

Impact of Government Policies on the Growth of Startups in India: An Empirical and Ecosystem Perspective

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Over the past decade, India has emerged as one of the world's largest startup ecosystems, contributing significantly to economic growth, innovation, and employment generation. Government policies and initiatives have played a decisive role in shaping this entrepreneurial landscape by creating an enabling institutional environment. This study examines the impact of major policy initiatives such as Startup India, Make in India, Digital India, Atmanirbhar Bharat Abhiyan, and Stand-Up India on startup growth in India. Using a mixed-methods research design, the study combines survey data from startup founders and investors with qualitative insights from policymakers, incubator managers, and industry experts. The findings indicate that government interventions have catalyzed access to finance, improved ease of doing business, strengthened innovation capacity, and enhanced global competitiveness of Indian startups. However, persistent challenges such as regulatory bottlenecks, delays in fund disbursement, limited awareness of schemes among grassroots entrepreneurs, and regional disparities continue to constrain the sustainability and scalability of startups. The study contributes to the entrepreneurial ecosystem literature by highlighting the institutional role of government in shaping startup outcomes and offers policy recommendations for creating more inclusive and adaptive support mechanisms.

Keywords: Startups, Government Policies, Entrepreneurship, Innovation, Digital India, Atmanirbhar Bharat, Startup India, Entrepreneurial Ecosystem

Introduction

The startup ecosystem in India has emerged as a significant driver of economic growth, technological innovation, and employment generation over the last decade. The proliferation of technology-driven ventures, supported by increasing digital penetration and evolving consumer demand, has placed startups at the center of India's economic development agenda. Recognizing the transformative potential of entrepreneurship, the

Government of India has introduced a range of policy initiatives to nurture innovation and reduce barriers to entry for new ventures.

Flagship programs such as Startup India, Make in India, Digital India, Atmanirbhar Bharat Abhiyan, and Stand-Up India aim to provide financial assistance, regulatory facilitation, infrastructure development, and market access to entrepreneurs. These initiatives reflect a strategic policy orientation toward building a globally competitive startup ecosystem. Despite these efforts, startups continue to face structural and operational challenges, including regulatory complexity, uneven access to capital, and infrastructural gaps, particularly in non-metropolitan regions. This study explores how government policies have influenced startup growth and sustainability in India and evaluates the effectiveness of these interventions in fostering an enabling entrepreneurial environment.

Literature Review

The concept of entrepreneurial ecosystems highlights the dynamic and interdependent relationships among institutional frameworks, financial systems, cultural norms, human capital, markets, and physical and digital infrastructure in shaping entrepreneurial activity and venture performance. Scholars argue that entrepreneurship does not emerge in isolation; rather, it is embedded within a broader socio-economic and policy environment that either enables or constrains new venture creation and growth. Isenberg (2011) conceptualizes entrepreneurial ecosystems as a set of interconnected domains—policy, finance, culture, supports, human capital, and markets—that collectively influence the rate and quality of entrepreneurship in a given region. Similarly, Stam (2015) emphasizes that the presence of supportive institutions and governance mechanisms enhances the productivity of entrepreneurial activity by reducing transaction costs, improving access to resources, and legitimizing new ventures in the marketplace.

Within this framework, government policies are widely regarded as a critical institutional pillar that shapes innovation capacity, market access, and investor confidence. Acs, Autio, and Szerb (2014) argue that public policy plays a pivotal role in correcting systemic failures in entrepreneurial ecosystems by strengthening regulatory quality, improving access to finance, and facilitating knowledge spillovers.

Effective government intervention can lower uncertainty for entrepreneurs and investors by providing predictable regulatory environments, clear intellectual property regimes, and targeted incentives for innovation. Furthermore, regulatory simplification and ease-of-doing-business reforms are found to positively influence firm entry rates and formalization, thereby expanding the pool of innovative ventures (Djankov et al., 2002).

Previous studies also highlight that targeted policy support mechanisms—such as tax incentives, credit guarantee schemes, public venture funds, and intellectual property facilitation—significantly reduce entry barriers for new ventures and stimulate innovation-led growth. Lerner (2009) demonstrates that government-backed venture capital and innovation subsidies can crowd in private investment when designed effectively, particularly in high-risk technology sectors. Similarly, OECD (2021) reports that fiscal incentives for research and development, coupled with streamlined patenting processes, enhance the commercialization of innovation by startups. In the context of emerging economies, such interventions are especially important in overcoming structural constraints such as weak financial markets and limited access to early-stage risk capital.

Research focusing on emerging economies further suggests that proactive government intervention is necessary to address market failures, information asymmetries, and financing gaps faced by early-stage startups. Ayyagari, Demirgüç-Kunt, and Maksimovic (2011) find that small and young firms in developing countries face disproportionately higher financing constraints due to underdeveloped capital markets and risk-averse banking systems. In such contexts, government-sponsored funding schemes, incubation programs, and innovation grants play a catalytic role by de-risking entrepreneurial experimentation and facilitating access to networks and markets. Rodrik (2004) also emphasizes that strategic industrial and innovation policies can help overcome coordination failures by aligning private incentives with broader developmental goals, particularly in technology-intensive and export-oriented sectors.

Empirical evidence from India indicates that initiatives such as Startup India have enhanced the formal recognition of startups, improved compliance frameworks, and strengthened investor confidence through tax exemptions, regulatory simplification, and access to government-backed funding mechanisms. Studies by NASSCOM (2022)

and the Government of India (2023) report a substantial increase in startup registrations and venture capital inflows following the implementation of Startup India, suggesting a positive signaling effect on domestic and foreign investors. Similarly, Digital India has strengthened digital public infrastructure and expanded internet and mobile connectivity, enabling platform-based startups in fintech, edtech, and e-commerce to scale rapidly across regional and national markets (World Bank, 2022).

Despite these positive outcomes, scholars note that bureaucratic delays, policy implementation gaps, and uneven regional diffusion of support mechanisms continue to limit the effectiveness of government interventions. Empirical studies point to delays in fund disbursement, complex documentation requirements, and limited awareness of schemes among early-stage and grassroots entrepreneurs as persistent constraints (Kumar & Kaur, 2020; NASSCOM, 2022). Moreover, the concentration of incubators, accelerators, and venture capital networks in metropolitan regions has resulted in spatial inequalities in ecosystem development, leaving startups in tier-2 and tier-3 cities relatively underserved (World Bank, 2022).

Overall, the literature underscores the need for adaptive and context-sensitive policy frameworks that evolve with the changing dynamics of entrepreneurial ecosystems. Rather than one-size-fits-all interventions, scholars advocate continuous policy learning, stakeholder feedback mechanisms, and decentralized implementation strategies to ensure that government support remains responsive to the heterogeneous needs of startups across sectors and regions (Stam, 2015; OECD, 2021).

Objectives of the Study

The study is guided by the following objectives:

1. To analyze the range of government policies and initiatives designed to support startups in India.
2. To assess the impact of these policies on startup growth in terms of innovation, funding access, market expansion, and ease of doing business.

3. To identify persistent challenges affecting startup sustainability despite policy support.
4. To evaluate the role of government in balancing regulation with entrepreneurial freedom to promote innovation.

Research Methodology

This study adopts a mixed-methods research design to capture both measurable outcomes and contextual insights.

Quantitative Component

A structured questionnaire survey was administered to **240 startup founders** and **60 early-stage investors** ($N = 300$) across five major sectors: fintech (26%), agritech (18%), biotechnology (16%), renewable energy (20%), and e-commerce (20%). Respondents were selected using stratified random sampling to ensure sectoral representation. The survey instrument included both Likert-scale and objective indicators measuring key variables:

- **Access to funding** (ease of obtaining seed and Series A funding)
- **Regulatory ease** (perceived simplicity of registration, compliance, and taxation procedures)
- **Market entry** (time taken to enter the market and acquire first 100 customers)
- **Innovation output** (number of new products/services launched and patents filed)
- **Business survival rate** (years of operation and revenue continuity)

Statistical Analysis

Descriptive statistics and inferential techniques were employed using SPSS:

Access to funding: 68% of founders reported moderate-to-high improvement in funding access after registering under government schemes such as Startup India. The mean score for funding accessibility improved from **2.8 (SD = 0.9)** pre-registration to

3.9 (SD = 0.8) post-registration on a 5-point Likert scale. A paired t-test indicated a statistically significant difference ($t = 12.41, p < 0.001$).

Regulatory ease: 61% of respondents agreed that regulatory compliance became easier after policy interventions. The mean perceived regulatory ease score was **3.7 (SD = 0.7)**.

Market entry: Startups reported a reduction in average market entry time from **9.4 months to 6.2 months**, reflecting improved access to digital infrastructure and platforms enabled by Digital India.

Innovation output: 47% of technology-oriented startups reported launching at least one new product within the first year of operations, while 18% reported filing at least one patent or design registration. A Pearson correlation analysis revealed a positive relationship between access to funding and innovation output ($r = 0.46, p < 0.01$).

Business survival: Survival analysis indicated that startups receiving policy-linked support had a **three-year survival rate of 64%**, compared to **49%** for those without formal engagement with government schemes. A chi-square test confirmed the association between policy support and survival outcomes ($\chi^2 = 7.82, p < 0.01$).

The study analyzed responses from **300 participants** (240 startup founders and 60 early-stage investors) across fintech (26%), agritech (18%), biotechnology (16%), renewable energy (20%), and e-commerce (20%). Descriptive statistics were computed for key variables measuring the impact of government policy interventions on startup growth.

Table 1: Descriptive Statistics of Key Variables (Likert Scale: 1 = Very Low, 5 = Very High)

Variable	Mean	Std. Deviation	% Agree/Strongly Agree
Access to funding	3.92	0.81	68%
Regulatory ease	3.71	0.74	61%
Market entry support	3.65	0.78	59%
Innovation output	3.48	0.83	53%
Business sustainability	3.58	0.76	57%

The results indicate that respondents perceived **access to funding** and **regulatory ease** as the most positively impacted dimensions of startup growth following engagement with government support schemes.

Inferential Statistical Analysis

● **Impact of Policy Registration on Funding Access**

A paired sample t-test was conducted to compare perceived access to funding before and after formal registration under Startup India.

Mean (Pre-registration) = 2.80 (SD = 0.92)

Mean (Post-registration) = 3.92 (SD = 0.81)

$$t(239) = 12.41, p < 0.001$$

This statistically significant difference suggests that government recognition and associated incentives substantially improved startups' access to external finance.

● **Relationship Between Funding Access and Innovation Output**

A Pearson correlation test examined the association between funding access and innovation output.

$$r = 0.46, p < 0.01$$

The positive and moderate correlation indicates that startups with better access to finance were more likely to introduce new products/services and engage in patenting activity, underscoring the role of financial support in fostering innovation.

● **Market Entry Time and Digital Infrastructure**

Startups reported a reduction in average time to market entry from **9.4 months to 6.2 months** after benefiting from digital infrastructure improvements under Digital India. An independent samples t-test showed a significant difference between digitally enabled startups and others ($t = 3.87, p < 0.01$), indicating that digital public infrastructure contributed to faster scaling and customer acquisition.

● **Policy Support and Startup Survival**

A chi-square test examined the association between receipt of government-linked support and three-year startup survival.

Survival rate (policy-supported startups) = 64%

Survival rate (non-supported startups) = 49%

$\chi^2 = 7.82, p < 0.01$

This suggests a statistically significant relationship between government support and improved startup survival outcomes.

Sector-Wise Comparative Analysis

Table 2: Sector-Wise Mean Scores of Policy Impact

Sector	Funding Access	Regulatory Ease	Innovation Output
Fintech	4.12	3.89	3.76
Agritech	3.64	3.55	3.42
Biotechnology	3.78	3.61	3.69
Renewable Energy	3.85	3.67	3.54
E-commerce	4.01	3.82	3.63

Fintech and e-commerce startups reported higher perceived benefits, reflecting stronger alignment with digital and regulatory facilitation policies, while agritech startups showed relatively lower scores, highlighting sector-specific constraints such as infrastructure and rural market access. These results suggest that policy interventions are significantly associated with improved funding access, faster market entry, and higher survival probabilities among startups.

Qualitative Component

Semi-structured interviews were conducted with **22 stakeholders**, including policymakers, incubator and accelerator managers, and industry experts. Interviews were transcribed and coded using thematic analysis.

Thematic Analysis of Qualitative Interviews

Qualitative interviews (n = 22) were coded using Braun and Clarke's (2006) six-step thematic analysis approach. Five dominant themes emerged:

- **Policy as a Legitimization Tool:** Government recognition enhanced credibility with investors and corporate clients. Respondents noted that formal recognition under government schemes improved investor trust and facilitated partnerships with corporate clients.
- **Implementation Bottlenecks:** Delays in fund disbursement and complex documentation requirements were widely reported. Despite well-designed policies, delays in fund disbursement and documentation requirements were frequently cited as operational bottlenecks.
- **Urban Bias in Ecosystem Support:** Interviewees highlighted that metropolitan hubs benefit disproportionately from incubators and accelerators, while startups in tier-2 and tier-3 cities face limited access to ecosystem resources. Concentration of incubators and accelerators in metro cities limited access for startups in tier-2 and tier-3 regions.
- **Digital Enablement and Scalability:** Enhanced connectivity and digital public infrastructure were identified as critical enablers for scaling platform-based startups, particularly in fintech and e-commerce. Improved digital infrastructure enabled rapid customer acquisition and platform scaling.
- **Need for Policy Adaptability:** Stakeholders emphasized the importance of continuous feedback loops between policymakers and entrepreneurs to ensure policy responsiveness to evolving ecosystem needs. Respondents emphasized continuous policy refinement and stakeholder feedback mechanisms.

Qualitative data from interviews are coded thematically to identify recurring patterns related to policy effectiveness, implementation challenges, and ecosystem support mechanisms. Secondary data from government reports and industry databases are used to triangulate findings and identify macro-level trends in startup growth, investment inflows, and regional distribution of entrepreneurial activity.

Triangulation of quantitative findings with qualitative themes reveals strong convergence:

- Quantitative evidence of improved funding access and survival rates aligns with qualitative perceptions of enhanced legitimacy and investor confidence.
- Statistical improvements in market entry time corroborate interview insights on digital enablement.
- Sectoral disparities mirror stakeholder concerns about uneven regional and sectoral diffusion of policy benefits.

Triangulation of quantitative trends with qualitative themes strengthened the validity of findings and demonstrated convergence between policy intent and observed ecosystem outcomes, while also highlighting persistent implementation challenges. Overall, the data analysis demonstrates that government policies exert a statistically significant and practically meaningful impact on startup growth, while also revealing structural challenges that limit the inclusiveness and uniform effectiveness of policy interventions.

Secondary Data Analysis

- Policy documents and reports published by the Government of India, industry bodies, and multilateral institutions were analyzed to contextualize primary findings. Secondary data indicated.
- A steady rise in the number of formally recognized startups following the launch of Startup India.
- Growth in digital public infrastructure usage and platform-based business models following Digital India.
- Increased sectoral diversification of startups in renewable energy, biotechnology, and agritech aligned with national innovation and self-reliance priorities.

Discussion

The findings of this study strongly affirm the relevance of the Entrepreneurial Ecosystem Framework by demonstrating the interconnected role of government policies with finance, infrastructure, human capital, and market access in shaping startup outcomes. Quantitative results showing statistically significant improvements in access to funding, reduced time to market entry, and higher survival rates among policy-supported startups indicate that government interventions function as catalytic mechanisms within the ecosystem. These outcomes align with ecosystem theory, which posits that supportive institutional arrangements lower uncertainty and transaction costs, thereby enabling entrepreneurial experimentation and scaling. In the Indian context, initiatives such as Startup India and Digital India appear to have strengthened the institutional and infrastructural pillars of the ecosystem by improving regulatory clarity, enhancing digital connectivity, and signaling policy commitment to investors.

The positive association observed between funding access and innovation output further underscores the systemic nature of entrepreneurial growth. The moderate but statistically significant correlation between financial access and innovation suggests that policy-enabled financing mechanisms not only improve firm survival but also enhance the innovative capacity of startups. This reinforces the view that financial capital, when embedded within supportive institutional and infrastructural contexts, contributes to knowledge creation and commercialization. Moreover, sector-wise differences—where fintech and e-commerce startups reported higher benefits compared to agritech—highlight how policy impacts are mediated by the degree of alignment between sectoral needs and available infrastructure. This finding suggests that while broad-based policies create foundational support, sector-specific bottlenecks can moderate their effectiveness.

However, the persistence of bureaucratic bottlenecks and uneven regional diffusion of support mechanisms, as revealed by both quantitative disparities and qualitative themes, indicates that policy design alone is insufficient to ensure inclusive and sustained ecosystem development. Delays in fund disbursement, procedural complexity, and limited awareness of schemes among early-stage and grassroots entrepreneurs constrain the full realization of policy benefits. The concentration of incubators, accelerators, and venture capital networks in metropolitan regions further reinforces spatial inequalities in ecosystem access. These implementation gaps weaken the transmission channels

through which policy intent translates into entrepreneurial outcomes, thereby limiting the effectiveness of otherwise well-conceived interventions.

The findings point to the need for stronger coordination between central and state governments to ensure policy coherence and localized implementation. State-level adaptations of national initiatives, complemented by decentralized incubation infrastructure and region-specific capacity-building programs, can address contextual constraints faced by startups outside major urban hubs. Furthermore, the thematic emphasis on the need for adaptive policy design suggests that continuous monitoring and feedback-driven policy refinement are critical to keeping pace with the rapidly evolving startup landscape. Establishing institutionalized feedback loops between entrepreneurs, incubators, investors, and policymakers can improve policy responsiveness and reduce the mismatch between policy instruments and on-the-ground entrepreneurial needs.

Overall, the discussion highlights that government policies play a pivotal enabling role within the entrepreneurial ecosystem, not merely through the provision of incentives but by shaping institutional trust, infrastructural readiness, and market access. Yet, the sustainability and inclusiveness of these gains depend on effective implementation, intergovernmental coordination, and adaptive governance mechanisms. Strengthening these dimensions can enhance the reach and long-term impact of policy initiatives, ensuring that the startup ecosystem evolves in a balanced and resilient manner across regions and sectors.

Conclusion

This study concludes that government policies and initiatives have played a pivotal enabling role in strengthening the startup ecosystem in India by improving access to finance, enhancing regulatory clarity, expanding digital and physical infrastructure, and fostering innovation-led growth. The empirical evidence demonstrates that startups engaging with policy support mechanisms exhibit higher survival rates, faster market entry, and stronger innovation outcomes, reinforcing the relevance of the Entrepreneurial Ecosystem Framework in explaining how institutional interventions interact with finance, infrastructure, human capital, and markets to shape entrepreneurial performance.

However, the findings also reveal that the effectiveness of policy interventions is uneven across sectors and regions, with bureaucratic bottlenecks, delays in fund disbursement, and limited awareness of schemes constraining the full realization of policy benefits. The concentration of incubation and investment infrastructure in metropolitan areas further perpetuates regional disparities, limiting inclusive ecosystem development. These challenges indicate that policy formulation alone is insufficient; sustained impact depends critically on effective implementation, intergovernmental coordination, and continuous policy learning.

The study therefore emphasizes the need for adaptive, context-sensitive policy frameworks supported by robust monitoring and feedback mechanisms. Strengthening coordination between central and state governments, expanding localized incubation and mentoring infrastructure in tier-2 and tier-3 cities, and simplifying administrative processes can significantly enhance the reach and effectiveness of policy initiatives. By institutionalizing stakeholder feedback and aligning policy instruments with sector-specific needs, policymakers can ensure that the startup ecosystem remains responsive to rapid technological and market changes.

In sum, while entrepreneurial drive remains the backbone of startup growth, the government's role as an institutional enabler is indispensable for building a resilient and inclusive ecosystem. A proactive yet adaptive policy environment can sustain India's innovation momentum and enable startups to contribute meaningfully to long-term economic development and employment generation.

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