

SEMSANG DOLMA BOMZON

Indian Institute of Management Shillong, India

SUBHADIP MUKHERJEE

Indian Institute of Management Shillong, India

ASHUTOSH B MURTI

Indian Institute of Management Shillong, India

DO ENTREPRENEURSHIP POLICIES BENEFIT YOUNG STARTUPS? EVIDENCE FROM INDIAN STARTUPS

Abstract:

We investigate the performance of Indian startups and mature firms for the period 2006-2019, before and after the implementation of the Startup India Policy (SUIP) in 2016. We use the firm-level panel dataset from the CMIE Prowess database to investigate the differential impact of the policy on domestic and international firm performance while controlling for firm and year-specific heterogeneity. We use firm markup and total factor productivity as indicators for domestic performance, and export earnings and total forex earnings represent the international performance of the firms. A Difference-in-Difference (DiD) model is used in our study to examine the differential impact of the policy on the firms.

Our findings show that innovation brought in by startups significantly increased their firm performance after 2016. Before 2016, startups faced lower firm markup indicating stiff competition and the inability to charge higher prices than their mature competitors. The implementation of SUIP 2016 allowed young startups to access infrastructural and financial support that enhanced their innovative capacities allowing them to significantly improve their performance in the domestic and international markets.

Our extended DiD models focus on the impact of SUIP 2016 on returnee startups. Returnee entrepreneurial firms are those firms which are established by return migrants who have studied or worked in a developed country prior to their return to India. The benefits of a returnee's advanced technical and international market knowledge to a firm have been widely discussed in the literature. Our findings show that young returnee entrepreneurial firms significantly increased their international performance. However, no significant change could be found in their domestic performance. The probable reason for low domestic performance can be the lack of local market information or consumer knowledge on behalf of returnee firms. On the other hand, returnees are aware of international markets and have a wider foreign network which can enhance their firm productivity in those markets.

While SUIP 2016 has increased firm performance for all startups in India, it is only a preliminary support system to encourage entrepreneurship. As depicted in our results, the policy has successfully equipped young startups to compete with mature firms in the market. However, the SUIP 2016 is not tailored to reorient returnees in the local context and harness foreign knowledge and talent that young returnee firms bring with them. This has resulted in young returnee startups in India focusing more on their international than domestic performance.

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Keywords:

Firm Performance, Startup, Entrepreneurship Policy

JEL Classification: L25, L26, L53