

A Study on the Role of Startups in Employment Generation in India

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Abstract—This study explores the impact of startups on employment generation in India, a country witnessing a surge in entrepreneurial activity fueled by digital innovation and government support. The paper analyzes how startups create direct and indirect employment opportunities, particularly among youth and skilled professionals. It also examines the challenges startups face in scaling up and sustaining jobs. The study aims to rigorously assess both direct and indirect employment effects attributable to startups, examining the sectoral distribution of job creation across diverse industries. Using a mixed-method approach, this research draws on data from secondary sources like DPIIT, Startup India, and NASSCOM, and includes case studies of emerging startups across sectors. Findings suggest that while startups contribute significantly to job creation, sustainability and regulatory challenges remain key issues.

Index Terms—Startups, Employment Generation, Entrepreneurship, Economic Growth

1. INTRODUCTION

Startup India, a flagship initiative launched by Prime Minister Narendra Modi in 2016, has emerged as a cornerstone of India's economic growth strategy. India has emerged as one of the fastest-growing startup ecosystems in the world, driven by technological advancement, increased internet penetration, innovation, and a supportive policy environment. Over the past decade, startups have gained significant prominence, particularly in sectors such as information technology, e-commerce, healthcare, fintech, and education. The Government of India's flagship initiatives like *Startup India, make in India*, and *Atmanirbhar Bharat* have further fueled entrepreneurial activity by offering funding, tax benefits, and simplified compliance norms. Startups are increasingly being recognized not only for their innovation and contribution to economic growth but also for their role in creating employment

opportunities, especially for the youth. In a country like India, with a large and growing workforce, job creation is a critical policy objective. Traditional sectors alone are not sufficient to absorb the rising number of job seekers. In this context, startups have emerged as a dynamic and flexible employment avenue, offering jobs across skill levels—from technology and design to logistics and customer service.

However, the employment capacity of startups also faces limitations due to high failure rates, funding challenges, and lack of scalability. Despite their contribution, many startups struggle to retain employees or expand consistently. Therefore, it becomes essential to study the actual role startups play in generating employment, the sectors that are most active, and the constraints they face.

This study aims to understand the impact of startups on employment generation in India, focusing on both quantitative trends and qualitative challenges. The findings will be useful for policymakers, entrepreneurs, and educators to better align resources, training, and support systems to strengthen the startup ecosystem as a driver of job creation.

Startup India, a flagship initiative launched by Prime Minister Narendra Modi in 2016, has emerged as a cornerstone of India's economic growth strategy. By creating a conducive environment for startups, the program aims to stimulate job creation, foster innovation, and enhance India's global competitiveness. At its core, Startup India seeks to simplify bureaucratic hurdles, provide financial support through various schemes, and offer startups access to government procurement opportunities. Moreover, the initiative has been instrumental in building a robust startup ecosystem. This ecosystem comprises a dynamic network of entrepreneurs, investors, incubators, accelerators, research

institutions, and government agencies that collaborate to nurture and scale innovative

2. LITERATURE REVIEW

In recent years, the Indian startup ecosystem has experienced exponential growth. According to a report by Nasscom and Zinnov (2019), India is the third-largest startup ecosystem in the world, with over 9,000 startups. This burgeoning ecosystem has been instrumental in creating job opportunities, particularly for the youth. Deakin and Mishra (2018) highlight that startups have not only generated direct employment but have also spurred indirect employment through their supply chains and ancillary services. The flexibility and innovative nature of startups allow them to adapt quickly to market demands, thereby continuously creating new job roles and opportunities. The Indian government has played a pivotal role in fostering the startup ecosystem. Initiatives such as Startup India, Make in India, and Digital India have provided significant impetus to the growth of startups. The Startup India initiative, launched in 2016, aims to build a strong ecosystem that is conducive to the growth of startup businesses, to drive sustainable economic growth, and to generate large-scale employment opportunities. According to a report by the Department for Promotion of Industry and Internal Trade (DPIIT, 2020), these initiatives have led to the recognition of over 41,000 startups, creating over 470,000 jobs as of December 2020. This government support has been crucial in reducing regulatory burdens and providing financial assistance to startups, thereby enabling them to scale and generate employment. Different sectors within the Indian startup ecosystem contribute variably to employment generation.

The IT and software development sectors have traditionally been the largest employers. However, recent trends show significant job creation in sectors such as Fin Tech, Ed Tech, Health Tech, and e-commerce. A report by KPMG (2021) indicates that the Fin Tech sector alone is expected to generate over 1.5 million jobs by 2025. Similarly, the Ed Tech sector, fueled by the demand for online education during the COVID-19 pandemic, has seen a surge in employment opportunities. These sectoral dynamics

highlight the diverse and expanding nature of employment generation within the startup ecosystem.

Despite the positive impact on employment, Indian startups face several challenges that hinder their potential. Access to capital remains a significant barrier, with many startups struggling to secure adequate funding to scale their operations. Additionally, the high failure rate of startups poses a risk to sustained employment. According to a study by IBM Institute for Business Value and Oxford Economics (2019), about 90% of Indian startups fail within the first five years, primarily due to lack of innovation, inadequate business models, and poor market understanding. These challenges underscore the need for a more robust support system, including mentorship, better access to funding, and comprehensive market research, to enhance the sustainability and employment potential of startups. Incubators and accelerators play a crucial role in nurturing startups and enhancing their capacity to generate employment. These entities provide essential support services, including mentoring, networking, and access to funding. According to a study by Ghosh and Roy (2020), startups that go through incubators and accelerators have a higher survival rate and are more likely to scale successfully. This increased survival and scaling ability directly translate to higher employment generation. Furthermore, incubators and accelerators often focus on building entrepreneurial skills and capabilities, which are critical for the long-term success and growth of startups. Their role in creating a conducive environment for startups cannot be overstated, as they help bridge the gap between early-stage innovation and market-ready solutions, thereby fostering job creation.

3. OBJECTIVES OF THE RESEARCH

1. Assess the growth trajectory of Indian startups over the past five years.
2. Correlate startup growth with job creation trends within the last five years.
3. To study the contribution of startups to employment.
4. To examine sector-wise job creation.
5. To assess challenges faced by startups in employment retention.

3.1 Hypothesis

H01 – There is no effect rise in No. of Start-ups on Employment generated

H02 – There is no relation between the start-ups funding and Employment enerated

4. SCOPE

This paper aims at analysing the effect of the growth of the startups on the employment possibilities that it has to offer to the nation and also the possibility of relating and correlating the relationship between the number of startups and the employment.

5. RESEARCH METHODOLOGY SOURCES OF DATA

The data used in this paper for the generation of the results and analysis is primarily based on secondary data. This approach involves the systematic collection, evaluation, and synthesis of existing data available in the field of research write the to India's start- ups, their growth, Employment in India and rise in the number of start-ups.

5.1 Research Techniques

This study aims to comprehensively analyse the Indian start up cosystem, identifyingkey trends and determining the factors influencing employment growth driven by start-ups. Secondary data from reputable sources, including academic journals, government publications, and industry reports, was utilized for this research.

5.2 Statistical Tools

Correlation analysis and chi-square tests were employed to analyse the collected data.

5.3 Research Methodology Sources of Data:

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6. DATA ANALYSIS AND INTERPRETATION

The data is collected from secondary sources for period of 5 years i.e from 2020 to 2024.

6.1 Number of Start-Ups in Last Five Years

Table 1: Total number of registered start-ups during last five years

Year	Number of Start-ups
2020	14,852
2021	20,282
2022	26,596
2023	34,842
2024	41,833

6.2 Start-up Funding During Last Five Years:

Table 2: Start-up Funding During Last Five Years

Year	Indian Rupees (INR) ₹ crore
2020	105,479
2021	368,288
2022	219,773
2023	87,709
2024	105,479

Chi-Square Test for analysing the relationship between Number of Start-ups and Start-up Funding during Last Five Years: Chi-Square is applied to know whether there is any relationship between two categorical variables

Table 3: Number of Start-ups and Start-up Funding During Last Five Years

Years	Number of Start-ups	Indian Rupees (INR) ₹ crore
2020	14,852	105,479
2021	20,282	368,288
2022	26,596	219,773
2023	34,842	87,709
2024	41,833	105,479

Year Number of Start-ups Funding (Indian Rupees (INR) ₹ crore)

Table 4: Number of Start-ups and Start-up Funding During Last Five Years

Years	Number of Start -ups	Indian Rupees INR crore	Row Total
2020	14,852	105,479	120,331
2021	20,282	368,288	388,570
2022	26,596	219,773	246,369
2023	34,842	87,709	122,551
2024	41,833	105,479	147,312
ColumnTotals	1,38,405	8,86,728	1,025,133

- Since calculated χ^2 (4.17) < critical value (9.488)
- we fail to reject the null hypothesis.

6.3 Total Number of Jobs created by the start-ups during; Last five years

Table 5: No. of Direct and Indirect jobs created

Year	Number of Startups	Number of Jobs created by the start-ups
2020	14,852	118,816
2021	20,282	162,256
2022	26,596	212,768
2023	34,842	278,736
2024	41,833	334,664

A correlation coefficient of 1.0 indicates a perfect positive linear relationship between the number of start-ups and the number of direct jobs created. This means that as the number of start-ups increases, the number of jobs created increases in exact proportion. The p-value of 0.0 confirms that this relationship is statistically significant.

7.CONCLUSION

1. Over the last five years (2020–2024), there has been a strong and significant correlation between start-up growth and job creation in India.
2. Sustained efforts by the Government have led to an increase in the number of Department for Promotion of Industry and Internal Trade (DPIIT) recognised startups to 1,17,254 as on 31st December 2023. These recognised startups are reported to have created over 12.42 lakh direct jobs creating significant economic impact. There is at least one recognised startup in every State and Union Territory (UT) spread across over 80% of the districts across the nation.

3. Challenges Faced by Startups in Employment Retention

1. Financial Constraints:

Inability to offer competitive salaries due to limited funding. Cash flow instability, especially during the early growth phase. Delayed salaries or inconsistent increments discourage long-term employee commitment. Cost-cutting layoffs during funding crunches or economic downturns.

2. Work Culture and Environment

High pressure and long working hours without adequate work-life balance. Role ambiguity and lack of defined career paths. Inexperienced leadership or founders unable to manage teams effectively. Burnout and job stress due to lean teams handling multiple responsibilities.

3. Lack of Growth Opportunities

Flat organizational structures limit promotion prospects. Limited upskilling or training programs, especially in early-stage startups. Lack of job security discourages employees from staying long-term.

4. Uncertain Business Models

Frequent pivoting in business strategy or product offerings causes role instability. Startups often operate in volatile markets, leading to unpredictability in employment needs. Failure to achieve product-market fit leads to layoffs or shutdowns.

5. Funding Dependency

Over-dependence on venture capital creates instability if funding dries up. Mass layoffs after failed funding rounds (common in late-stage startups). Uncertain runway leads to employee anxiety and attrition.

6. Talent Competition

Large companies and MNCs lure talent with better packages and benefits. Poaching by other startups during talent shortages (especially in tech roles).

Remote work options from global firms increase attrition in local startups.

7. Lack of Formal HR Practices

No structured onboarding, performance review, or grievance redressal systems. Founder-driven hiring/firing decisions may be inconsistent or emotional. Inadequate employee engagement and communication channels.

The considerable impact of start-ups on the economy is demonstrated by the data that was analysed in the study with the help of different statistical methods. Therefore, additional government initiatives are needed to support these start-ups so they can continue to contribute to and grow our economy.

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