



## **ENTREPRENEURSHIP & START-UP MOVEMENT IN INDIA: THE ROLE OF CORPORATE SOCIAL RESPONSIBILITY**

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### **ABSTRACT**

In the present era of Globalization, startups are playing a very important role in the growth of the economy. Moreover, the outbreak of COVID-19 and the resultant need for innovation through medicines and vaccinations has further emphasized the importance of Startups. But startups in India face numerous challenges such as the fiscal deficit, lack of innovative ideas, lack of relevant space and infrastructure, etc. Moreover, a Start-up can't grow in isolation and requires handholding at the initial stage. This is where Incubators can hugely support Startups by providing them with the much-needed mentorship and connection to the market but the incubators lack continuous inflows of capital. Further, with the amendment of the Companies Act, 2013 and under the provision of Corporate Social Responsibility (CSR) companies are mandated to spend 2% of the net profit of the last three financial years on activities related to social welfare by Schedule VII of the Act. Thus the study aimed at exploring the significance of CSR contribution toward startups, the criteria under which funds from Corporates would come under the provision of CSR, the need for Entrepreneurship in India, and the existing Policies and provisions to support the Startups. The study concluded by mentioning that Companies' financial contributions to Startups can immensely support Startups in getting off the ground. Furthermore, collaborations between corporates and Startups can be mutually beneficial for the two. Collaborating with a Start-up that is working towards a social cause can benefit the brand image of the company and the Startups can be benefitted from the CSR funds along with the industry knowledge of large corporations.

**Keywords:** Start-ups, Corporate and Start-up linkages, Incubators, Corporate Social Responsibility (CSR), Skill-building for Entrepreneurship, Innovation

### **1. INTRODUCTION**

Start-ups are playing a pertinent role of mitigating the societal challenges in the present times of Globalization. Moreover, there is an increase in the need for new technology and innovations with respect to medicines and vaccinations as a consequence of the devastating impact of the COVID-19 Pandemic. This has further emphasized the necessity for supporting start-ups. Taking cognizance of this fact, India aims to become the 'start-up nation' by capitalizing on its young and enthusiastic demographic profile.

It is prudent to mention that Startups need a conducive environment to reach their full potential. Further, to facilitate this process, business incubators have established themselves worldwide to be the best solution to successfully support Startups and harness young entrepreneurial talent. Such incubators are thus playing an essential role in nurturing the Start-up ecosystem of our country.

Several initiatives have been taken by the Govt. of India (GoI) to support the start-ups and work towards social entrepreneurship. Some of these initiatives include setting up of Technology Business Incubators (TBIs) through the Ministry of Science and Technology, legally mandating corporates with reference to the Companies Act, 2013 under the provision of Corporate Social Responsibility (CSR) to contribute towards approved TBIs and registered NGOs that can in turn support start-ups and facilitate in fulfilling the entrepreneurial dreams of many.

Social Development and Entrepreneurship initiatives are deeply embedded in the ethos of a country like India and there are many community-owned businesses such as Amul, Fab India, etc that are as old as the 1950s (British Council, 2016). Also, India is a focal point of innovation and entrepreneurship but such innovations necessitate handholding to achieve the 'productizing' stage, along with a healthy environment for its sustained growth. A Start-up can't grow in isolation and there is a need for a well-thought-out structure to support it. Incubators can play a huge role in this respect. Moreover, the most significant step in encouraging the private sector to contribute to the development of the nation was the amendment of the Companies Act, 2013 which has encouraged corporations to support the incubation ecosystem in India. It is also anticipated that CSR funds would help solve the funding concern of start-ups and assist them in scaling up their venture, which can result in facilitating them towards creating an impact on the society.

### **OBJECTIVES OF THE STUDY:**

The present paper attempts to study the following objectives -

1. To understand the significance of Corporate Social Responsibility (CSR) programs towards fostering Entrepreneurship in India.
2. To study the need for Entrepreneurship in the fastest growing economy like India.
3. To document the state of Startups through literature review.
4. To give recommendations and a way forward.

### **RESEARCH METHODOLOGY**

The study was conducted using the secondary method of data collection. Rapid desk research of the existing literature surrounding Startups was analyzed. Further, Annual reports of Corporations supporting Startups, journals, research articles, magazines, and newspaper articles were used to collate all the information.

## **2. REVIEW OF LITERATURE**

“Start-up India” scheme that aimed at encouraging entrepreneurial thinking and inculcating relevant skill sets among youth was initiated by the Government of India on 16<sup>th</sup> January 2016. Anitha (2017) expressed that “Start-up India” is an effective policy decision by the Government to encourage youth and augment their potential and would not only benefit their entrepreneurial ventures but also the economy of the country. Moreover, there are numerous opportunities in the field of textile, media, health, event planning, tourism, automobile ventures, etc for someone who wishes to fulfill their entrepreneurial dreams. But on the other hand, there are also many challenges that impede the start-up’s growth such as lack of infrastructure, apprehensions regarding beginning one’s entrepreneurial journey, and skill deficit due to an inability to hire the right talent. Through the study, it was suggested that strong associations between the government and start-ups can remedy such challenges.

Jain (2020) conducted research on the impact of a health crisis like COVID-19 on job opportunities. Through the research process, it was revealed that the uncertainties regarding job creation and employment levels would persist for the coming year. Besides that, the author claimed that there would be heightened job loss as a result of the pandemic. But the existing pandemic situation can give rise to more start-ups as people would be considering start-ups as an effective alternative. It was finally concluded that though the post-covid situation might be challenging with reference to employment creation but the entrepreneurial ecosystem will observe a steep growth.

India is flourishing with young and enthusiastic entrepreneurs but more than 90% of the Startups are unsuccessful because of the absence of innovation, lack of skilled labor, and inadequate funding in India (Institute for Business Value, 2018).

Starting out as an entrepreneur can be a tumultuous journey and the complexities keep increasing as the Start-up grows. Some of the challenges mentioned by (Adhana & Kumar , 2020) in the study include – legal complications, business sustainability, awareness levels, etc. This is where incubators can be very crucial in providing support to Startups. The article further documented the entire ecosystem that promotes entrepreneurship in the form of Government schemes, policies, relaxations, etc. Some of the policies are Pradhan Mantri Laghu Udyog Yojana 2016, Mudra Yojana, Start-up India Learning Program, and India Aspiration fund. Several other relaxations in the form of tax exemptions, relaxation in bidding through Govt. tenders, easier exit strategy under 90-day period, etc. The government has also set up a corpus of Rs. 10,000 Cr. for a 4-year period to support Startups. It was concluded by the researcher that even though such positive initiatives have been flagged off still according to a report by IBM Institute for Business Value and Oxford Economics approximately 90% of the entrepreneurship ventures fail within 5 years as a result of a low level of innovation. Hence, there is a need to channel the talent pool through tangible market research and business planning in order to lead to the success of the start-ups in the country.

Start-up Outlook report 2019 claimed India to be an attractive destination for Startups to grow and flourish. This is due to the low cost of doing business as there is a high level of proximity between vendors and customers. Moreover, India has a humongous market size and has the 2<sup>nd</sup> largest base of Internet users in the world after overtaking China with about 500 million users (Adhana & Kumar , 2020).

### **CORPORATE SOCIAL RESPONSIBILITY (CSR) - A LEGAL MANDATE FOR ORGANIZATIONS IN INDIA**

The CSR regulations and mandates are specified under Section 135 and Schedule VII of the Companies Act, 2013 and the Companies (Corporate Social Responsibility) Rules, 2021.

<p><b><u>Applicability</u></b></p> <ul style="list-style-type: none"> <li>• Turnover &gt; INR 1000 Cr</li> <li>• Net worth &gt; INR 500 Cr</li> <li>• Net profit &gt; INR 5 Cr</li> </ul>	<p><b><u>Requirement</u></b></p> <p>Spend 2% of average net profits of last 3 financial years (profit to be calculated according to sec 198 of the act).</p>
<p><b><u>Responsibility</u></b></p> <ul style="list-style-type: none"> <li>• Disclose members of the CSR committee.</li> <li>• The board is mandated to approve CSR Policy.</li> <li>• Spend on CSR activities in accordance with Schedule VII of the act.</li> </ul>	<p><b><u>Execution</u></b></p> <ul style="list-style-type: none"> <li>• Formation of CSR committee having 3 or more directors, with at least 1 as the independent director (in case of an unlisted public company or a private company, the committee can be constituted with 2 directors).</li> </ul>

<ul style="list-style-type: none"> <li>• Report non-compliance and shortcomings.</li> <li>• Conduct need assessment and impact assessment studies.</li> </ul>	<ul style="list-style-type: none"> <li>• CSR Committee is mandated to - <ul style="list-style-type: none"> <li>➤ Develop CSR Policy &amp; projects, along with an annual action plan and present to the board.</li> <li>➤ Plan modalities of utilization of CSR funds.</li> <li>➤ Implementation, monitoring, and reporting mechanisms for projects.</li> </ul> </li> </ul>
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Source: (KPMG India, 2017)

### **CSR FUNDING FOR INCUBATORS:**

Incubators provide insights and guidance from experts, along with the provision of office space and primary infrastructure during a 2 years period that the start-ups usually spend with an incubator. Infrastructural support is also offered in the form of research laboratories and other technical support (Menon & Malik, 2016).

Corporations that contribute to a fund that has been made to nurture start-ups/ enterprises would qualify as part of CSR expenditure on the basis of the following conditions:

- Support is provided to Technology-based Incubators (TBIs) of Government approved academic institutions or incubators financed by the Central or State Government or any agency or State or Centre owned Public Sector Undertaking that is contributing towards the Indian Institute of Technology (IITs), National Laboratories, and several other Autonomous Bodies {funded by the Indian Council of Agricultural Research (ICAR), publically funded Universities, Council of Scientific and Industrial Research (CSIR), Indian Council of Medical Research (ICMR), DAE, Department of Science and Technology (DST), Defence Research and Development Organisation (DRDO), Department of Biotechnology (DBT), Ministry of Electronics and Information Technology}, that are involved in doing research in the areas of science, engineering, technology & medicine and working towards the realization of Sustainable Development Goals (SDGs) (The Economic Times, 2019).
- Funding legally registered NGOs under either Section 8 of the Companies Act or a Society or a Trust. These are also known as 'Start-up Supporting Entity' (SSE).

With reference to the above-mentioned regulations, a TBI can support any type of start-up/ enterprise on the basis of its expertise, skillsets, and available resources. But that is not the case with Start-up Supporting Entity (SSE), as the SSEs are mandated to only support those start-ups that are working in the thematic areas as specified in Schedule VII.

Start-ups are gradually proliferating in numbers and the Incubators can play a major role in supporting them by not only providing necessary infrastructure and connections to capital & markets but also through guidance and mentorship which are really hard to find. Currently, DST, the Ministry of Information and Communication Technology, various other private corporations, institutions, Banks, and the department of Govt. are promoting more than 120 TBIs in India (Department of Science and Technology).

### **ASSOCIATION BETWEEN CSR AND START-UPS:**

A report by (KPMG India, 2017) documented in detail the legal mandates for CSR contribution towards incubators and how incubators can support start-ups through skill-building, mentorship initiatives, and financing. The study further tabulated the CSR projects run by corporates to support incubators and their impact. A few examples of Incubators supported by Companies namely Mahindra & Mahindra Financial Services, SAP, Tata Motors and Bajaj Electricals, Castrol, etc, that were mentioned in the report include, Villgro, the Centre for Innovation Incubation and Entrepreneurship (CIE) and the Society for Innovation and Entrepreneurship (SINE). The report also stated that there is no specific amount stipulated by the Companies Act under section 135 regarding a contribution towards Technical incubators or enterprises from large corporates. The law only mandates companies to spend 2% of the profits on social welfare activities mentioned in Schedule VII of the Act. Hence the companies can spend 2% of the profits at their discretion, leading to companies spending either all of the mandated CSR expenditure towards supporting incubators or only a part of it. There is also no limit on the number of corporates that can support a particular incubator or a start-up. Therefore, an incubator can obtain funding from numerous corporates. But the law mandates companies to report their own contribution through their annual reports.

The report concluded by stating that start-ups can bring innovation and development to the country through extensive market research undertaken by them. Thus there is a need for collaboration between companies and start-ups as it would lead to the mutual benefit for both the entities, start-ups can be benefited from the corporate expertise and business sense of companies along with the CSR funds and corporates can benefit from start-ups through their innovative ideas and market knowledge

A Report by (British Council, 2016), studied the social, political, and economic situation in India with reference to Social enterprise. It further analyzed the literature on social enterprises and the type of organizations supporting them, either mandated by the various laws and policies of the government or voluntarily. In order to understand the state of social enterprise, the study conducted primary research on 256 social enterprises. Incubators and accelerators, Impact Investors, Multilaterals and donor agencies, Corporations Chambers of commerce and industry, associations, Forums, and Networks are some key actors supporting enterprises in India that were mentioned in the study. The study reported that the support for start-ups has grown over the years but there is still a lack of knowledge and recognition of social enterprises in the country. About 32% of respondents felt a lack in understanding of the concept of social enterprise among banks. Due to this low level of awareness, social enterprises often loss out on the chance of raising capital in the form of debt funding and investments. Also, social enterprises do not come into the ambit of the start-up India scheme launched by

the government nor are social enterprises eligible for CSR funds as currently CSR funds can only be offered to NGOs for social welfare project implementation. Hence there is a need for government to encourage institutions to invest in social enterprises.

Another major issue faced by the entrepreneurship sector is a huge amount of youth population but a major skill deficit. India is a country with half the population below 35 years and can generate a very productive workforce also multiple social enterprises are working with the youth, about 89% intend to increase the number of employees. Still, there existed a skill shortage, about 31% found a deficit in managerial skills, 24% conveyed a dearth of technical skills and about 26% felt hiring junior staff was a major challenge. Besides that, even though, female social enterprises have better gender parity in comparison to the mainstream business, for example, there are about 24% female leaders and about 8.9% in the general business market still the inequality between males and females is high. Moreover, the study revealed that female social enterprise leaders have a hard time seeking funding and are often bombarded with questions related to family, maternity leave, and work-life balance to place a judgment on their capability and skills. The study concluded by mentioning that the social enterprises in India require more funding from key players in the industry in order to have a greater impact, retain talent, bring about policy change for the betterment of the society, and attract external investment. It is the need of the hour for the government to promote awareness about social entrepreneurship and for schools and colleges to foster an entrepreneurial mindset among youngsters that is focused on bringing out societal change.

A report by (Bala Vikasa International Center (BVIC) , 2015) explored the importance of corporations engaging with social enterprises. The benefit of the relationship between social enterprises and corporates is hugely unexplored in India, even though certain associations between the two have worked brilliantly in the past. One example of such a relationship is the collaboration between the Grameen Foundation and the Abdul Latif Jameel Group which is one of Toyota's largest distributors. This collaboration led to the setting up of the Grameen-Jameel network to help microfinance intermediates in the Middle East area. Further, CSR regulations under the Companies Act, 2013 can also help such small enterprises to get support from corporates. It is essential that the CSR programs that are meant to support social enterprises are implemented with low operational costs in order to ensure that the social enterprises benefit the most from the CSR funds.

Further, funding social enterprises can have numerous benefits for corporates as it would result in better community relations and fewer chances of unrest and distrust. Other than that, there will be more customer preference towards corporates that support a social cause (in a study about 41% of people bought items from corporates linked with a cause) and this association can also help in enhancing the brand image of the company as a socially responsible entity, which can be highly advantageous to profit-making. Additionally, corporates are also exploring the BOP market to sell their products that are intended to make profits but also have a social impact associated with it. Hence, corporates are also intending to collaborate with social enterprises and NGOs for not just charity-based programs but towards creating sustainable change. The report concluded by highlighting that the association between the corporates and social enterprises is a timely endeavor at a time when corporates are under intense scrutiny with respect to undertaking socially responsible projects that can benefit the society, the planet, and the larger community.

### SUGGESTIONS

- The CSR support to incubators can help start-ups to fill the gap in funding, and infrastructure, extend assistance in the form of mentorship along with that support in building research & development centers can also be provided. Thus resulting in the proliferation of more entrepreneurship ventures in India.
- Collaboration between corporates and Startups can also be beneficial as this would result in sharing of information about industrial trends and can help corporates in widening their influence in the business arena. Additionally, partnership with start-ups can lead to increased interaction between the corporates and multiple other stakeholders.
- The corporates can even support the entrepreneurs by connecting their skilled staff members with start-ups who can share their industry knowledge. Further, the corporate employees can volunteer a part of their time to start-ups and provide initial support. Incubators can intermediate to ensure the matching of corporate employee expertise with the goal and vision of the startup so as to ensure a good fit between the two.

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### **3. CONCLUSION**

Even though the number of start-ups in the country is steadily increasing still many have a hard time getting off the ground. Lack of funding, innovation, and means of collaboration can be some reasons behind it. But, in order to ensure the sustainability of the startup ecosystem in India access to finances and infrastructure is imminent.

Moreover, incubators have proven to be the most efficient method of supporting Startups but these incubators lack capital inflows. Corporates can play a crucial role in this regard by providing support to these incubators in the form of CSR funds and through these funds, the incubators can solve a plethora of economic, social, and environmental challenges.

Also, there would be a rise in innovation and an increase in the level of opportunities for Startups with the involvement of corporates. This would also give opportunities to corporates to provide varied goods and services. Additionally, supporting start-ups that have a developmental agenda can establish corporates as socially responsible entities.

Other than that, involvement with start-ups that are built on innovative ideas and on the basis of market research can result in corporates being business ready and can also help corporates to respond to the constantly evolving demands of the market. Many leading business experts have stated that "corporates would die if they do not innovate", thus corporates are now engaging with Startups to get access to innovative ideas, technologies, and methodologies, that would in turn help in producing advanced products.

Therefore, collaboration with start-ups would not only have financial benefits to the corporates but would also add value to the corporates in terms of Industry research and development that is undertaken by startups to generate novel ideas. Finally, support through CSR funds by corporates can be mutually beneficial for both the corporates and the entrepreneurs, leading to the development of the economy of the country.

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