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A study on the influence of government, financial and incubation support on the success of startups in IT Cities of India

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Abstract

This paper revolves around the concept of start-ups in IT Cities of India. Start-ups are mostly created based on creative and innovative ideas and grow to achieve success. Start-up companies are newly established companies which generally strive for existence due to some challenges. The basic purpose of this paper is to put some light on the factors influencing the success of startups in IT Cities of India. factors include Government support, Incubation support and financial support which is again sub divided into various sub factors having an influence on the success of startups in IT Cities of India. An attempt is made to review the literature and based on which primary data were collected from various Start-up Unit, start- up owner, CEO through questionnaire and the total of 309 respondents have been analyzed. Based on data collected all the three factors have been analyzed and proposed some suggestions and strategies.

Keywords: IT cities, incubation support, startup, government, economic growth

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1. Introduction

A nation's economic growth hinges significantly on its ability to generate employment and cultivate productive skills. In recent years, the challenge of meeting rising job demands amid population growth has underscored the need for innovative solutions. In response, the "Start-up India, Stand up India" initiative was launched by Prime Minister Narendra Modi on August 15, 2015, marking a pivotal moment in India's economic narrative. This initiative embodies a shift towards fostering entrepreneurial ventures that address market needs through novel business models, products, services, or platforms. Start-ups are characterized by their pursuit of entrepreneurship, innovation, incubation, and technology—a formula that defines their potential to disrupt and innovate within diverse sectors of the economy.

According to the amended notification G.S.R. 364(E) issued on April 11, 2018, start-ups in India are defined as entities registered as partnership firms, LLPs under the LLP Act, 2008, or private limited companies under the Companies Act, 2013. These entities can maintain their start-up status for up to ten years after incorporation, provided their annual turnover does not exceed 100 crore rupees and they focus on innovation, development, or enhancement of products, services, or processes. This regulatory framework aims to incentivize scalable business models that contribute significantly to employment and wealth creation.

1.1 Review of literature

In contrast to the abundance of research on start-ups in developed nations like the USA, Europe, Australia, and China, there remains a significant gap in the literature regarding developing nations such as India. However, several genuine studies have explored entrepreneurship, MSMEs, and other dimensions related to start-ups. For instance, Dutta, D. K., & Thornhill, S. (2008) examined entrepreneurial orientation and firm performance in emerging markets [1]. Mukherjee, S., & Datta, P. B. (2012) explored family involvement and business performance in Indian MSMEs [2]. Sundararajan, M. (2008) provided insights into the role of incubators in nurturing start-ups in developing economies [3]. Additionally, Banerjee, A., Duflo, E., & Qian, N. (2012) studied innovation and entrepreneurial activity in India [4].

In India, while comprehensive studies on start-ups are limited, significant research has been conducted on various dimensions such as start-up financing, venture capitalism, MSMEs, entrepreneurship, and incubation. Notable contributions include studies such as the research by Dr. S. Arunachalam and Dr. R. Velraj (2020), who investigated the impact of government policies on start-up growth [5]. Dr. Kavita Singh (2018) explored the challenges of entrepreneurial finance in Indian start-ups [6]. Dr. V. Sridhar (2017) focused on entrepreneurial intentions and motivations among Indian youth and Dr. R. S. Bawa (2016) conducted research on the effectiveness of angel investors in supporting start-up ventures [7] [8]. Despite these valuable contributions, a comprehensive study addressing the factors influencing start-ups across different stages of their life cycle in India remains lacking.

1.2 Research objectives

The purpose of this research is to provide a systematic evaluation of the impact of different types of support structures on the success of startups in the chosen IT cities of India. In particular, the research objectives are to assess the effectiveness of government support, financial support, and incubation support on the success of these startups. Through the assessment of these factors, the research aims at offering a clear insight into how various forms of support can help to foster the sustainability and growth of startups, which can be useful for policymakers, financial institutions, and incubation centers to improve on their support mechanisms for startups.

1.3 Scope of the study

This paper aims to investigate the determinants of success of startups in the chosen IT cities in India, with the key areas of interest being government support, financial support, and incubation support. The study utilizes quantitative research to determine the extent to which these elements enhance startup success, based on data obtained from 309 participants. The goals include the ability to survive, make profits, have a high turnover, be employable, and be able to fundraise. The results of the study show that government and incubation support have positive effects, and financial support has a negative effect, though not very strong. These insights are intended to help policymakers, financial institutions, and incubators to create better conditions for startups and improve their outcomes.

1.4 Novelty of the paper

This study brings novelty in several ways compared to the literature as follows: Firstly, this research is unique in a way that it does not focus on only one of the aspects of government, financial, or incubation support but rather compares all three at once. Thus, the study offers a more comprehensive view of how all these factors affect start-up success, recognizing the interdependency of support systems and their cumulative effect on entrepreneurial performance. Secondly, the research is specifically relevant to the Indian IT start-ups. Although there are numerous studies on success factors of start-ups in the global context, this study is confined to the IT start-ups in India only due to the differences in socio-economic structures, policies, and sectorial issues. This targeted approach helps in ensuring that the results obtained are useful and meaningful to the stakeholders in the dynamic start-up environment in India. Finally, the study is distinguished by its quantitative approach, which is quite rare in the context of the given research topic. Using methods like univariate frequency distribution, bivariate analysis, and logistic regression, the study improves its statistical credibility. These methods not only help to measure the correlation between support factors and start-up success factors, but also allow for further investigation and confirmation of hypotheses generated from the literature review.

2. Background and rationale

Three important pillars in nurturing and fostering the startup ecosystem in India are government support, incubation support, and financial support.

2.1 Government support (government schemes)

- The Micro Units Development and Refinance Agency (MUDRA)
- National Bank for Agriculture and Rural Development (NABARD)
- Credit Guarantee Scheme (CGS)
- Stand Up India Scheme
- New Gen Innovation & Entrepreneurship Development Centre (New Gen IEDC)
- Atal Incubation Centers (AIC)
- The Credit Linked Capital Subsidy Scheme (CLCSS)
- SIDBI Make in India Soft Loan Fund (SMILE)
- Modified Special Incentive Package Scheme (M-SIPS)
- Loan for Rooftop Solar PV Power Projects
- Multiplier Grants

2.1.1 Major government initiatives to enhance start-ups

- Make In India
- Stand-Up India
- SETU Fund
- Government Fund
- MUDRA Bank
- Atal Innovation Mission (AIM) & Self Employment and Talent Utilisation (SETU) scheme
- Entrepreneurship promotion
- Innovation promotion
- Smart Cities and Digital India Schemes
- Digital India
- Start-up Network

2.1.2 Tax exemptions

- Capital gains are exempt from taxes.
- A three-year tax exemption for startups.
- Investments beyond fair market value are exempt from taxes.
- The royalty tax was reduced from 25% to 10%.

2.1.3 Legal protections against intellectual property rights (IPR)

- Fast-tracking startup patent applications.
- A facilitator panel to assist with IP application filing.
- The Central Government will pay the full fees for facilitators for any number of patents, trademarks, or designs that a startup may submit, with the startups only responsible for statutory fees.
- An 80% rebate upon application submission for startups filing patents compared to other businesses.

2.1.4 Faster exits for start-ups

- According to the Insolvency and Bankruptcy Board (IBB), startups that meet certain requirements or have straightforward debt structures can be wound up on a fast-track basis in 90 days after applying.

2.1.5 Other government benefits

- Setting up Innovation Centers at National Institutes.
- Building seven new research parks.
- Promoting Startups in the Biotechnology Sector.
- Launching Innovation-focused Programmes for students, such as:
- Innovation core: National Initiative for Developing and Harnessing Innovation (NIDHI)
- Uchhattar Avishkaar Yojana

All these initiatives have provided significant assistance and growth opportunities for startups.

2.2 Financial support

- 3F - Friends, Family, and Family Relatives.

- Banks and Financial Institutions.
- Easy access to various sources of funds at cheap rates.
- Angel Investors: Business angels are investors who help startups understand their innovative ideas and assist established firms in sharing their expertise, experience, and capital with the startups.
- Venture Capitalists from the capital market: Entrepreneurial investors, corporations, organizations, and investment funds that invest in new businesses to help them grow. Venture capital funds seek an even share of ownership in the startup.

2.3 Incubation support

- *Infrastructure Support*: Host institutes receive a capital grant of up to 50% for the establishment of IT infrastructure, up to a maximum of INR 25 lakhs.
- *Operational Allowance*: Selected incubators receive financial assistance for up to five years, with a total of five lakhs annually, to cover the shortfall in the incubators' operating expenses.
- *Mentoring Support:* Selected incubators must designate at least two mentors (one from academia at a reputable institution and one from industry), who receive honorarium payments up to INR two lakhs annually.
- *Network Support.*
- *Logistic Support*.

These supports are crucial in helping startups navigate the early stages of development and contribute to their overall success.

3. Methodology

This study employs a quantitative methodology, drawing from an extensive literature review to gather pertinent data from startups across various Indian IT clusters and industries. The primary focus is on identifying factors that determine a startup's profitability, turnover, and funding, with particular emphasis on the impact of government, incubation, and financial support on the success of startups in India.

Research variables

The study investigates three main factors as mentioned below:

i. **Government Support (**Development of Industrial Estates; Well-Developed Infrastructure; Incentives from the Government; Government Policies like Taxation and Budget Allocation; Simplifying Registration Procedure)

ii. **Financial Support (**Family and Friends; Banks and Financial Institutions; Bodies; Easy Access; Availability of Various Sources; Small Investors)

iii. **Incubation Support** (Mentoring Support; Technological Support; Infrastructural Support; Network Support; Logistic Support)

Sample design

Population: The target population includes owners, CEOs, and founders of startups incorporated before the financial year 2019-20 in India. The study focuses on entrepreneurs from major IT cities such as Hyderabad, Ahmedabad, Gurugram, Bangalore, Bhubaneswar, Chennai, Mumbai, Jaipur, Chandigarh, Kochi, Noida, Pune, and Delhi. These startups are recognized by the Department for Promotion of Industry and Internal Trade (DPIIT).

Sample Size: The sample size is 309 startups. The sample is classified based on location and startups with at least three years of operation.

Data collection and analysis

Instruments: Data were collected using a self-administered questionnaire. The startups selected span across product, service, and mixed categories.

Questionnaire structure

Section 1: Purpose and introduction of researchers.

Section 2: Influence of government, incubation, and financial support on startups. Responses were measured using a 5-point Likert scale (1 = No extent, 2 = Less extent, 3 = Neutral, 4 = Great extent, 5 = Greater extent).

Data analysis tools: The data were analyzed using univariate frequency distribution, bivariate analysis, and logistic regression. The secondary data sources were used for dependent variables (financing, turnover, and profitability). Additional information on the primary success predictor was obtained using CrunchBase Pro to assess the startup unit's success.

This comprehensive methodology aims to provide insights into the effectiveness of various supports in enhancing the chances of startup success in India's IT sector.

Hypothesis of the study

Following research hypothesis has been tested:

H01: There is no significant influence of government support variables on the overall success of the startups.

H02: There is no significant influence of financial support variables on the overall success of the start-ups.

H03: There is no significant influence of incubation support variables on the overall success of the start- ups.

4. Results & discussion

Data were collected from 309 respondents in selected IT cities of India. Univariate frequency distribution, bivariate analysis, and logistic regression were conducted to assess the overall success of startups.

Defining success: Success was measured based on following criteria:

- Year of survival: Three years or more.
- Profitability: Achieving cash break-even.
- Turnover: Annual turnover exceeding 10 million in any of the last three years.
- Employability: Employing over 50 full-time workers.
- Fundraising: Raising over $1 million through series funding, venture capital, or angel investors.

A startup was considered successful if it met at least three of these criteria.

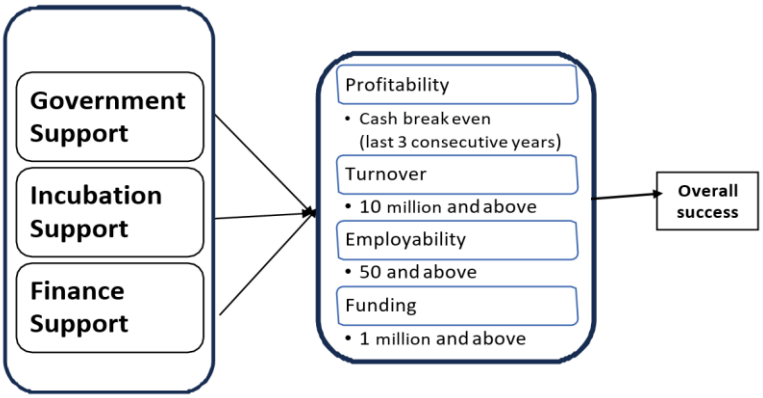

Figure 1. Structural model for analyzing the influence of factors influencing the success of startups

Multi collinearity

Table 1. Test for multicollinearity

Variable	Standardized Coefficients	t-value	Sig.	Collinearity Statistics	Eigenvalue	Condition Index
	Beta			Tolerance	VIF	
Constant	-2.651	0.008				
Government Support (GF1)	0.286	5.239	0.000	0.961	0.018	14.883
Financial Support (FF1)	-0.084	-1.560	0.120	0.992	1.008	17.555
Incubation Support (IF1)	0.155	2.838	0.005	0.959	1.042	28.620

We can see that each independent variable has a tolerance level that is rather high and very close to 1, based on the results displayed by the test in the above table 1. A value greater than 0.2 is seen as evidence that the independent variables do not exhibit multicollinearity. In addition to the tolerance value, the VIF value is also present; it is very close to 1 and far lower than the typical VIF value mark of 5. also adds that there are no problems with multicollinearity. The same is also confirmed by the condition value and eigen value. Every condition value displayed in the table is significantly less than thirty. Every independent value—aside from the "incubation support Factor (IF)"—shows a condition value less than 15, hence the data is all set for regression model.

Table 2. Omnibus tests of model coefficients

Model	Chi-square	df	Sig.
Step 1	22.239	6	0.001

Source: Computed

From the table 2 showing omnibus test of model coefficients, it can be clearly observed that step 1 represents the chi square statistic of 22.239, the chi-square value depicts the association of independent variable in the model fit which is having a significant P-Value (0.001) <0.05.

Table 3. Hosmer and Lemeshow test

Step	Chi-square	df	Sig.
1	7.192	8	0.516

Source: Computed

The Hosmer and Lemeshow test or we can say (goodness of fit model) analysis is shown in the table. It suggests that there is no significant difference between the observed and predicted values, and the significance level of **(.516)—**which is greater than 05—corroborates this. The model sufficiently fits the data, according to the null hypothesis for the Hosmer and Lemeshaw test, and since the p-value for the test is greater than 0.05, we failed to reject the null hypothesis.

Table 4. Classification accuracy table

Observed/Predicted	Unsuccessful	Successful	Percentage Correct
Unsuccessful	21	87	19.4
Successful	14	187	93.0
Overall Percentage			67.3

Source: Computed

The table shows classification matrix, which assists us to find the accuracy of the model. The model predicts accurately to the extent of 67.3 % of the cases after adding all the independent variable.

Table 5. ANOVA test

Source	Sum of Squares	Mean Square	F-value	Sig.
Regression	16.393	5.464	28.714	0.000[b]
Residual	58.041	0.190		
Total	74.434			

Source: Computed

Table 6. Variables in the Equation

Variable	B	Wald	Sig.	Exp(B)
Government Support (GF1)	0.882	5.190	0.023	2.415
Financial Support (FF1)	-0.317	0.950	0.330	0.729
Incubation Support (IF1)	2.227	11.752	0.001	9.269
Constant	-1.756	1.009	0.315	0.173

Source: Computed

From the above table, It is clearly observed that coefficient (B) of 'Government support (GF)' with reference to 'Financial support (FF)' and Incubation support (IF) is positive (.882) and significant as p value < 0.05 i.e; (.023) but the coefficient(B) 'Financial support (FF)' with reference to 'Government support (GF)' and Incubation support (IF) is negative (.317) and it is insignificant (.330). which depicts that has a negative influence on the overall success of the start-ups as sufficed by the odd ratio (.729).

Similarly, coefficient of Incubation support (IF) with reference to 'Financial support (FF)' and 'Government support (GF)' is positive (2.227) and significant (0.001)'which means Incubation support (IF) has a positive influence on influence on the overall success of the start-up as sufficed by the odd ratio (9.269)

Table 8. Result of testing of hypothesis for the impact of government, financial and incubation supports on the overall success of start-ups

Variables	B (Beta value)	P-value	Remarks
There is NO significant impact of Government support on Overall success of the start-ups.	.882	.023	Failed to Reject
There is NO significant impact of financial support on Overall success of the start-ups.	-.317	.330	Rejected
There is NO significant impact of Incubation support on Overall success of the start-ups.	2.227	.001	Failed to Reject

5.1 Data Interpretation

Based on scale data, following interpretation can be drawn:

Table 9. Description of the study - government support

Aspect	No extent	Less extent	Neutral	Great extent	Greater extent	Mean Score	Influence
To what extent Development of industrial estates influence the success of your business.	15	23	48	145	78	3.80	High
	4.9	7.4	15.5	46.9	25.2		
To what extent Subsidized loan from the Government influence the success OF your business.	6	36	57	106	104	3.86	High
	1.9	11.7	18.4	34.3	33.7		
To what extent Well-developed infrastructure provided by the Government influence the success of your business.	7	24	75	127	76	3.60	Moderate
	2.3	7.8	24.3	41.1	24.6		
To what extent Incentives from the government play an important role to make business success.	23	33	62	117	74	3.58	Low
	7.4	10.7	20.1	37.9	23.9		
To what extent Government policies like taxation and budget allocation for start-up corpus influences the success of the business.	20	43	60	109	77	3.77	High
	6.5	13.9	19.4	35.3	24.9		
To what extent Government created a congenial environment by simplifying registration procedure for promoting Ease of doing business.	21	32	91	110	55	3.47	Low
	6.8	10.4	29.4	35.6	17.8		

Source: Computed

From the table, it is quite evident that majority of the respondent feels that Development of industrial estates through government support highly influence the success of the startups similarly Subsidized loan from the Government also has a high degree of influence on the success of startups. Most of the respondents also feel that Government policies like taxation and budget allocation for start-up corpus influence the success of the business.

Whereas majority of the respondent feels that Incentives from the government and creation of a congenial environment by simplifying registration procedure for promoting Ease of doing business has a low influence on the success of startups in India.

Table 10. Description of the study - financial support

	No extent	Less extent	Neutral	Great extent	Greater extent	Mean Score	Influence
To what extent financial support from the family influences the success of the business.	19	77	42	119	52	3.34	Low
	6.1	24.9	13.6	38.5	16.8		
To what extent financial support from the banks and financial institution influences the success of the business.	21	45	50	131	62	3.54	Moderate
	6.8	14.6	16.2	42.4	20.1		
To what extent financial support from the Government bodies is required for success of the business.	17	26	71	126	69	3.66	High
	5.5	8.4	23.0	40.8	22.3		
To what extent easy access of finance influence the success of your business.	17	22	56	136	78	3.76	High
	5.5	7.1	18.1	44.0	25.2		
To what extent availability of various sources of fund at cheap rate influences the success of your business.	15	21	70	126	77	3.74	High
	4.9	6.8	22.7	40.8	24.9		
To what extent small investors such as seed capital, Angel Investors, Venture Capitalists from capital market influences the success of your business.	13	20	85	105	86	3.74	High
	4.2	6.5	27.5	34.0	27.8		

Source: Computed

From the table, it is quite evident that majority of the respondent feels that financial support from the Government bodies in the form of financial incentives has the highly influence the success of the startups similarly easy access of finance from the market with less formalities and documentation also has a high degree of influence on the success of startups. Majority of the respondents also feels that Availability of various sources of fund (debt or equity) at cheap rate funding from small investors such as seed capital, Angel Investors, Venture Capitalists from capital market has a high degree of influence on the success of the business.

Whereas majority of the respondent feels that financial support from the family friend family and family relatives has relatively low influence on the success of startups and banks and financial institution has a moderate influence on the success of startups in India

Table 11. Description of the study - incubation support

	No extent	Less extent	Neutral	Great extent	Greater extent	Mean Score	Influence
To what extent mentoring support provided by the incubator influence the success of your business.	24 7.8	50 16.2	69 22.3	132 42.7	34 11.0	3.83	High
To what extent technological support provided by the incubator influence the success of your business.	11 3.3	44 14.2	59 18.9	123 39.6	72 23.3	3.80	High
To what extent infrastructural support provided by the incubator influence the success of your business.	17 5.5	28 9.1	70 22.7	133 43.0	61 19.7	3.62	Moderate
To what extent network support provided by the incubator influence the success of your business.	6 1.9	27 8.7	46 14.9	156 50.5	74 23.9	3.85	High
To what extent logistic support provided by the incubator influence the success of your business.	15 4.9	15 4.9	84 27.2	121 39.2	74 23.9	3.72	Moderate

Source: Computed

From the table, it is quite evident that majority of the respondent feels that mentoring support provided by the incubator highly influence the success of the startups similarly network support provided by the incubator also has a high degree of influence on the success of startups. Majority of the respondents also feels that technological support provided by the incubator influences the success of the business.

Whereas majority of the respondent feels that infrastructural support provided by the incubator and logistic support provided by the incubator has a moderate influence on the success of startups in India.

5.2 Comparison with previous studies

In terms of government support, this study confirms the significant impact of incentives, infrastructure development, and policy frameworks [5] [15]. Similarly, incubation support's role in providing resources like mentoring and networking aligns with previous research [3] [7]. However, the nuanced impact of financial support diverges from conventional views, highlighting conditions under which different types of financial backing influence startup success [2] [6] [9]. Focusing on Indian IT startups reveals unique contextual factors influencing entrepreneurial outcomes, emphasizing local policy landscapes and sector-specific dynamics [5] [7] [9].

5.3 Major finding and suggestions

a) Development of industrial estates significantly influences startup success, warranting increased government investment and corpus fund allocation.
b) Key investment areas include logistics highways, Special Economic Zones (SEZs), and enhancements in electricity and power generation infrastructure.
c) Subsidized loans from the Government are vital for nurturing the startup ecosystem, addressing the critical need for finance.
d) Government policies such as taxation benefits and budget allocations for startup funds play a pivotal role in startup success. Initiatives like the Rs. 2000 crore Atal SETU fund exemplify this support.

e) Financial support from family, friends, and relatives (3Fs) shows limited influence on startup success due to perceived lack of initiative and conviction.
f) Banks and financial institutions exhibit reluctance in providing adequate financial support to startups, highlighting the necessity for dedicated startup financing institutions.
g) Availability of various funding sources at lower rates, including seed capital, angel investors, and venture capitalists, significantly supports startup financing.
h) Mentoring support provided by incubators, particularly under initiatives like Atal Incubation Mission (AIM), is crucial for addressing startup challenges and fostering growth.
i) Regular workshops, hackathons, seminars, and startup conclaves provide essential networking and learning opportunities for startups across different regions.
j) Technology remains fundamental for startup development, with incubators playing a crucial role in providing technological support.
k) Networking with government agencies, funding bodies, venture capitalists, and established entrepreneurs accelerates growth within the startup ecosystem.
l) Access to financial support is facilitated when startups possess assets and capital, underscoring the importance of robust financial planning.
m) Incubators and accelerators contribute significantly to startup success by providing structured support, access to networks, and resources.
n) Policy makers should facilitate better connections with entrepreneurs and ensure flexible procurement processes to harness the full potential of startups.
o) Initiatives like Fund-of-Funds with a corpus of Rs. 10,000 crores are proposed to further bolster funding support for startups.
p) Implementing an easy and faster exit policy and a streamlined registration process through mobile apps or online portals is recommended to reduce bureaucratic hurdles.
q) Tax exemptions on profits, extended inspection-free periods, capital gain tax exemptions, and incentives for reinvesting in startups are critical areas for policy focus.
r) Setting up a Startup India hub for streamlined clearances and government support is proposed to facilitate startup growth and sustainability.
s) Strengthening intellectual property rights protection with reduced patent fees and fast-tracking patent examinations is essential to foster innovation among startups.

5. Conclusion

Start-ups thrive on creative and innovative ideas, laying the foundation for their success and growth. The ecosystem supporting their development primarily hinges on three crucial pillars: government support, incubation facilities, and financial backing. Within these pillars, specific factors play pivotal roles in shaping the trajectory of start-ups. Infrastructure development, including industrial estates, electricity and power generation facilities, technological parks, logistics networks, and highways, stands out as essential. Government initiatives such as budget allocations and schemes like MUDRA and SETU Fund significantly bolster these efforts. Financial support from diverse sources such as angel investors, venture capitalists, banks, and even familial networks also plays a critical role in enabling start-up success. Incubation support further enhances start-ups' prospects through networking opportunities, logistical assistance, technological resources, infrastructural support, office space provisions, and invaluable mentoring. These combined factors collectively contribute to the success and growth of start-ups across the IT cities of India, highlighting the dynamic interplay between innovation, supportive infrastructure, and strategic nurturing.

Declaration of competing interests

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Author contributions

Shubham Mishra and Jyoti Bhargava are the principal authors of the study and contributed equally to the

conception and design of the study, data acquisition, analysis and interpretation of data, writing of the article and critical review of the article. The final manuscript was read and approved by Shubham Mishra and accepted the responsibility for all aspects of the work in ensuring that any issues arising from the work including accuracy or integrity of the work are well handled.

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