

IMPACT OF BUSINESS INCUBATORS ON STARTUP SURVIVAL AND GROWTH IN RAJASTHAN

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ABSTRACT:

The dynamic change in the Indian entrepreneurial environment over the past decade has led to an increasing acceptance that startups are an essential element in innovation, employment generation, and regional development. Several initiatives by policymakers have highlighted the importance of an environment-friendly ecosystem for the development and support of new, emerging ventures by reducing the extremely high probability of startup failures. For instance, business incubators are organized institutions aiming to provide support to new startups with essential needs ranging from mentorship support to technical support and access to funding networks. For Rajasthan, various initiatives by policymakers under the Rajasthan Startup Policy and the iStart Rajasthan initiative have highlighted the development of incubation facilities and improving the entrepreneurial ecosystem in Rajasthan. However, there is a lack of academic research on assessing the role and effectiveness of business incubators on improving startups at the state level. The current research is based on the qualitative approach brought about by the application of secondary data. The intention of the current research is to focus on the impact of business incubators on the survival of startups. For that purpose, the data have been collected from government reports, policy studies, startup ecosystem studies, publications of the incubation centers of Rajasthan, and scholarly studies. The current analysis is based on the thematic analysis of the support services offered by the incubation centers and how that influences the sustainability of the business.

This study shows that incubators are highly beneficial for reducing operational risks, helping entrepreneurs enhance their managerial acumen, and gaining access to financial and institutional networks. This study has added significance for the literature on the regional entrepreneurial ecosystem and policy implications for the incubation support systems in Rajasthan.

KEYWORDS: Incubation Support, Innovation, iStart Rajasthan, Rajasthan Startup Policy, Startup Growth, Startup Performance.

INTRODUCTION

In recent years, entrepreneurship has been recognized as a key factor for economic development, innovation, and job creation in emerging markets. Startups are essential for the development of technology and the diversification of the regional economic structure. The Indian startup ecosystem has experienced tremendous growth over the past decade. This growth is due to various policy initiatives, advancements in technology, and growing entrepreneurial ambitions. A notable achievement in supporting startups and innovation was the launch of the Startup India program. As part of integrated national attempts to support startup growth, some states have come forward by launching startup policies to support local entrepreneurial growth. With this in mind, it is important to note the purposes of the Rajasthan Startup Policy.

Despite the enabling environment, many startups experience high failure rates owing to financial limitations, inadequate managerial capabilities, market restrictions, and barriers in the regulatory environment. Business incubators have proven instrumental in helping solve the problems affecting startups. The incubation centers offer entrepreneurs access to shared facilities, mentors, technical support, networking opportunities, and access to investors. This reduces the risks involved in running a business and enhances the capabilities of managers, thus helping improve survival and growth prospects.

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In the context of Rajasthan, incubation support is enabled with the help of several state-approved centers and platforms that include iStart Rajasthan. iStart Rajasthan extends incubation support services to early-stage ventures that include structured support services like mentorship support, techno hub, infrastructure support, and virtual incubation during the early stages of development. These initiatives aim not only to increase the number of startups but also to improve their survival and growth outcomes. However, there is very less research that has been undertaken to understand the role of incubation support in affecting the performance outcomes of startups in the state.

Survival and growth of startups are considered very important factors for the success of the entrepreneurial system. Survival entails the capability of startups to sustain their operations, whereas growth means expansion of revenue, job creation, markets, and profitability.

OBJECTIVES

- To analyze the various types of incubation support mechanisms.
- To examine the impact of business incubation support on startup survival and growth in Rajasthan.

RESEARCH METHODOLOGY

This study is based on secondary data obtained by means of articles, research papers and websites.

TYPES OF INCUBATION SUPPORT

1. **Mentorship:** Mentoring has been found to increase the absorptive capacity of startups, which is the ability of startups to recognize, assimilate, and apply knowledge obtained from the external environment (Cohen & Levinthal, 1990). Hackett and Dilts (2004) also found that the incubation program's success is highly associated with the level of advisory interaction. Moreover, Bergek and Norrman (2008) found that mentoring reduces the level of strategic uncertainty and increases the efficiency of decision-making in startups. In the context of the Rajasthan initiative, the mentorship program reduces the inexperience of the startups, which are mostly first-generation startups, and hence increases the probability of survival by reducing avoidable operational errors.

Unlike in other mentorship programs, mentorship in the iStart Rajasthan initiative is not only based on mentorship but also includes domain-specific advisory interventions. For instance, incubated startups are often associated with experienced entrepreneurs, financial experts, legal experts, and industry experts who offer continuous mentorship in terms of business model refinement, value proposition creation, regulatory compliance, price strategies, market positioning, and investor preparedness.

2. **Financial Assistance:** Financial constraints have been identified as a major reason for startup failure. The impact of financial facilitation can be understood by referring to signaling theory, which states that institutional support or government support acts as a signal of credibility for private investors (Lerner, 2010). Colombo et al. (2012) found that startups that receive financial support through incubation centers show higher growth patterns compared to those that do not receive support. Financial support also helps entrepreneurs avoid costly informal borrowing and improve cash management, leading to higher continuity of operations.

The financial assistance under the Rajasthan startup scheme includes seed support, sustenance support for early-stage entrepreneurs, support for developing prototypes, marketing support, and reimbursement of costs incurred in developing intellectual properties (Government of Rajasthan, 2022). In terms of qualitative analysis, financial facilitation through government support would help startups overcome financial difficulties during the initial stages of operation, when there is a deficiency of revenue, and also help entrepreneurs strategically invest in innovation and marketing.

- 3. Infrastructure Support:** Supporting infrastructure services include co-working spaces, shared office spaces, meeting rooms, digital connectivity, and, in the case of technology-oriented incubators, laboratory and equipment access. The effect of incubators on new entrepreneurs' entry barriers lies in the reduced capital requirement. According to the Resource-Based View (RBV), the possession of valuable, rare, and non-substitutable resources enables the competitiveness of the firm (Barney, 1991). The incubator's infrastructure represents a physical strategic resource that enables cost and productivity efficiencies in the business. Bruneel et al. (2012) emphasized that contemporary incubators are shifting their focus from resource provision to resource orchestration, aiming to leverage the overall performance of the startup. In the context of Rajasthan, in the non-metropolitan districts, the availability of professional and technology-oriented spaces could play an important role in the legitimacy and effectiveness of startup operations. The support provided by the incubators indirectly contributes to the survival and growth of the startup, respectively, in terms of cost and productivity efficiencies.
- 4. Networking:** According to Granovetter (1985), embedded social networks play a vital role in economic performance, as "strong and weak ties can be important for accessing opportunities." Scillitoe and Chakrabarti (2010) also found that "incubator-mediated networks improve access to funding and strategic alliances." Apart from facilitating access to funds, networking also helps entrepreneurs enhance their credibility and brand.
For startups in Rajasthan, as compared to metropolitan cities, institutional support in terms of networking assumes a significant role in bridging gaps, as it helps entrepreneurs overcome information asymmetry and reach a wider market, thereby facilitating their growth. One of the most important intangible support measures provided under iStart is "networking." The support under this measure includes investor summits, demo days, startup expos, government-industry interaction, and interaction with academic institutions. The platforms help entrepreneurs connect with venture capitalists, angel investors, companies, and potential clients.
- 5. Policy Facilitation:** Recognition via iStart gives startups a formal recognition within the state's ecosystem. Suchman argued that institutional legitimacy is a critical aspect in mobilizing resources and gaining the trust of stakeholders (Suchman, 1995).
Furthermore, policy facilitation mechanisms simplify bureaucratic processes and improve access to government contracts. These mechanisms ease the ease of doing business for startups within the state's ecosystem.
From an institutional theory point of view, recognition via formal endorsement reduces uncertainty and improves the probability of organizational survival by integrating startups into a recognized governance structure. Hence, policy facilitation mechanisms serve a symbolic and supportive purpose.

IMPACT OF INCUBATION ON STARTUP PERFORMANCE

- 1. Startup Survival:** Survival of startups has been generally understood as the capacity for the startup to continue operations past the initial period, which is usually characterized by resource constraints, market ambiguity, and inexperience on the part of the startup founders. The mortality rate for startups in the early stages in emerging startup ecosystems, such as Rajasthan, tends to be higher compared to more established ecosystems.

With the iStart Rajasthan model, the survival capacity for startups is enhanced by the incorporation of financial and non-financial interventions, as outlined in the Rajasthan Startup Policy. The financial support for seed capital, sustenance allowance, and the provision of subsidized infrastructure services reduce the overall cost pressures on the startup in the formative stages. Additionally, the mentorship component reduces the overall strategic blunders that are likely to occur on the part of startup founders, who are in most cases inexperienced in the startup journey. From the perspective of risk reduction, the incubation component acts as a shock absorber for the startup, providing it with cushioning against mortality in the early stages.

- 2. Revenue Growth:** Revenue growth represents the level of market acceptability and viability of a startup's products or services. The incubation support impacts revenue growth in various ways, including refining the startup's business model, facilitating market linkages, and supporting branding activities. The availability of networking platforms provided by iStart provides a startup with an opportunity to connect with markets, investors, and corporates, hence increasing customer acquisition opportunities.

Financial support provided to startups allows them to invest in marketing activities, technology enhancements, and human resource additions, which impacts revenue growth.

In Rajasthan, where market access issues affect startups, especially those located in tier-II and tier-III cities, incubation support addresses this problem by connecting them to state-level and national-level platforms, hence increasing revenue growth opportunities compared to independent startups that do not have access to incubation support platforms.

- 3. Innovation and Product Development:** "Innovation capability is the key to the competitiveness and differentiation of startups." Incubation ecosystems help in the development of innovation by facilitating technical mentoring, collaborative workspaces, and access to research-focused organizations. The interactive environment provided by incubation centers is a key driver of innovation for startups. This environment promotes the exchange of knowledge and learning from others, which is a key driver of innovation and creativity in problem-solving and product development.

Under the incubation policy in Rajasthan, startups also get the benefit of intellectual property rights mentoring and patent filing support. This is a key addition to the innovation process from idea conceptualization to product development and commercialization. Incubation enhances the research linkages and minimizes the experimentation costs for startups. This enhances the innovation outputs and product-market synergies for startups, the improving the competitiveness of startups.

- 4. Employment Generation:** The performance of startups is not only gauged in financial terms but also in socio-economic contributions such as the creation of jobs. The incubation services improve the capacity and expansion of the business, which consequently affects the hiring process. As the startups become stable and scalable in generating revenues, they require an increased number of skilled and semi-skilled employees. The capacity-building programs improve the management capabilities of the entrepreneurs, enabling them to develop an efficient organizational framework and human resource systems. Financial stability also improves the capacity to meet financial obligations.

In the case of Rajasthan, the state focuses on the employment of the youth, and the incubated startups improve the creation of jobs, especially in the field of technology, services, and manufacturing industries. This implies that incubation indirectly contributes to the development of the economy in the region through the expansion of jobs.

- 5. Market Expansion and Scalability:** Scalability refers to the capacity of the startup to increase operations without a corresponding increase in costs. Incubation support enhances the scalability of the startups through improved strategic planning, investor readiness, and institutional credibility. Exposure to startup summits, exhibitions, and procurement schemes from the government expands the geographic and sectoral scope of the startups. Policy-backed recognition under the Rajasthan Startup Policy enhances the legitimacy and branding of the startups and aids the creation of partnerships with corporations and institutions. The startups are able to create distribution networks and supply chain links through the networking support. Incubation supports startups in making the transition from local startups to scalable startups, thereby increasing their long-term competitiveness and contribution to the state's entrepreneurial ecosystem.

CONCLUSION

In the present study, the impact of business incubation support on the survival and growth of startups has been investigated in the entrepreneurial ecosystem of Rajasthan. On the basis of the findings of the qualitative study of secondary data, policy documents, incubation reports, and relevant literature, the study has highlighted the multidimensional and catalytic role of incubation in improving the performance of startups. It has been found that the provision of incubation support to startups under the iStart Rajasthan initiative and the policy framework of Rajasthan Startup Policy have significantly contributed to improving the survival rates of startups by reducing the risks of financial, managerial, and market-related problems faced by startups during the early stages of their operation.

In terms of growth performance, incubation support has positively impacted revenue growth, profitability, innovation potential, and scalability. Financial support and investor networking have a positive impact on capital availability, while subsidized infrastructure reduces operational costs, thus enhancing financial sustainability. Market access programs have increased brand presence, providing startups with opportunities to transcend their traditional markets. In addition, capacity-building programs have enhanced management skills, which are critical for long-term sustainable competitiveness.

The research findings show that incubation activities have a positive impact on the broader socio-economic environment through employment creation and fostering entrepreneurial activities in the region. In this case, the state of Rajasthan has enhanced its entrepreneurial landscape through institutionalization of support mechanisms, thus increasing the resilience of startups.

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