

## A COMPARATIVE STUDY OF STARTUPS IN US AND INDIA

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**Abstract:** Start-ups commercialize the innovative ideas of younger generations which struggle for existence at the nascent stage. They create employment opportunities besides giving way for emergence of new social order of budding entrepreneurship. The survival of startups is different from one country to another because it depends on the ecosystem of concerned country. The number of startups is increasing in India but not on par with US. The internal and external business environment in US is congenial for growth and sustenance of startups; conversely India is not endowed with this natural and artificial gift. The success rates of startups in US and India were reported in Microsoft Ventures, Zinnov, NASSCOM Startup India report 2019 are which clearly indicate the supremacy of US over India in this matter. India is amongst the top five countries in the world in terms of startups and US ranks number one on the list of startups. This paper is an attempt to identify the startup culture in India vis- a-vis US and to analyze the ecosystem of startups in India compare to USA.

*Key words: Eco System, Entrepreneurship, Pre-empt, Social order, Startup culture.*

### Introduction

The term “Startup” was initially used in Forbes article in 1976 with the sense of ‘Budding Company’. Later in 1977 business week article include the term startups. Startup is an inimitable concept which, apart from new venture which generate impactful solutions to the real problems. This second decade of new millennium is indeed the one that belongs to startups. Startups have received greater attention in various regions of the world in recent years, and they are widely regarded as vital engines for the country's economic progress. Thousands of young potential brains from all over the world have been drawn to the startup eco system, and India has made a huge contribution to the race.

Over the previous two decades, the Indian startup ecosystem has been forced to change. While the United States is the most prominent startup hub, leading on the frontlines and having a long history of being a business-friendly nation, India's startup ecosystem has risen to become the world's third largest startup landscape.

Startup India is the government of India's flagship programme aimed at creating a robust environment conducive to the establishment of startup businesses in order to drive

long-term economic growth and create large-scale job opportunities. Young entrepreneurs are really interested in learning more about fundraising, accounting, marketing, and sales. Unfortunately, only a small percentage of people are concerned about innovation, relevance, skill development, community integration, and long-term sustainability. More than financial backing, young entrepreneurs require coaching, direction, and exposure.

### **Statement of the Problem**

Majority startups are failing in India owing to multifarious reasons. Main reasons are attributable are comparative lack of social support, economic insecurity and political compulsions, while the scenario in US is conducive for the startups to thrive. Diagnosing the exact problems for failure of startups in India is a challenge because subjective problems faced by individual entrepreneurs. The diversification in the social dimensions which are rather inaccessible is a major obstacle in finding the reasons for failure of startups in India. Drawing objective conclusions out of individual studies is not tenable in Indian context.

### **Literature Review**

kumar, D. G. (2018)<sup>4</sup> mentioned that success of entrepreneurship is possible by proper implementation of three elements such as time, team work and tenacity.

(jain, 2018)<sup>2</sup> stated that Friendly operational, regulatory and taxation issues are the major factors that affect the startup eco system, setting up of that type of ecosystem is necessary in India.

(Chandiok, 2016)<sup>1</sup> The study concluded that easy accessible of capital with cheaper cost, easy patent filing method, importance for research and development can bring the success of Startups.

(Singh1, 2018)<sup>5</sup> As per the study, many stakeholders such as the government, corporations, educational institutions, and others should work together to create a better ecosystem for the country's youthful population.

(K.Sunanda, 2017)<sup>3</sup> Concluded that continues support and mentoring by the experts are necessary keys to open the lock of success of startup in India.

### **Research Questions**

1. What are the major factors that affect the Indian startups?
2. Can there be identifiable socio-economic and political deficiencies which lead to failure of startups in India?
3. In which factors do US startups outsmart Indian startups?

### Objectives of the Study

- To identify the startup culture in India and USA.
- To analyze the eco systems of startups in India and USA.
- To find the problems faced by Indian startups and to suggest remedies.
- To compare Indian startups with US startups
- To identify the factor affecting for failure of Indian startups.
- To suggest remedies to overcome problems that are plaguing Indian startups.

### Scope of the Study

The current descriptive study is limited to India and the United States. In addition, the research is entirely dependent on secondary data gathered from both public and unpublished sources.

### Research Methodology

The present study is descriptive in nature. A comparative analysis of startups and in India and US is made with the help of secondary data browsed from different sources including web pages. Percentages, ratios, averages are used for comparison purpose.

### Comparison of Important Demographic Statistics

Indian and US's are situated in two different continents with different geographical features though India has longer history than US's. The economic development of US is far higher than India. The US economy has flourished in a short spam of 600 years where as India is still crawling with more than 3000 years of history. The location advantage, natural endowments, stable governments and high human development index has contributed to the enormous growth in US where as India struggled a lot over a period of time with political upheavals and exploitation by colonial rulers. The important demographical variations between India and US pertinent to the present study are represented in table-1

The following table showing comparison of important demographic statistics

Table: 1 Comparison of important Demographic statistics

Basis	India	United States
Population	1,326,093,247	329,256,465
Population Growth rate	1.1%	0.8%
Age structure	0-14 : 28.6% 15-64 : 63.6% 65 and above : 5.3%	0-14: 18.26% 15-64: 65.35% 65 and above: 16.03%
Sex ratio	1.08 males/female	0.97males/female
Education expenditure	3.8% of GDP	5% of GDP
Urbanization	34.5% of Population	82.5% of Population

Health Expenditure	3.9%	16.8%
Dependency ratio	52.2	51.2

Source: Compiled CIA Fact book 2016

Table-1 clearly delineates that India is way behind US in important aspects such as education expenditure, development of urbanization and healthy expenditure. However with reference to the population, population of minors is in favor of India with 28.6% as against 18.26 in US. With reference to dependency rate in India and US are almost equal.

### Economic Indicators

Economic indicators like GDP, budget allocations, occupational structure of labors, unemployment rate, imports and export and other related matters portray the economic wellbeing of the country. Indian economy is characterized as developing economy where as US is a developed economy perhaps India has wait for another three decades to reach the present economic situation of US. Important economic indicators taken up for comparison are enlisted in table-2

Table: 2 Comparison of economic indicators- India V/S USA

Basis	India	USA
GDP(per capita)	\$7200	\$59800
GDP real growth rate	6.6%	2.2%
Labor force	521.9 million	160.4 million
Occupational labor force	Agriculture:47% Industry:22% Service :31%	Agriculture: 0.7% Industry:20.3% Services:37.3%
Unemployment rate:	8.5%	4.4%
Exports	\$304.1billion	\$1.553 trillion
Imports	\$452.2 billion	\$2.361 trillion
Tax and other revenues	9.2% of GDP	17% of GDP
Stock of direct foreign investment	\$1.516 billion	\$5.711 trillion
Commercial bank prime lending rate	9.51%	4.1%
Budget surplus or deficit	-3.5% of GDP	-3.4% of GDP
Unemployment(age between 15-24)	10.1%	8.6%

Source: Compiled CIA Fact book 2016

When the economies of India and US are taken up for comparison undoubtedly US economy is for ahead of India with Per capita GDP in US is 8 times more than that of India. However GDP real growth rate in India is 6.6% as against 2.2% in US which indicated that India is registering accelerated growth rate. India being an agrarian economy has 47% labor force in agriculture as against to a meager 0.7% in US. The US's agricultural lands are vast and cultivation activities are highly mechanized where as in India the rate of mechanization of agriculture in very low. Further unemployment rate in India is

double the level of US. The Indian export standard is 304.1 billion dollars as against \$1.553 trillion of US. India's tax and other revenues are 9.2% of GDP where as it is 17% of GDP in US, which speaks about tax compliance. FDI in US is formidably high at 5.711 trillion as against a smaller amount of 1.56 billion dollar in India. Very interesting point is Prime Lending Rate (PLR) in US is just 4.1% where as it is 9.51 in India which is a main area concern. Raise in NPA in India is high because higher rate of interest and it is also indicate that lesser quantum made available for investment in India.

### Comparative Data Relating to Startup Eco System

Startup ecosystem comprises of number of startups, contribution towards GDP, growth rate, population inward, venture capital, number of deals and number of Unicorns. The relative figures regarding this startup eco system in India and US are shown in table-3

Table: 03 Comparative data relating to Startup Eco system

Basis (In 2015)	India	USA
Number of Startups	4,200-4,400	47,000-48,000
GDP (\$B)	2,183	17,968
Nominal growth(2015-20)	4.40%	9.50%
Population/startup	300,698	6,758
Number of venture capital	156	1300
Venture capital funding(\$B)	6.50	47.3
Number of angels	300	300,000
Number of deals	510	3,617
Population	1,293	321
Share of global Venture capital funding	5%	76%
Number of Unicorn	7	98

Source: NASSCOM, IMF, PREQUIN, NVCA, ACA (2015)

Table 3 demonstrates that the United States has a strong startup ecosystem. Despite the fact that India has the world's third largest startup ecosystem in terms of number of businesses, the country still has a long way to go in terms of the quality of startups and the business environment.

### Us –A Front Runner in Startups

Startups and innovation go hand in hand. The most successful businesses strive to create novel items in order to break through the living demand rivalry and gain attention. There's no doubting that the United States leads the pack in terms of coinages and startups. Most US companies have a good understanding of the full product development life cycle and prioritise product market fit over everything else. The Lean strategy is more strictly followed by US startups in developing the right product for the right clients, and these firms

dedicate adequate funds to technology in order to win the race as the front runner. The majority of companies in the United States place a premium on providing a positive customer experience.

### **Impediments For Indian Startups**

Indian entrepreneurs are dealing with the same issues that businesses all around the world are dealing with. Certain challenges, on the other hand, are unique to the Indian corporate climate. The five major problems that Indian startups face are outlined in this section.

#### **a) Building and Scaling a Startup in India**

Indian entrepreneurs confront a variety of obstacles, including hiring and managing a team, interacting with consumers, and devising a marketing strategy. Many Indian entrepreneurs, in particular, come from a specialized background and lack business experience.

A considerable quantity of operating capital is necessary to run a startup. Bootstrapped firms, especially those in their early stages, are supported entirely by the founders' own savings or by borrowing money from friends and family. Some firms have enough paying clients to be self-sustaining and able to grow organically as a result of the income and profits they create. While not every startup need outside funding, many of them begin looking for investors as they prepare to expand. Finding the proper investor and obtaining capital, on the other hand, is tough, even if they have received great feedback on their product and have a track record.

#### **b) The Digital Divide and Diversity**

There is a knowledge gap between people who give solutions and those who are intended to apply them in general. Startups must overcome this gap and establish a deep understanding of clients and their demands in order to design successful solutions. In the case of India, this is extremely difficult: India is a vast country with many different cultures, languages, ethnic groups, and faiths. Because Indian clients are so different, entrepreneurs' understanding of them is frequently limited to specific places that they are familiar with and where they have local contacts. Comparative advantages are thus connected to certain regions. As a result, establishing a pan-Indian business is more difficult due to their lack of understanding of clients in different parts of the country.

### **c) Getting Products to Market and a Lack of Financial Willingness to Pay**

Another problem for businesses is getting their products to market in India, which appears to be difficult to break into. One reason is the competitive landscape: many companies are already there, and many more, including copycats, enter the market. Another factor is that small businesses are at a disadvantage when compared to large corporations. On the one hand, this is because large market actors are better equipped to deal with bureaucratic restrictions. Public procurement, on the other hand, is regarded as ineffective, and the government prefers to sign contracts with well-established firms. However, if large corporations promote startups, they may have an easier time capturing a market. A third reason is that customer communication and retention take time and effort. It's challenging to persuade Indian buyers, especially if the firm develops unique items and targets new market sectors.

Furthermore, it is difficult for entrepreneurs to develop demand for their goods and services. Despite rising wages, India's client base remains price sensitive and unwilling to pay for goods and services. Customers frequently demand discounts or purchase cheaper Chinese equivalents. As a result, companies confront the difficulty of developing cost-effective solutions, which might sometimes mean sacrificing quality. As a result, many businesses rely on volume to generate marginal returns. Collecting and ensuring timely payment can be a challenge for companies that do not charge customers using digital payment methods.

### **d) Recruiting Qualified Personnel**

Joining a company as an employee is not an appealing career option for many job searchers, owing to the inherent risk that the startup would fail. Instead, the vast majority prefer to work for huge firms, which offer more secure employment opportunities. Furthermore, startups are rarely able to compete with the brand recognition and remuneration structures that large corporations can provide. After a few years, many people who work for startups move on to established companies. Because many people become accustomed to the benefits of a corporate employment, job transitions in the opposite direction are less common.

A second problem is that many job seekers lack the necessary qualifications. Startups notice a disconnect between the knowledge imparted to students in institutions and the expertise required for jobs, particularly in industries where technology evolves rapidly. Fresh graduates are typically not immediately employable due to their lack of

understanding of industry needs. As a result, when employing new personnel, companies must devote a large amount of time and money to training them.

A third aspect is that a large number of highly qualified specialists relocate to other countries in search of work. Indian businesses, in contrast to many other startup hotspots around the world, have yet to attract international talent. Because of bureaucracy and visa regulations, hiring staff from outside India is tough, and expats are drawn to areas like Singapore, where the living standard is greater.

#### **e) Regulatory Environment Is Complicated**

The Indian government has implemented regulations aimed at making the business environment more conducive to startups. The current regulatory environment in which startups operate, on the other hand, is widely seen as arduous, inefficient, and unpredictable.

In India, many startups are hampered by bureaucratic processes that appear to lack fundamental norms. They don't have enough ways to find information, and there's little certainty about how long processes will take. Furthermore, regulations might change at any time, and entrepreneurs may receive unexpected notices. As a result, startups are forced to come up with inconvenient workarounds, squander time, or flip their business strategy. Other difficulties include legal incorporation and registration as a startup, as well as firm closure. Despite the government's stated desire to speed up the process of starting a business, most people regard it as time-consuming and expensive. It necessitates numerous permissions, posing a significant barrier to entrance. Formal registration as a startup is required when the legal setup is completed in order to qualify for tax breaks and other benefits. The government's startup definition has specific criteria, yet just a few firms have met them. The requirements were later relaxed, but it appears that startups are still having trouble acquiring registration certificates. Although some firms fail, it has been said that shutting down a business is far more difficult than starting one.

The tax policy, as well as its implementation, are thought to be unfavourable to entrepreneurs. On the one hand, the Good and Services Tax (GST), which went into effect in July 2017, is an example of this. There is still some ambiguity about how it works and which products qualify as tax bases or not. Even if they have yet to earn any money, entrepreneurs must file their taxes on a regular basis. Furthermore, if consumer payments are delayed (which is not unusual), startups run the risk of running out of

cash. They risk paying hefty penalties if they do not file their taxes on time. On the other side, the so-called "Angel Tax," this was implemented in 2012 to combat money laundering, has received a lot of flak.

### **Area for further Study**

The present study has a limited focus on select parameters of Demography, Economy and startups. A detailed study may be taken to compare the micro aspects of demography, economy with special reference to startups need to be explored. An explorative study comparing the entrepreneur's perception about the vibrancy of startup eco system in two countries may be taken up.

### **Suggestions**

- Startup culture in India needs nourishment from government and non government organizations through proper training , cancelling and financial assistance
- Entrepreneurs shall use the knowledge gained from failure for strategizing a successful business path.
- Budding entrepreneurs shall make pre-empt moves in commercializing new business ideas.
- Investment education should be given at the early age
- Infrastructure should be developed to support the startups
- Marketing strategies should be conducive for the startups to grow and sustain
- Indian startup environment shall be made easily accessible to the new technologies
- Indian startup eco system need to made vibrant through formulating incentive plans to entrepreneurs

### **Conclusion**

The above study on startups has clearly highlighted that Indian startup culture is mismatch with US. There are identifiable deficiencies in the Indian startup ecosystem which need to be urgently taken care of the policy makers at the helm need to awaken and formulate the policies which strengthen the startups. Making available liberal funds offering subsidies, proper education and training and effective use of investor's protection fund are worth mentioning solutions to make Indian startups to gain strong foothold.

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