

## Fueling India's Growth Journey: The Significance of SMEs and Start-ups

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**Abstract:** The present study has shown that one of the major programmes launched by the Indian Government is the Start-up Initiative to promote SMEs for the development of the Indian Economy. It aimed to create a solid ecosystem for supporting startups and innovation in the nation, which will encourage the opening of more SMEs that foster long-term economic growth and create a significant number of job opportunities. The government hopes this effort will enable startups to develop via creativity and innovation. The growth of start-ups since 2005 is the main emphasis of the current study. Before 2015 and after 2015, the growth trend was observed. The pattern prior to 2015 shows the growth's erratic nature. The average growth tendency has demonstrated a decelerating trend since the policy's inception in 2016. The series' compound growth (Indian-registered businesses) has also been computed. The average growth rate over a number of time periods is 8.24%. The number of businesses that are registered and the Indian economy have been linked together using correlation analysis, which reveals a favourable relationship.

**Keywords:** Entrepreneurship, SMEs (Small and Medium Enterprises), Startups in India, Economic Growth, Innovation.

### INTRODUCTION

A person who establishes a new company, participates actively in its management, bears most of the financial risk, and benefits most from its success is referred to as an entrepreneur. The act of establishing a brand-new business is referred to as entrepreneurship, and it is frequently motivated by innovative ideas for goods or services. Entrepreneurs and SMEs have a symbiotic relationship. SMEs serve as a platform for entrepreneurs' ideas, and SMEs need entrepreneurial abilities for growth and innovation. In order to provide employment, foster economic growth, and support innovation in national and international economies, it is critical for entrepreneurs and SMEs to succeed (OECD, 2017).

According to Coad et al. (2014), high-growth firms are a key factor in expanding the economy since they provide a significant number of new jobs and make a major contribution to innovation and productivity. A number of studies reveal that SMEs are widespread across all nations and contribute significantly to employment and economic growth. However, these studies also draw attention to the difficulties that SMEs in countries that are developing encounter, such as constricted access to technology, infrastructure, and funding. In order to improve SMEs' contributions to economic growth and job creation, the government and policymakers must focus on these issues (Ayyagari, Beck, and Kunt, 2007; Ardic, Mylenko and Saltane, 2011 and Naude, Szirmai and Goedhuys, 2011).

Startups, both in India and throughout the rest of the world are gaining popularity as a result of startup business owners who have made their businesses and also made their identity. From banking to health, new-age businesses are breaking into competitive markets and resolving delivery issues that the public sector and established businesses

were unable to address (Tyagi, 2022). Startups can produce significant outcomes through innovation and scalable technology, acting as engines for socio-economic growth and change (Korreck, 2019).

Hence, the Government of India has implemented a number of initiatives to support the start-up culture in India and expand the Indian economy. In August 2015, Prime Minister Narendra Modi unveiled the "Standup India" campaign to promote SMEs (Babu and Sridevi, 2019). The Startup India Initiative, which was initiated on January 16<sup>th</sup>, 2016, has introduced a number of initiatives with the intention of helping entrepreneurs, developing an effective startup ecosystem, and reshaping India from a country of job seekers into a nation of job creators. The Department for Industrial Policy and Promotion is consulted on the management of these initiatives by the designated Startup India Team (DPIIT) (Government of India, 2016).

Studying the concept of entrepreneurship and SMEs is essential because this contributes to the growth and development of our society. Furthermore, it gives an entrepreneur the ability to lift humanity above the poverty line and provide productive jobs for others through the SME platform. Every new business offers the chance for prosperity through innovation and fortune to the entrepreneur who is willing to accept the risk. The development of new businesses is always responsible for boosting the economy and raising community standards of living. Several advancements have transformed our way of life from radio to television to smartphones.

Despite the fact that many studies concentrate on the experiences of SMEs in developed countries, there is a need for more research on SMEs in emerging nations. Studies may focus on the particular difficulties that SMEs in

developing nations face, such as insufficient infrastructure, weak institutional systems, and limited access to capital. This study focuses on the impact of businesses registered since the inception of the Start-up Initiative in India on Economic Growth. In this light, the present study focuses on the growth of SMEs and the challenges faced by these SMEs in India.

## REVIEW OF LITERATURE

Carter (2021) examines the idea of a startup, startup financing possibilities, the potential for growth, and the impediments encountered, and suggests potential regions for the startup to operate. The study's foundation is secondary data that was gathered from periodicals and newspapers. It concentrates on and suggests certain sectors for startups, such as health, public transit, waste and sanitation management, education, and crime. The main goal of this study is to understand the setup of SMEs with the startup funding process, financing options, and barriers to startups in India.

The extremely enormous spatial and sectoral investment concentration and the subpar effectiveness of government programmes were described by Kamaluddin and Sridhar (2021). For Indian entrepreneurs, the only other options are private angel investors and venture capitalists, unless government programmes are greatly ramped up. The distribution of investments among startups was explained using descriptive statistics. The data set contains up-to-date information on startup financing as of February 2019.

Satyanarayana, Chandrashekar, and Hillemane (2021) discovered that policymakers and startup owners should modify their policies and strategies to improve the competitiveness of technology-based startups operating in

India. The study concluded that a start-chances ups of surviving start to decline over time following incorporation. A start-up, for instance, has a 99% probability of surviving if it has only recently become properly incorporated and the likelihood of a start-up surviving, however, drops to roughly 50% after four years (48 months) of incorporation.

Dwivedi (2019) examined the impact of demonetization and the introduction of the GST on startups and examined their overall performance across several industries. According to a study, finance is the most crucial element in a startup's existence, and easing off government laws and regulations has also been a top priority for entrepreneurs. In order to analyse the current situation of startups in India, the study used a descriptive research approach with 100 respondents as well as secondary data. One of the biggest causes of startup failures is a lack of capital. Most startups still lack funding, which eventually forced their closure. Startups generally have a 90 percent market survival rate. There are too many firms using the same concept and not enough innovation.

## DATABASE AND METHODOLOGY

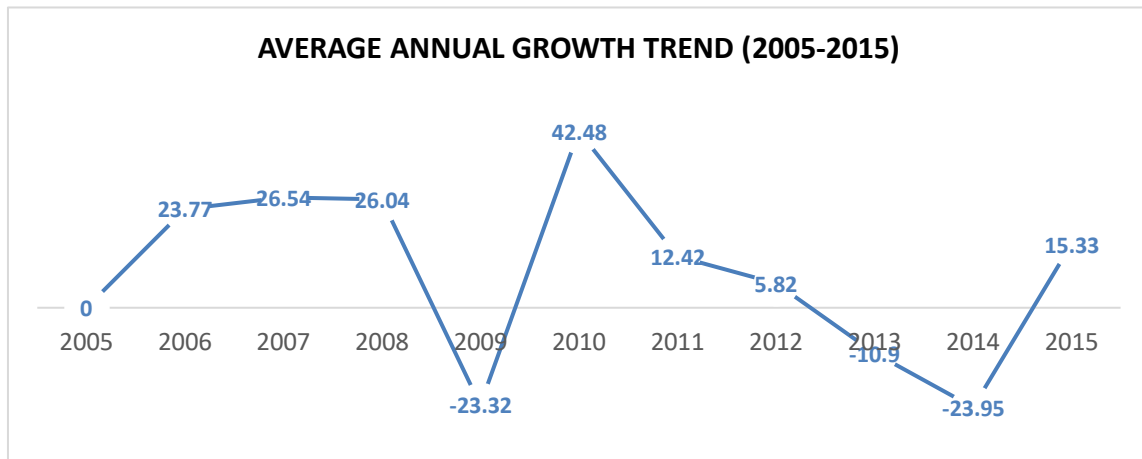
The present study focuses on the growth of start-ups since 2005. The data of the start-ups have been compiled from two different sources i.e. The Ministry of Corporate Affairs and the World Bank's Entrepreneurship database. Growth trend before the year 2015 and after 2015 has been carried out. Compound Growth of the series (Business registered in India) has been also calculated. Correlation Analysis has been deployed to observe the association between the number of businesses registered and the Indian Economy. GDP has been expressed in constant prices of 2011-12.

## RESULTS AND DISCUSSION

The Indian government has adopted a number of initiatives, including these three ones, to create an ecosystem, and startup-funding, and recognizes the need to improve the environment for infrastructure and business. Enhancing the entrepreneurial environment, directly assisting companies with their most fundamental requirements, and providing entrepreneurship abilities were the main agenda. The launch of "Startup India" and "Stand up India" was announced by the prime minister on August 15, 2015, Independence Day. The MSME and the Ministry of Skill Development and Entrepreneurship have introduced these new policies. In support of this plan, our Prime Minister, Mr. Narendra Modi, recently announced a new startup policy that was started in January 2016 (Government of India, 2016).

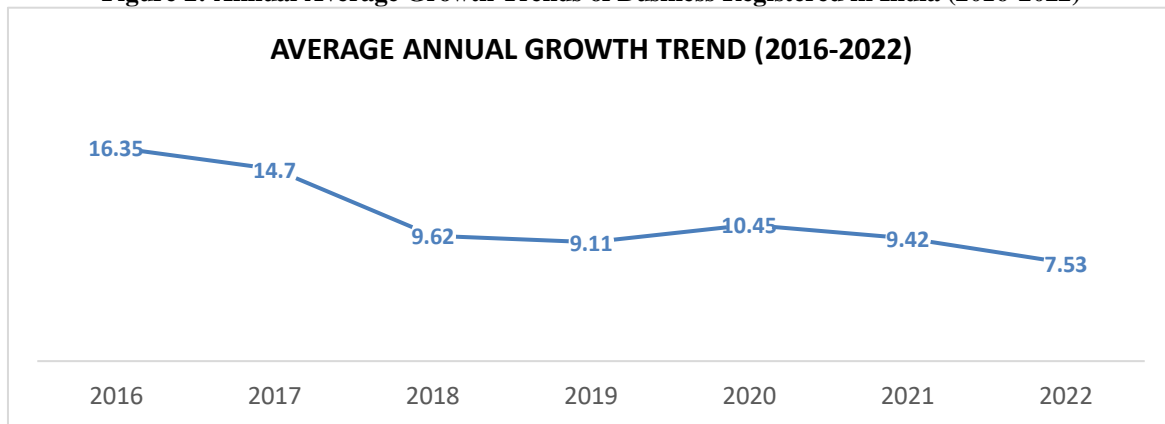
Figure 1 describes the annual average growth trend of businesses registered in India from the period of 2005 to 2015. For the initial years, the annual average growth trend of the number of businesses registered has shown the constant till 2008. But in 2009, it has shown the negative trend. In this year, all the countries faced a global financial meltdown (The Economics Times, 2008). The country again revived in the next year with an increased average growth rate of 42.48 percent in the year 2010. Afterwards, the number of registered businesses were showing decreasing growth trend and become negative in 2013 and 2014. This period was considered as turbulent time because of low investment and persistent inflation (The Economics Times, 2021). The economy again resuscitated in 2015 indicates the positive average trend at the rate 15.33 percent.

**Figure 1: Annual Average Growth trends of Business Registered in India (2005-2015)**



Source: Authors's Own Calculation

**Figure 2: Annual Average Growth Trends of Business Registered in India (2016-2022)**



Source: Authors's Own Calculation

Figure 2 indicates the annual average growth trend of business registered decreasing trend of businesses registered in India. The progress of their startups has been hindered by decisions such as demonetization, and they have not yet recovered from its effects. The transition to the new taxing system brought on by the implementation of GST in the middle of the fiscal year made it difficult for many start-ups to adapt to the shift and to effectively manage their finances (Dwivedi, 2019).

Table 1 describes the GDP of India and the new businesses registered in India. The stats of the GDP have been showing an increasing trend from 2005 to 2022. The business registered in India displays the volatility from the period of 2005-2022. Startups face challenges when government policies are overly prescriptive. Although Startup India has made the process more streamlined, there is still a dearth of awareness and severe policies that need to be polished. There have been too many startups that have failed because they all tried to accomplish the same thing, didn't come up with any unique solutions, and worked in the same industry. Even though policies have changed a lot to make it easier to start a business, the benefits and the facilities are not that great (Satyanarayana, Chandrashekar, and Hillemane, 2021).

The compound Average growth rate of the Business registered has been computed. An indicator of growth over a range of time periods, the compound growth rate is a metric that is primarily employed in business and financial situations. It gauges how steadily a data series has grown over time. The CAGR of Business registered in India is 8.24% at an average growth rate.

**Table 1: GDP and Business Registered in India**

Years	GDP (trillion)	No. of Business Registered (per thousand)
2005	54.80	40171
2006	59.15	49721
2007	63.91	62919
2008	68.81	79303
2009	70.93	60813
2010	76.51	86645
2011	83.01	97405
2012	87.36	103078
2013	92.13	91841

2014	98.01	69841
2015	105.28	80546
2016	113.69	93714
2017	123.08	107492
2018	131.45	117834
2019	139.93	128565
2020	145.16	142000
2021	135.58	155377
2022	147.36	167076
<b>CAGR (%)</b>	<b>-</b>	<b>8.24</b>

Source: 1. Handbook of Statistics on the Indian Economy (various reports): Reserve Bank of India

World Bank's Entrepreneurship Database ([worldbank.org/en/programs/entrepreneurship](http://worldbank.org/en/programs/entrepreneurship))

Table 2 displays the results of the correlation between GDP and business registered in India. The mentioned analysis states that there exists a positive relationship between the two variables.

**Table 2: Correlation between Business Registered and GDP**

		<b>Business Registered</b>	<b>GDP</b>
Business Registered	Pearson Correlation	1	0.901**
	Sig. (2-tailed)		0.000
	N	18	18
GDP	Pearson Correlation	0.901**	1
	Sig. (2-tailed)	0.000	
	N	18	18

\*\*Correlation is significant at the 0.01 level (2-tailed).

Source: Author's Own Calculation

A huge and growing consumer middle class makes India the third-largest startup hub globally. The number of entrepreneurs worldwide today is 582 million. As a result, while a new generation of Indian entrepreneurs is currently emerging, the idea of entrepreneurship is not entirely new to India. Bangalore, Mumbai, and Delhi, three important cities in India, have placed among the top 40 start-up hubs worldwide (Ved, 2022). Furthermore, several female business owners are entering the market and competing fiercely with their male counterparts. Women investors typically invest in the financial market because they are employed, have strong stock selection abilities, and (Shukla, Dwivedi and Acharya, 2022). But, in reality, the picture is the opposite.

Unfortunately, a large percentage of new businesses in India end up failing. Around ninety percent of new businesses that are launched in India fail during the first few years of operation for a variety of reasons. The most significant challenges that Indian entrepreneurs are facing are related to capital as well as infrastructure issues. The majority of firms fail owing to a lack of capital. Even if a firm is successful, obtaining funding or resources and the proper infrastructure remains a challenge. In addition to working to address the infrastructure problem, the government must concentrate on finding ways to increase income or attract additional investment for entrepreneurs (Dwivedi, 2019).

Although, with many changes, still, most of the startups still failed in the very early stage of their lifecycle. It is estimated that approximately 26% of new businesses fail during their first year, while another 36% are unable to

survive beyond their first two years. Almost fifty percent of startups cannot survive after four years. It clearly indicates that the failure rate for new businesses is quite high, and the early stages of a company's existence are the period during which it is most likely to fail. Lack of funding is one of the main reasons for the failure of the startups. A lack of capital has doomed the majority of failed enterprises. In addition, a startup will have 90 days to close down its firm in case of an exit, and there will be numerous new innovation centers, research institutes, and other developments (Carter, 2021).

Despite the advantages, many firms suffered a lot. As a result, many would-be business owners launch their ventures without conducting adequate market research, only to be left disappointed. Frequently, startups fail to owe to "No Market Need." Market-Product compatibility is vitally important. There are times when the proposed remedies are for really unusual issues, and as a result, there aren't enough people in need to sustain a thriving market. While many new businesses fail because they don't have strong enough leadership or teams, this is certainly relevant for startups. In order to meet the ever-evolving demands of your consumer base, you must constantly adapt and innovate. Even if a company has a great idea and great prospects, it can fail if it doesn't have a good marketing plan or business model. Larger organizations that have greater market research and a more appropriate business model are able to out-compete them (Dwivedi, 2019).

## CONCLUSION AND POLICY IMPLICATIONS

The present study focuses on the growth of start-ups since

2005. The growth trend before the year 2015 and after 2015 has been carried out. The trend before the year 2015 indicates volatility in growth. After the policy was launched in 2016, the average growth trend has shown a decreasing trend. Compound Growth of the series (Business registered in India) has been also calculated. The growth over a range of time periods is 8.24% at an average growth rate. Correlation Analysis has been deployed to observe the association between the number of businesses registered and the Indian Economy, which shows a positive relation.

With the efforts of the government, it is necessary to create commercial and operational models that are pertinent to the local market. Even if financial institutions were to embrace these models, they would still need to fit in with their specific industrial ecosystem. For this, it is required to calculate the theoretical model's efficacy as well as to examine how well local business practices may be adjusted and adopted. The profession of incubation calls for management abilities. For formal recognition and educational programmes, follow-up trainees, and interested professionals, internships are available.

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