to do. Our entire system of education and society commands things to us without nourishing our thought system. Traditionally education in school is followed by a degree in college or university and search for a job. Only if one come from a business family, he/she is likely to take up entrepreneurship as a career. In India, we see a lot of family-owned businesses carried on from generation after generation. But thankfully the situation is changing for the better. More and more youth are undertaking risk to float their venture.
- Social Status:** Entrepreneurs have earned newfound respect in our country. There is a change in attitude towards looking with suspicious eyes whether the young man /

woman would be able to succeed in his/her independent endeavour.

- Success Stories:** More and more success stories are coming up in public, encouraging today’s youth and creating a positive image for entrepreneurship. We all know the big stories of Bandhan Bank, Quick Heal, OYO Room, Paytm, Make My Trip, Ola Cab, etc.

India is a vast country with differences in culture in different parts. However, there is a unity somewhere in the overall faith, values and beliefs. Socio-cultural factors are qualitative factors and we have not made any survey to find out its effect on the entrepreneurial ecosystem of the country.

5. CONCLUSION

The above study of the “components of the Entrepreneurial Ecosystem” in the Indian Context can be summarised in the table below:

Table 4: Assessment Summary

Rank	Finance and Funding		Human Capital and HEI		Support			Regulatory Framework and Infrastructure
	Bank Credit	PE/VC	College Density	Technical and Management Intuitions	Incubators	Mentors	Accelerators	EODB
1	MH	KTK	KTK	TN	KTK	DL	KTK	AP
2	DL	MH	TEL	MH	TN	MH	DL	UP
3	TN	HAR	AP	AP	MH	KTK	MH	TEL
4	KTK	UP	HP	GJ	DL	UP	HAR	MP
5	GJ	DL	KL	TEL	UP	TN	TEL	JK
6	TEL	TN	PU	KTK	TEL	HAR	UP	CG
7	UP	TEL	UK	UP	GJ	GJ	TN	HP
8	AP	RAJ	TN	KL	KL	TEL	GJ	RAJ
9	WB	GJ	RAJ	PUN	RAJ	KL	KL	WB
10	KL		PUN	WB	AP	WB	WB	GJ

Abbreviations used

State/UTs	Abbreviation	State/UTs	Abbreviation	State/UTs	Abbreviation
“Andhra Pradesh”	AP	“Karnataka”	KTK	“Tamil Nadu”	TN
“Chhattisgarh”	CG	“Kerala”	KL	“Telangana”	TEL
“Delhi”	DL	“Madhya Pradesh”	MP	“Uttar Pradesh”	UP
“Gujarat”	GJ	“Maharashtra”	MH	“Uttarakhand”	UK
“Haryana”	HAR	“Puducherry”	PU	“West Bengal”	WB
“Himachal Pradesh”	HP	“Punjab”	PUN		
“Jharkhand”	JK	“Rajasthan”	RAJ		

From Table No 4. we can broadly conclude that Karnataka, Maharashtra, Tamil Nadu, Telangana, Gujrat, Delhi, Uttar Pradesh, and Andhra Pradesh are having a strong entrepreneurial support system. However, we cannot conclude that presence of an

entrepreneurial support system in those states is directly related to the presence of a strong business. A further study would be required to assess the relationship between the entrepreneurial support system and new businesses in India

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Web Links

- www.doingbusiness.org (Doing Business Framework; The World Bank)
- www.eodb.dipp.gov.in (Business Reform Action Plan 2017; Department for Promotion of Industry and International Trade; Ministry of Commerce & Industry, GOI)
- www.ivca.in (Indian PE and VC Association/Industry Intelligence)
- www.mhrd.gov.in (Ministry of Human resource Development)
- www.nasscom.in (NASSCOM publications on Indian Start-Ups)
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- www.read.oecd-ilibrary.org (OECD Publishing, Entrepreneurship and Higher Education, edited by Jonathan Potter)
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- www.tank.in, VC Circle, INC 42.
- www.vccircle.com (India now ranks third globally in the number of incubators, accelerators: Report)
- www.bdc.ca



Kolkata Bidhannagar Society for Academic Advancement

Kolkata Bidhannagar Society for Academic Advancement (hereinafter referred to as the 'KBSAA') established in the year 2022 as a registered Society under the West Bengal Societies Registration Act (West Bengal Act XXVI) of 1961 bearing Registration No. S0025851 of 2021-2022.

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