

Entrepreneurship Assistance to Learn from India

Nomura Research Institute Consulting and Solutions India Pvt. Ltd.

Global Knowledge Center

Hikojiro Isozaki, Partner & Center Head

1. Objective of this paper

People in Japan don't have any idea that startups are doing really well in India. A startup is defined as an entity that "develops new business model with innovative ideas and expands the scale of business by achieving significant growth in the short run. It either enters as an IPO (Initial Public Offering) entity or a temporary group to seek capital gain by selling its shares". It is different from venture companies that develop small businesses based on new technology and creative knowledge environment.

In India, startup companies are those that possess innovative technology, have spent less than five years since their establishment and whose annual turnover is less than 2.5 billion INR (approx. 4.55 billion JPY¹). Companies that have been separated from their existing companies or restructured are not considered as startups, even if they meet these conditions. Note that this definition also includes venture companies. Most of the entrepreneurs in India (where economic growth is rapid), aim at achieving significant growth in the short run, which makes the differentiation between venture and startup companies quite complicated.

According to the National Association of Software and Services Companies (NASSCOM), in terms of the startup, India ranks third globally with 4,200 - 4,400 startup companies by the end of FY 2015, followed by 47,000 - 48,000 and 4,500 - 5,000 startup companies in US and UK respectively. Israel ranks fourth with 3,900 - 4,000 startup companies and China ranks fifth with 3,300 - 3,500 startup companies. Amongst 4,200 - 4,400 startup companies in India, around 1200 companies were established in 2015. Especially, the startup fever in the nation is riding high since Prime Minister Modi announced "Startup India" on January 2016.

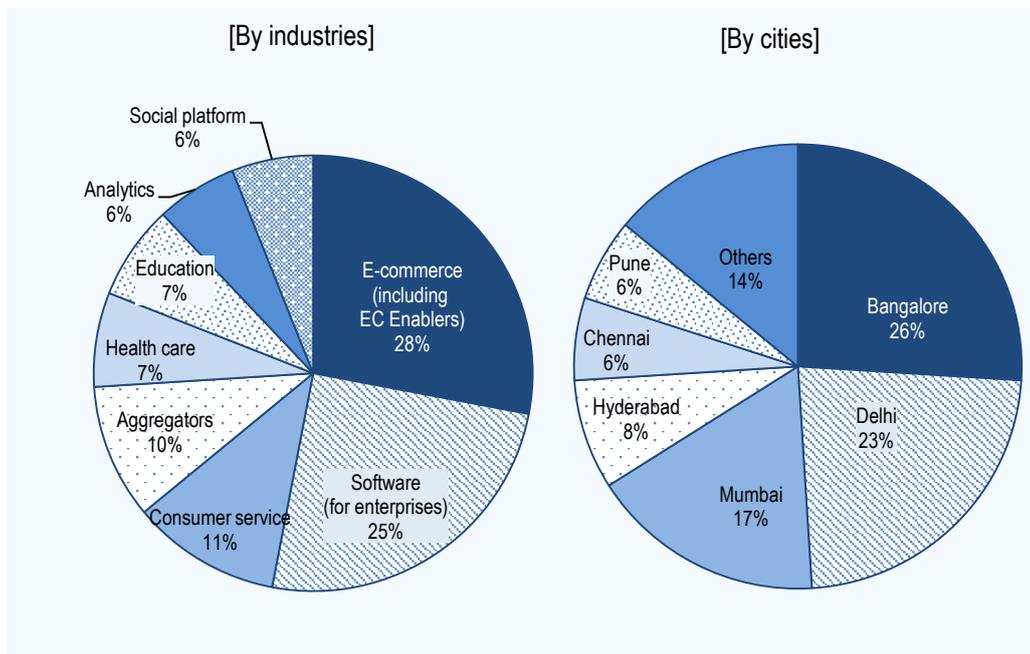
Although the startups in Japan are assumed to be a major player in innovation, the establishment of new startups is deadlocked. Many companies face difficulties in growing after their establishment. Since there are various differences between Japan and India, it is necessary to compare them carefully. However, I feel that Japan must learn entrepreneurship assistance from India. This paper helps in understanding general situation of startups in India and explains why entrepreneurship is highly popular in India. It also explains the perspective of academia-industry-government tie-up that encourages entrepreneurship and summarizes the key takeaway for the Government of Japan and Japanese universities.

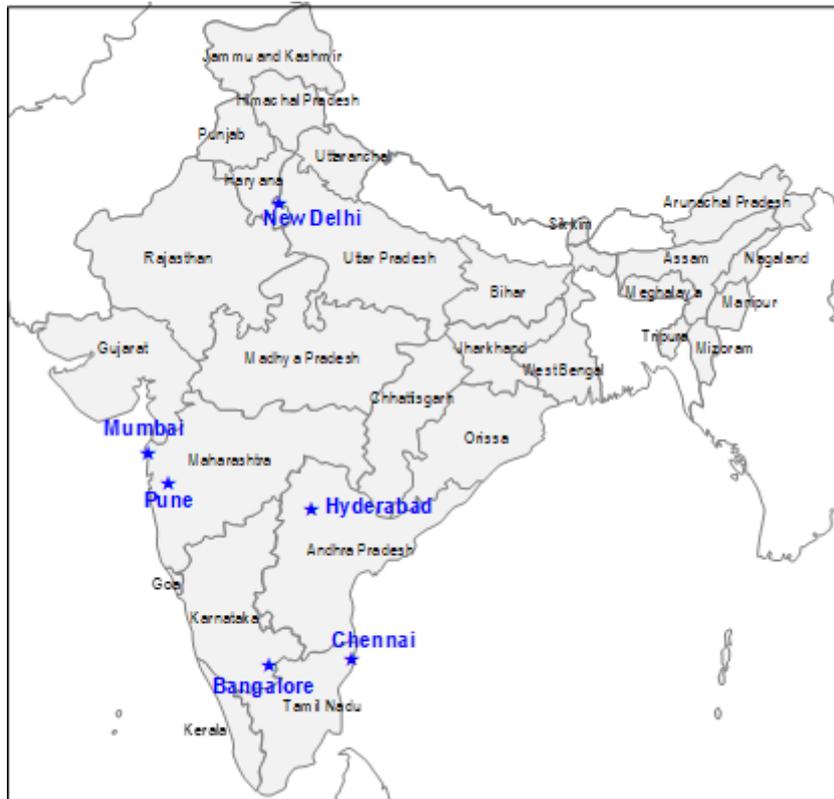
¹ Calculated at the exchange rate as of December 1, 2016 (1 INR = 1.82 JPY)

2. Overview of startups in India

For the 1200 startups established in 2015 in India, NASSCOM pointed that “Startups for consumers are many”. As shown in the Figure 1, the startups for consumer service, e-commerce and aggregator (a person or a website that collects and organizes information and contents, and provides to user) stay at the top position. The well-known example is the birth of consumer-oriented aggregators such as “Ola cabs”, an Indian origin online transportation network company, which accepts cash payments and allows one to call taxi as well as auto-rickshaw (remodeled tricycle taxi) through an application. In addition, IT entrepreneurs such as software companies, account for the majority.

Figure 1 Concept of startups established in 2015 in India and position of cities with thriving startups





Source: Created by NRI from NASSCOM "Startup India Report 2015"

The most popular cities for startups in India are Bangalore, Delhi, Mumbai, Hyderabad, Chennai and Pune. All cities have urban population over four million with gross income over 100 billion INR. In India, these large cities are classified as Tier 1 cities². Amongst Tier 1 cities, the population in metropolitan cities such as Delhi and Mumbai is over 20 million, whereas the population in Bangalore is less than 9 million. Bangalore is also known as the Silicon Valley of India and is famous for its startups.

3. Reasons for the high popularity of startups in India

What could be the reasons for the high popularity of startups in India? In order to clarify the differences between India and Japan, I would like to begin with a comprehensive viewpoint. The reasons can be categorized in three perspectives such as macroeconomic environment including economy and history, mindset and traits of Indians and startup community by academia-industry-government.

1) Macroeconomic environment

Regarding macroeconomic environment, GDP growth rate is needless to mention as India is witnessing rapid economic growth. A major move towards economic reform and liberation was taken in 1991. At present, there are overwhelming success stories of entrepreneurs who emerged after economic reform and liberation and had an economic success. This resulted in a lot of high risk investment in India. The highlight of these

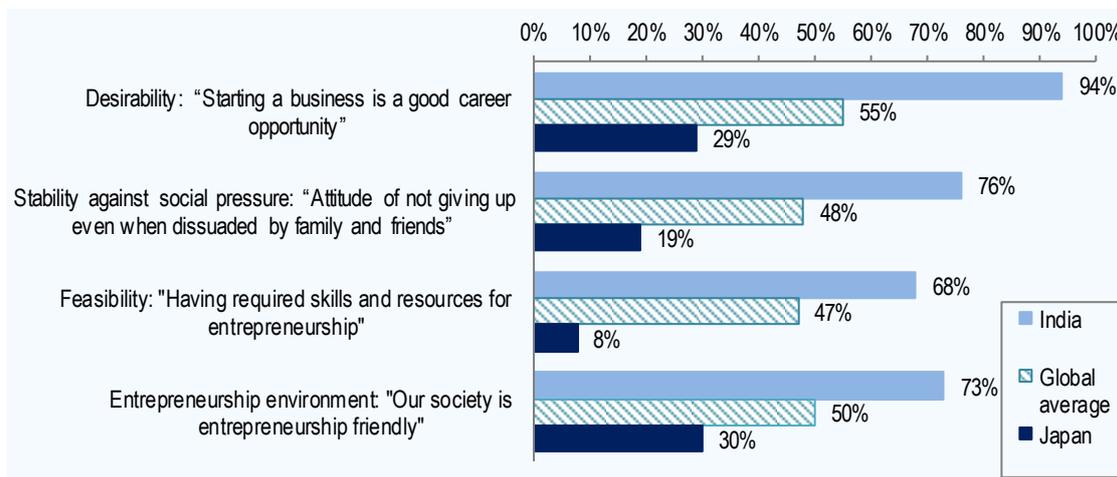
² In India, cities are classified into four categories according to their population and income. The population is classified in four tiers i.e., Tier 1 that includes eight cities, has a population over 4 million and gross income over 100 billion INR (as of December 2016). Tier 2 has a population over one million and less than four million, Tier 3 has a population over 50 thousand and less than a million, and Tier 4 has a population less than 50 thousand.

circumstances is flourishing of M&A not only by big companies (mainly IT companies) but also by emerging companies that are growing rapidly, and Indians who succeeded in abroad returned to India and became angel investors³. Further, banks in India are actively financing startups. On the contrary, there are various barriers in getting a company listed and IPOs are scarce. Actually, startups raised 4.9 billion USD in total (approx. 565.6 billion JPY)⁴ from investors in 2015. Although it is not easy to compare, India had bigger success compared to Japan where funds raised for startups by Japan Venture Research were 72.9 billion JPY and 115.4 billion JPY in 2013 and 2014, respectively.

2) Mindset and traits of Indians

Many Indians have high entrepreneurship motivation in terms of human resources such as their mindset and traits. Even in my experience of being in India, I often had discussions with university students with high caliber who were confused between getting a job in leading foreign-affiliated companies or starting their own business. Figure 2 shows the entrepreneurship motivation is extremely high in Indians, even when compared to countries across globe.

Figure 2 Comparison on entrepreneurship motivation across globe



Source: Created by NRI from Amway's "Global Entrepreneurship Report 2015"

According to the results of the entrepreneurship spirit survey conducted by Amway in 44 countries in 2015, Indians scored 79 points on an average on the three parameters of "Desirability", "Stability against external pressure" and "Feasibility". India attained first position among 44 countries with highest level of entrepreneurship spirit. On the other hand, Japan attained lowest position i.e., 44th position with 19 points, China attained second position with 79 points and United States attained 14th position with 53 points.

In addition to the favorable economic environment as mentioned above, the general attitude of Indians also helps in raising their motivation towards entrepreneurship. For example, "Jugaad" and "Chalta hai", which mean "Innovative fix" and "It's OK" respectively. I believe that entrepreneurship requires "Creativity and ingenuity", "Attitude of implementing while planning" and "Positive attitude in imperfect situations". Few highly capable people in India are highly ambitious to become a CEO or a part of senior management. They take

³ Angel investor is an affluent individual who provides capital for business startups.

⁴ Calculated at the exchange rate as of December 1, 2016 (1 USD = 115.4 JPY)

entrepreneurship as a means to become CEO or part of management.

On the other hand, it is difficult to explain the reasons for the high popularity of entrepreneurship in India through economic environment, mindset and traits. For example, according to the survey conducted by Amway, 73% of Indians responded “Our society is entrepreneurship-friendly”, which is higher than worldwide average and Japan. Furthermore, according to the India entrepreneurship survey, 73% of Indians responded “Anyone can be educated or trained to be an entrepreneur”. Therefore, we cannot ignore the fact that society in India encourages entrepreneurship and nurtures entrepreneurs.

3) Startup community by academia-industry-government

This paper explains the factors that encourage entrepreneurship and nurture entrepreneurs in India with the viewpoint of how players engage with various sectors such as public, finance, education and enterprise to create an eco-system. NRI Public Management Review vol.115⁵ was written on how to study an eco-system, and introduce it as a frame to analyze an area for aiding innovation. This viewpoint is also effective in analyzing startups. In other words, if each sector such as public, finance, education, enterprise and others (media, industry groups etc.) is connected with the human network and any individual who is thinking about starting up a business can access the community, we can say that startup community is established in a particular domain.

Based on the results of interviews with Indians and desktop research, the types of startup communities by academia-industry-government established in India, mainly in Bangalore and Delhi where startups are thriving, are organized as follows:

Figure 3 Startup communities formed by collaboration of government, industry and academia in Bangalore and Delhi

		Bengaluru	Delhi
Public sector	Central authority	According to the “Action Plan” announced by “Startup India HUB” in January 2016, funding support, such as preferential treatment under national tax, formation of Government fund of 170 billion JPY and credit guarantee for promoting bank loans, as well as simplification of registration procedure and elimination of problems by permitting easy response to Labour law, will be carried out at national level.	
	Local authority	Karnataka “Startup Cell” provides more detailed support at the state level, such as preferential treatment under state tax, marketing and patent-related support, including assumption of related costs.	With an aim to create jobs, “Delhi Entrepreneurship Council (DEC)” provides support to entrepreneurs, as well as advises Delhi government on policy matters to create a suitable ecosystem for the state.
Finance		<ul style="list-style-type: none"> • Banks, such as “Micro Units Development and Refinance Agency Bank (MUDRA Bank)” and “Small Industries Development Bank of India (SIDBI)” provide financial support for establishing business and fulfilling post-establishment needs. • “Startup India” connects entrepreneurs to branches of each bank, SIDBI and credit guarantee 	

⁵ NRI Public Management Review vol.115 (published on February 2013) “Regional network community for creating regional innovation”

	<p>facility, and supports the funding needs of entrepreneurs.</p> <ul style="list-style-type: none"> • Various investors, including the global investment company “Sequoia Capital” and “500 startups” (US-based venture capitals), hedge fund “Tiger Global”, and venture capital “BEENEXT” that is based in Singapore, are entering into India one after another. Talking about Japanese companies, the SoftBank Group is expanding its investment activities in the country. Besides this, there are many successful Indian angel investors in the country as well as abroad. • “Indian Angel Network” is a network of domestic and global investors that have keen interest in Indian startups. The network also calls upon entrepreneurs to various events and takes applications related to entrepreneurial ideas and business plans. 	
Education	<p>The “Indian Institute of Management Bangalore” established “The N S Raghavan Centre for Entrepreneurial Learning (NSRCEL)”, which provides mentoring programs (where graduates and instructors voluntarily and autonomously foster entrepreneurs through interactions and advices) for entrepreneurs and people who wish to start a new business. Moreover, it organizes programs and events in collaboration with overseas Entrepreneurial Support Organizations, such as “The Indus Entrepreneurs (TiE)”.</p>	<p>The “Indian Institute of Technology Delhi” established the Entrepreneurship Development Cell, which collaborates with events conducted for pitching (appealing investors with concepts and ideas that are to be realized by starting up new businesses) related to business ideas, and alumni management organizations, and mediates the communication with senior entrepreneurs and investors.</p>
<ul style="list-style-type: none"> • Corporate & others (Industry groups) 	<ul style="list-style-type: none"> • Major conglomerates, such as “Tata”, “Reliance” and “Aditya Birla” have a fund in place to support startups, with Tata’s fund amounting to \$300 million. • National Association of Software and Services Companies (NASSCOM) launched an initiative called “10,000 Startups”, which offers financial support, conducts online startup programs and provides various mentoring services related to establishment of businesses. Even global companies, such as Google and Microsoft are sponsoring these activities. 	

The first thing one can notice while researching on the startup communities in India is that although Delhi and Bangalore are about 2,000 kilometers away in north and south respectively, the same names, for example of banks such as MUDRA Bank and SIDBI, and major conglomerates such as Tata and Reliance, can be heard very often. Even if we take Central government as an exception, various financial and private sector organizations that are influential all over India, have a great presence in individual regions. If we look from a different perspective, it can be said that even the local players are not clear. The influence is indeed less as compared to large organizations; however, there exist some local players in the market.

Secondly, universities such as Indian Institutes of Management (IIM) in Bengaluru and Indian Institutes of Technology (IIT) in Delhi, not only provide entrepreneurship education, but also contribute by forming a human network of industry, academia and government. These are the leading Indian universities, and have a strong alumni structure same as the prestigious universities of the United States. Using such network, it connects

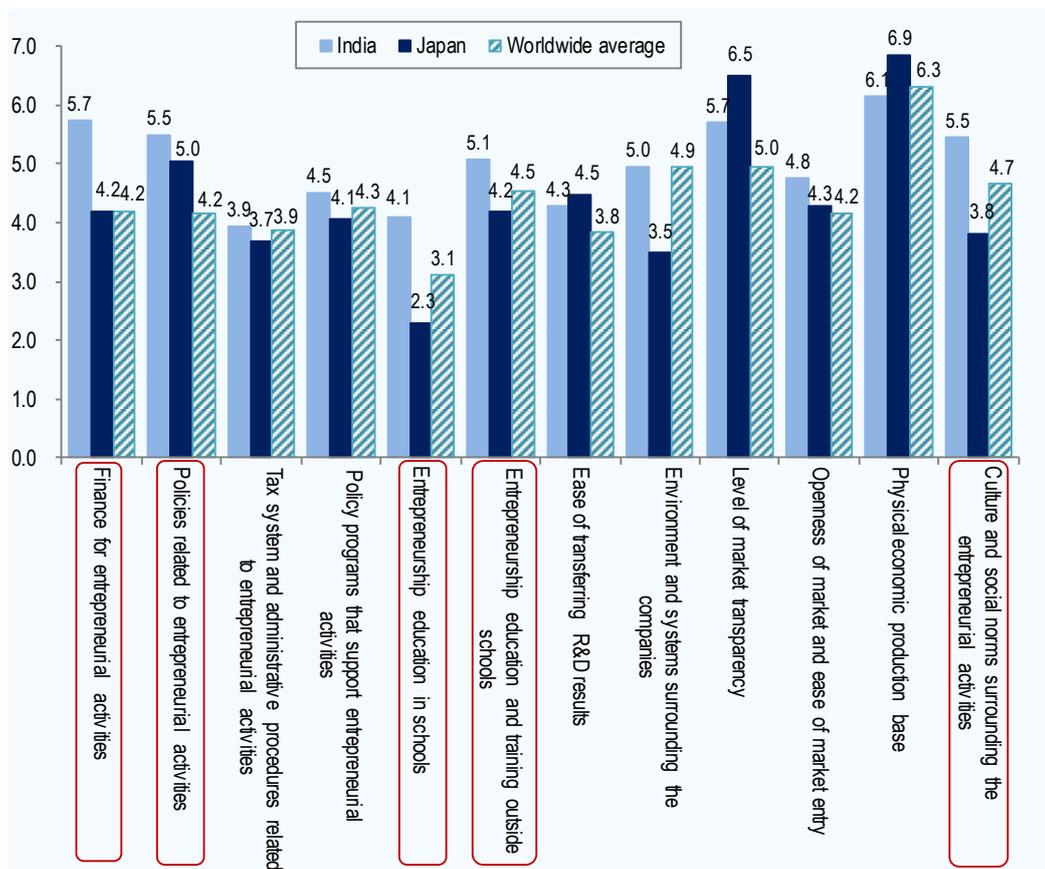
graduates and students, or aspiring entrepreneurs who are active in various aspects of finance, private and public sector.

If we look at the efforts of state governments, the Delhi Government established the Delhi Entrepreneurship Council (DEC) in response to the “Startup India” initiative taken by the Central government. Besides supporting startups and SMEs, DEC aims to propose the way policies should be, to the government. On the other hand, Bengaluru quickly started a state-level policy.

In private sector, large business conglomerates disclose a fund of huge amount for startups. Hence, it is difficult to say that they only intend to acquire them. In India, private companies show a keen interest in contributing towards social activities, and their involvement in CSR activities is linked to the brand value. One noteworthy case is of the industry group NASSCOM. It started a program called “10,000 Startups Program” to support 10,000 startups over a period of 10 years. With this, it promotes collaboration between large companies and startups, provides them financial support, conducts online programs for startups and offers various mentoring services related to business establishment. It can be said that it is a key player in supporting startups, especially those in IT domain.

Such kind of startup communities formed by the collaboration of industry, academia and government exist everywhere, due to which India earns a high reputation worldwide for its startup environment. The Global Entrepreneurship Monitor (GEM) “National Expert Survey (NES)” selects the experts from target countries and domains, and studies the items (Figure 4) related to the startup environment.

Figure 4 Comparison of India, Japan and worldwide average concerning the entrepreneurial environment



Note: The experts from each country and domain judge their country on a scale of 9; the higher the point assigned to an item, the higher it is evaluated.

Source: Created by NRI based on “FY 2015 Research on Entrepreneurship and Ventures - Survey on Entrepreneurial Spirit” by Ministry of Economy, Trade and Industry (METI) in 2016

In areas, such as finance, entrepreneurship education and policies, India outweighed the worldwide average and Japan by 0.5 points, and therefore, was highly evaluated.

Also because the economy is witnessing growth, India scores high in finance because there is a lot of high risk investment. Moreover, as can be seen in case of startup communities, the diverse activities conducted to connect various investors, or investors and startups is also an important point.

If we talk about policies, they are favorable not because there are a lot of specific policy programs arranged by the government, but rather because the government is trying to support the startups in the entire country. Further, entrepreneurship education imparted in schools is especially highly evaluated. As mentioned before, the fact that IITs and IIMs hold startup programs and online events can be considered as a reason for its high evaluation.

4) Success factors for India and things that Japan needs to learn from it

In the end, I would like to explain “why India was able to achieve it” and “what does Japan need to learn from it”. Particularly, I will deepen the insights on governments and universities, especially assuming readers of this paper.

Talking about the measures taken to support startups in India, I could understand its scale even through a single government fund of 170 billion JPY (shown in Figure 3). If we look at policy debate in India over support to startups, discussions are being done regarding the way they can be linked to other policies, such as “Digital India⁶” and “Make in India⁷”. In other words, it can be noticed that discussions related to startup support go beyond the realm of economic policies. In the background of extensive discussion lies the firmly rooted social issues, such as dissolution of poverty issues and stratified society (caste system). Hence, it can be considered that startup support would help in dissolving these social problems.

Conversely, if we talk about startup support in Japan, METI develops the policies as the central government agency, and also, local governments take the relevant measures. However, it has never been outside the realm of economic policy, such as promotion of innovation and industrial policy. In Japan also, there is a need to decide an approach for resolving issues such as NEET (Not in Education, Employment, or Training), social withdrawal and working poor, for the state of education and regional promotion, etc., and consider giving it a status.

Behind the active extension of entrepreneurship education in India lies the fact that IITs and IIMs are active at school level, and industry groups such as NASSCOM, impart relevant education outside the schools. Currently, in India, various discussions, for e.g., “Is it difficult for people not graduated from IIT or IIM to start a

⁶ Digital India is a campaign launched by the Government of India to improve administrative services using digital technologies and support digitization of areas, such as education and healthcare.

⁷ Make in India is an initiative that aims to achieve high economic growth and create employment by attracting investment from domestic and overseas companies, and making India an attractive global manufacturing base.

business?" are on. We are not denying that graduates and enrolled students are somewhat at favorable end; however, non-graduates also have access to the startup communities. Therefore, the outline of the conclusion is that it is not difficult for them to start a business.

Indeed, IITs and IIMs have been able to support startups to this extent, I feel that there are two reasons how this became possible. First, startup support is considered an important measure for the entire university. Second, there are 16 IITs in India, including the Delhi school, which go beyond their regions to actively collaborate and cooperate with each other on the matter of startups. Moreover, IIM has 6 schools in the entire country, including the one in Bengaluru, which too is involved into similar activities.

For example, startup events and mentoring conducted by the Indian Institute of Technology Delhi are open to all IITs, including Mumbai. For this, exchange of resources (for e.g. professors) and sharing of information is a very common thing. On the matter of startups, incubation base of each such school works seamlessly.

In Japan also, universities work together to accelerate the initiatives taken for university-originated ventures. However, there are some barriers for each department, due to which it is not considered a university-wide subject. Moreover, collaboration with other universities is quite limited. If you compare the collaboration among universities in India with Japan, you will find that same kind of programs and network events are conducted in former imperial universities and famous private universities. If Japanese universities also wish to produce results from startups, they must make it a university-wide subject and collaborate actively with other universities to take initiatives for university-originated ventures.

Author
Hikojiro Isozaki
Partner & Center Head
Global Knowledge Center
Nomura Research Institute Consulting and Solutions India Pvt. Ltd.
hikojiro.isoizaki@nri.com

Translated by
Nikita Khurana
Senior Japanese Language Expert
Global Knowledge Center
Nomura Research Institute Consulting and Solutions India Pvt. Ltd.
nikita.khurana@nri.com

Translated by
Bhavana Mehta
Senior Japanese Language Expert
Global Knowledge Center
Nomura Research Institute Consulting and Solutions India Pvt. Ltd.
bhavana.mehta@nri.com