

Foreign Investment: A way forward to solve the problem of growth decelerator in case of Indian startups

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Abstract: *In recent years, Foreign investment in Indian sector is playing a crucial role. Several studies were conducted on these topics but each and every paper has covered different aspects of it. Some of the papers have covered major factors some have focused on the minor factors. But the results of these kinds of topics remain equivocal. Therefore, the current paper has tried to highlight and outline certain issues faced by them. The second part of the paper covers how this is very useful (FI). Lastly, the paper has covered various disadvantages of those. Therefore, the paper tries to cover the other details of foreign investments.*

Keywords: foreign investment, growth decelerator, Indian startups.

1 Introduction

The Startup entity could be termed as the new business, which is at the initial stage of the business operation, into the going process and is typically financed by the single owner or a small group of individuals. This is a small business, scalable business model which is developed with the help of technology and innovation where the founders construct the product or the service. The owners of the company develop such a business model that does not exist in the market, basically entirely creating the new market. Startups are nothing but an idea that manifests into a commercial undertaking. Grant Thornton (2016) stated their definition of the startup business, an organization that is newly found and is developed for creating the new product or the service. A company that must have incorporated for three or less than for three years. The company is even at the funding stage of series B or in the second funding stage. The company engages in the development, production, or distribution of new products/services or processes. The revenue for such startups would be up to INR 25 crores and employing 50 people or less than that. Department of Industrial Policy and Promotion (DIPP) can be defined as a startup entity that is associated or registered in India with certain parameters. The establishment of the company is not prior to seven years (for Biotechnology Startups not prior to ten years). With annual turnover not exceeding INR 25 Cr in any preceding financial year. The company is oriented towards working towards innovation, development, or improvement of products or processes or services. This is a scalable business model with a high potential for employment generation or wealth creation. In recent years, it has been observed that every year more than 800 technology startups are being set up in India. It is predicted that by the end of 2020, it is estimated there would be around 12,000 tech startups that are going to be established with an employment potential of around 250,000 technical people (NASSCOM, 2015). India is appreciated in terms of the startups; Moreover, India is admirable amongst the top five countries in the world in terms of startups with 10,000+ led by other countries. India has 10,000+ startups led by the US with 83,000+ comprising 43% tech-based firms with 9% managed by women entrepreneurs. The number of incubators also has crossed 100 in 2014-15 to give a boost to the startup saga (Grant Thornton, 2015). Grant Thornton (2015) defined an upcoming startup based on technology-based and non-technology based. It is to be noticed under the technology-based startup 33% startups belong to E-Commerce, B2B - 24%, Internet - 12%, Mobile apps - 10%, SaaS - 8%, Other - 13%. Under the non-technology-based startups. 17% startups belong to Engineering, Construction-13%, Agri- products- 11%, Textile - 8%, Printing & packaging - 8%, Transport & logistics- 6%, Outsourcing & support -5% and 32% belonged to other sectors. Many startups are developed in the service sectors which incorporate various departments such as insurance and health, retail, education, and legal department. These departments have created awareness amongst the customers and have shared their benefits. In today's world, the popularity and viability of startups is no more a difficult proposition for an entrepreneur. According to the UN latest report, India with 356 million holding a young population is going to be the driving force behind innovation and creation. As the present generation is much advanced with technology and digital applications are user-friendly for them so commensurate demand and consumption of goods and services can be easily bought in the market (Mittal, 2014). India has got various sets of problems due to the multicultural and multilingual regions. These things make Indian people much smarter and innovators to find solutions to health, education, infrastructure, sanitation and for the population at the 'bottom-of-the-pyramid' space. People tend to find solutions from the challenges faced by other startups. This helps in building a unique platform for startups and to create a business around it. India is one of the escalating countries which provides a good amount of revenue every year. Moreover, India's 76.55% have reached the teledensity with a subscriber base of 95.76Cr bringing in convenience and reach to consumer segments including Tier-2 and 3 towns (TRAI, 2017).

2 Literature Review:

2.1 Delineating on the Foreign Investment in Indian Startups:

In India, the startup ecosystem was started by late 1960s and that was started from TCS was followed by Infosys in 1981 and simultaneously many other companies were formed and founded. These startups started as software services serving Indian software needs, and later expanding to exporting software services. The dot-com era was a blessing for many startups, which included marketplaces, eCommerce and vendors. In the modern days, the startups have easily set up their companies with the help of the technology. It comprises various e-commerce, logistics, marketplaces, and advertising startups. Startups like Flipkart (2007) and IXIGO (2008) were part of these. Startups like Flipkart (2007) and IXIGO (2008) were part of these. It is observed that currently, more than 5200 startups in India are putting other countries in fourth place such as the US, UK and Israel (Nasscom, 2018). Moreover, in India, 68% of the places like Bangalore, Mumbai, and Delhi-NCR have a start-up base with 44% foreign investments. India is considered as the startup-friendly country which has attracted numerous investors, both national and International. Therefore, a large amount of funds is allocated for the startup ecosystem. Also due to government support, the technology boom and rise of tier-2 and tier-3 cities has boosted the startup ecosystem. Tier II Cities like Varanasi, Kochi and Indore and others have also attracted a few startups. But in recent years, startups are affected a lot due to the various launches like Startup India initiative, Digital India Initiative which has created a huge impact. A huge number of people have considered that from 1991, people with the ideas of startups and set up in India have gained the turning point. Because of India's ever-increasing entrepreneurial performance, some analysts consider India as the next Asian miracle (Huang, 2008). Giurca Vasilescu (2009) stated that the Investors are the main source who help in providing funds for creating and developing companies. Moreover, some investors even help in providing financial assistance from the start of the company till the startup gets ready to be on the capital market. Some investors support directly by providing managerial support to make companies survive in the competitive market. Tracxn is a venture capital analytics startup firm who investigated and found that a total amount of \$6.4 billion funding was provided to various startups in the first nine months of 2015, but out of which \$3.4 billion were utilized for the online market companies in India (Velayanikal, 2015). In India, Honorable Prime Minister Narendra Modi announced the new concept of the startup. The title was announced as "Start-up India, Stand-up India" which was brought into the picture on the 15th of August 2015. This program helped in introducing and promoting the various banks who were ready for providing funds for startups and lastly offered incentives to boost entrepreneurship in India. The process helped people to set their business and develop more business ideas, ease of doing business was brought into the picture which was considered a neglected area before (Hari, 2018).

2.2 Comprehending on the Problems faced by Indian Startups:

A successful startup can only be called when each and every process of the start-up is hurdle free. The owner just with passion and idea cannot be called as the successful startup. High level of understanding of the market with great leadership skills and excellent communication skills and maturity to see things in the right perspective along with the ability to take calculated risks is required on the part of the entrepreneur (Aggarwal, 2017). According to Rashmi Gupte, it is noticed that the entrepreneurs with lack of awareness, unorganized market, lack of mentoring, multiple clearances, technological risk, poor infrastructure in Tier 2 /3 cities, stringent exit policies, corruption/red tape, regulatory obstacles and lack of reforms keeping pace with fast-evolving the market change and these even can be considered as the challenges. Various challenges are faced by the startup in terms of the Financial Resources, Revenue Generation, Team Members, Creating Awareness in Markets, Tenacity of Founders, Supporting Infrastructure, Exceed Customer Expectation, Growth Decelerators, Regulations, Lack of Mentorship and lastly Lack of a Good Branding Strategy.

2.2.1 Finance resource:

(Truong, 2016) Collection of funds for a startup is very important and this is a very critical set considered for each and every startup, there is always a problem to get a sufficient amount (Mittal, 2014). There are a number of finance options ranging from the members of the family, friends, loan stations, angel funding, venture capitalism, crowdfunding and many other sources are available. (Pandita, 2017) Capital plays a vital role in expanding the business. To upfit the business the funding is very important, proper scaling of business requires timely capital, as this will help in building the business. Proper cash management is critical for the success of startups (Skok, 2016).

2.2.2 Revenue generation:

It was observed that the number of startups fails due to improper funding and that indicates the downfall of the business (Iwasiuk, 2016). Several start-up businesses fail due to the improper funding, this happens due to the improper planning before starting up the business. Sometimes even the decision-making process affects the escalation of the business. As there is an increase in operation, the companies grow but due to the limited funding company fails to procure the material and that allows the owners of the company to concentrate on the funding aspect. Hence generating revenue is a very critical process.

2.2.3 Team members:

The startup faces the problem of the people (right employee), the team members of the start-up should pose quality and unique skills as this helps the business to grow. One of the biggest challenges is to find the right type of candidate who poses perfect talent and skills for the business which matches the customer expectation (Truong, 2016). The startup companies must select trusted members who will consistently support the business with their complementary skill sets. The hiring team must be able to hire a person who is specialized in a specific domain such as operation and execution. Assembling a good team is the first major requirement for the startups (Skok, 2016). According to some of the surveys conducted by the startup teams, it was noticed that a certain amount of the startup fails because of the improper coordination of the team members. As per Nitin Sharma, "Hiring and retaining high-quality talent, especially in the areas of product and technology remains a key challenge" (Choudhary, 2015).

2.2.4 *Customer's expectations:*

Customers' expectation is the next most important challenge faced by startup companies. The company sometimes fails to understand the process especially the product or the service process, their existing trends etc. the creativity and innovation play a very crucial role in startups and those have to be the fine-tune as per the demand of the product (Skok, 2016). The entrepreneurs should have great knowledge to sustain in the market with the counter competitors by using the appropriate strategies. Namrata Garg, the Director, defines that the biggest challenge is the need to constantly reinvent yourself and come up with a service to be able to match up customer expectations and exceed them.

2.2.5 *Regulations:*

To start such a startup business, the business requires the number of permissions from government agencies. Although there is a perceptible change, it is still a challenge to register a company. Regulations pertaining to labour laws, intellectual property rights, dispute resolution etc should be considered for all the start-up. Also, as per the World Bank report, "World Bank Ease of Doing Business", India ranks 142 out of 189 economies (Mittal, 2014).

2.2.6 *Lack of Mentorship*

Milan Hogan stated that there is a lack of proper guidance and mentorship required by the startup business. This can be considered as one of the biggest problems in the Indian startup ecosystem (Choudhury, 2015). Most startups have brilliant ideas and/or products, but they fail in executing such a deal in the present market. It is a proven example that a brilliant idea works only if executed promptly (Mittal, 2014). Proper mentoring and guidance will surely help in achieving objectives.

2.2.7 *Lack of a Good Branding Strategy*

The startup needs to brand their product, brand their service and if they fail in proving that they cannot sustain in the competitive market. Lack of branding again becomes a challenge for the startup business. Absence of an effective branding strategy is another issue that prevents startups from flourishing at a faster pace. Hemant Arora, branding of the product will help in creating the identity in the minds of consumers (Choudhury, 2015).

2.2.8 *Replicating Silicon Valley*

Koushik Shee, Founder, it is mostly seen that Indian startups get influenced by the Silicon Valley models, which may or may not suit the type of business seen in the Indian scenario. A lot of tweaking and modifications could be required in the startups in terms of roads, internet, electricity and telecom penetration (Choudhury, 2015).

2.3 *Understanding the Foreign Investment: A solution for growth decelerator*

Foreign investments in startups, can also be termed as the "easy capital" for all kinds of startups, come at a cost. The new-gen Indian entrepreneurs are taking a proactive approach in making their business models attractive to these foreign investors, but sometimes the statement may end up in the final-bargain. Some of the certain statements like giving certain critical rights in their businesses and taking on onerous obligations. In recent years, Indian Startups have attracted foreign investors by becoming change agents and problem solvers from several jurisdictions. Apart from the liberalized regime, the total credit can be given to the young Indian entrepreneurs who have brilliant and innovative ideas of startups. Indian entrepreneurs have faced a lot of risk-appetite during promising business models and excellent initial traction which has attracted the foreigners. This situation is like a win-win situation, this allows the promoter to boost their capitals for startups and the investor receives an excellent avenue for financial gains in future. Though the recent amendments in the FDI regime, it is found this platform can be renamed as the setback to all the Indian startups in attracting Chinese investments, even other jurisdictions have scaled up their investment strategies. Other countries are ready to invest in countries like India. In recent times, it is seen that there is a tectonic shift in foreign investor's strategy in India. From minority interests, the focus is changing to control various deals now. Various ideas of the Indian entrepreneurs are changed based on several factors, such as an elevated level of dry powder, startups looking for easy money and the recent trend of some Indian promoters looking to sell the idea and working under the foreign management with performance-linked incentives. If the Indian entrepreneurs provide control and execution powers to investors then there would be certain absolute powers which need to be followed on the regular bases. Firstly, monitoring and managing the portfolio of the companies, followed by various decision-making, implementing various strategies. Investors' idea is to escalate the business and after a certain period of time exit for financial gains. Foreign investors would typically consider the veto rights, they will take negative control of the startup, which may create difficulties for the Indian promoters of losing their operational flexibility in the functioning of the startup. Initially, the companies would suspect all the factors later in the upcoming future, it might start from the funding of the startup, then the foreign investor will slowly and gradually control the other essential business elements, like formulating strategies, business plans, approving budgets, hiring and firing decisions. This might prove to be a problematic situation for Indian entrepreneurs. Therefore, A balanced approach should be shared with the team members and everyone must agree on the broad powers of the foreign investor investors and so that the operational freedom can be gained by the Indian promoters.

3 Conclusion:

The current economic scenario in India is in expansion mode. Even the Indian government is coming up with various initiatives such as: "Make In India" which is now practised on a large scale. The Indian government is increasing day-by-day and is showing greater enthusiasm towards increasing the GDP rate of growth. They have started to introduce liberal policies and initiatives for entrepreneurs like 'Make in India', 'Startup India', MUDRA etc. The issues highlighted above are not exhaustive, and there are

several other points which the Indian promoters should be mindful of. Most importantly, utmost care must be taken from the Indian entrepreneurs, they might ensure each and every operation is considered as per their situation but not as per the investors. There are a lot of positive results gained by Indian entrepreneurs. The Indian promoters have to ensure that the financial investment done by the foreign investor might result in an effective synergy between the parties, it would surely provide the required amount of capital to the start the company at a good and fair valuation also they would provide required protection so that Indian promoters can focus on the growth of the business. Rather than wasting their energy on operational issues and fighting in the startup battles. Systematic and proper legal representation should be considered on the priority and must be followed as this will help in maintaining the proper balance investment and execution.

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