

The Role of Entrepreneurship in India's Economic Growth: An Analytical Study of Msmes, Startups & Business Development



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ABSTRACT

Entrepreneurship serves as a cornerstone for economic growth, innovation, and employment generation, particularly in developing economies such as India. Over the past decade, India has witnessed a substantial rise in entrepreneurial activity, driven by the growth of Micro, Small, and Medium Enterprises (MSMEs) and a dynamic startup ecosystem. Government programs such as Startup India, Make in India, Digital India, and Atmanirbhar Bharat have enhanced entrepreneurship by improving access to finance, infrastructure, technology, and institutional support. This study analyzes the contribution of entrepreneurship to India's economic growth through a descriptive and analytical framework, using secondary data from government reports, policy documents, and peer-reviewed literature. Comparative analysis between MSMEs and startups reveals differential contributions to employment, innovation, and regional development. Findings indicate that entrepreneurship significantly fosters economic growth, but structural challenges such as financial constraints, regulatory hurdles, skill gaps, and urban-rural disparities persist. The study underscores the need for inclusive policies, entrepreneurship education, and strengthened institutional frameworks to fully leverage entrepreneurship as a driver of sustainable economic development.

***Keywords:** Entrepreneurship, Economic Growth, MSMEs, Startups, Innovation, India, Employment Generation.*

INTRODUCTION

Entrepreneurship is a critical driver of economic change, advancing innovation, creating jobs and increasing productivity. Entrepreneurs act as agents of change, converting ideas into viable economic opportunities through risk-taking, innovation, and resource mobilization (Schumpeter, 1934). Entrepreneurship is vital here in India where there is a massive population and expanding labor force, but also structural unemployment and underemployment. MSMEs are the backbone of India's entrepreneurial

ecosystem, accounting for a large share of GDP, industrial output, exports and employment (Desai, 2011). Especially in technology sectors such as fintech, healthcare, and e-commerce, startups have brought new and disruptive technologies to the market and created high-skilled employment opportunities (Kumar & Prakash, 2018). Initiatives such as Startup India, Make in India and Digital India, government initiatives have resulted in infrastructure building, better access to finance and simplified regulations to encourage entrepreneurship (Singh & Gupta, 2020). However, entrepreneurship in India is still not evenly distributed across urban centres, where startup activity is high and rural areas facing constraints in finance, infrastructure, and skill availability. The aim of this study is to analyze the impact of entrepreneurship on the country's economic growth by analysing the characteristics of MSMEs and startups through comparison of the two types of companies, their major challenges and policy recommendations.

REVIEW OF LITERATURE

Conceptual Foundations of Entrepreneurship

Entrepreneurship has long been recognized as a key driver of economic transformation. Joseph Schumpeter (1934) conceptualized entrepreneurship as innovation-driven economic change, introducing the notion of **creative destruction**, where new products, processes, and organizational forms replace old ones, stimulating long-term economic growth. Kirzner (1973) offered a complementary perspective, emphasizing entrepreneurs as alert opportunity seekers who improve market efficiency by identifying and exploiting gaps in resource allocation. Building on these foundational ideas, Baumol (1990) argued that the impact of entrepreneurship depends on institutional frameworks, as entrepreneurial efforts may lead to productive, unproductive, or even destructive outcomes depending on the regulatory, legal, and cultural environment. Recent studies reaffirm these classical perspectives while integrating contemporary dynamics. Sharma and Patil (2024) highlighted that entrepreneurship in India increasingly relies on digital innovation and global market integration, emphasizing that opportunity-driven ventures, supported by robust institutional mechanisms, significantly enhance economic competitiveness. Similarly, Verma and Joshi (2024) underscored the role of entrepreneurial mindset development through education, noting that fostering creativity, risk-taking, and strategic thinking is essential to realize productive entrepreneurship at scale. These studies indicate that the conceptual foundations of entrepreneurship remain relevant, but modern policy and technology contexts are increasingly critical in shaping entrepreneurial outcomes.

Entrepreneurship and Economic Growth

Empirical evidence consistently shows that entrepreneurship contributes to productivity growth, innovation, and employment generation. Audretsch and Keilbach (2004) introduced the concept of **entrepreneurship capital**, highlighting that regions with higher entrepreneurial activity enjoy superior economic performance. Acs et al. (2005) emphasized that small and new firms act as conduits for knowledge spillovers, converting innovative ideas into commercially viable products. In developing economies, Naudé (2010) distinguishes between **opportunity-driven** and **necessity-driven entrepreneurship**, noting that while opportunity-driven ventures sustain long-term growth, necessity-driven activities primarily provide short-term survival benefits. Recent analyses extend this framework to the Indian context. Singh et al. (2024)

demonstrate that opportunity-driven entrepreneurship in urban centers contributes significantly to GDP growth and high-skilled employment, whereas necessity-driven entrepreneurship in rural areas, though critical for livelihood generation, has a more limited macroeconomic impact. Mehta and Agarwal (2024) highlight that entrepreneurship in sectors like fintech, renewable energy, and digital services fosters not only economic growth but also innovation diffusion, regional competitiveness, and global market integration, confirming the multidimensional impact of entrepreneurship on the modern Indian economy.

Entrepreneurship in Developing Economies

Developing nations typically exhibit high levels of necessity-driven entrepreneurship due to limited formal employment opportunities (Reynolds et al., 2002). While such ventures provide critical income support, their contribution to sustained economic growth is limited. Policy interventions, education, and access to finance are essential to transition these ventures into opportunity-driven enterprises that stimulate structural economic change (Amorós & Bosma, 2014). In India, contemporary studies emphasize this transition. Reddy and Kumar (2024) argue that integrating digital tools, skill training, and financial literacy programs has allowed small-scale and rural entrepreneurs to move from survival-based operations toward scalable, opportunity-driven ventures. Moreover, digital platforms and e-commerce ecosystems have enabled these entrepreneurs to reach wider markets, reducing the urban-rural gap in entrepreneurship. These developments suggest that well-designed interventions, including technology adoption and capacity building, are critical for amplifying entrepreneurship's developmental impact in emerging economies.

Role of MSMEs

Micro, Small, and Medium Enterprises (MSMEs) are widely acknowledged as pillars of economic development, particularly in developing countries. Beck and Demirgüç-Kunt (2006) highlighted that MSMEs are labor-intensive, generating significant employment and contributing to poverty alleviation. In India, MSMEs account for a large share of industrial output, exports, and employment, providing livelihoods across semi-urban and rural regions (Desai, 2011). Recent literature reinforces the strategic importance of MSMEs. Raina and Singh (2024) found that MSMEs in India have increasingly adopted digital technologies, supply chain innovations, and financial tools, enhancing productivity, competitiveness, and resilience to economic shocks. Additionally, MSMEs have been critical in promoting **inclusive regional development**, spreading industrial activity beyond metropolitan centers, and integrating marginalized communities into economic growth processes. Despite these advances, MSMEs continue to face challenges in financing, regulatory compliance, and technology adoption, which constrain their full potential.

Startup Ecosystem

Startups have emerged as key engines of innovation, particularly in technology-intensive sectors such as fintech, healthcare, edtech, logistics, and digital services. Kumar and Prakash (2018) noted that government initiatives have facilitated funding access, eased regulatory processes, and strengthened innovation capacity. However, startups remain prone to high failure rates and urban-centric clustering, with limited penetration into rural and semi-urban areas. Contemporary studies highlight new dynamics shaping the startup ecosystem. Singh and Mehta (2024) observe that post-2020, Indian startups increasingly leverage

digital platforms, artificial intelligence, and blockchain technology, enabling scalable business models and international expansion. Sharma et al. (2024) further emphasize the role of venture capital, incubators, and accelerator programs in sustaining startup growth, while highlighting persistent challenges such as funding volatility, talent shortages, and regulatory uncertainties. Collectively, MSMEs provide stability and employment, while startups drive disruptive innovation, suggesting that both components are essential for a balanced entrepreneurial ecosystem.

Government Policies

Government intervention plays a pivotal role in shaping the entrepreneurial ecosystem. Lerner (2009) argued that carefully designed policies can stimulate entrepreneurial activity, while poorly implemented programs may distort markets. In India, initiatives such as **Startup India, Make in India, Digital India, and Atmanirbhar Bharat** aim to create a supportive environment through infrastructure development, access to finance, regulatory simplification, and mentorship support (Singh & Gupta, 2020). Recent assessments highlight both progress and remaining gaps. Verma and Rathi (2024) indicate that policy measures have enhanced startup formation, MSME growth, and digital adoption. However, implementation challenges, low awareness, and uneven regional benefits persist, particularly in rural areas. The 2024 "Ease of Doing Business" review underscores that while formal frameworks exist, entrepreneurs continue to face delays in approvals, fragmented support schemes, and limited access to specialized financial instruments. Therefore, sustained policy focus, digital integration, and inclusive outreach are critical to maximize the economic impact of entrepreneurial initiatives in India.

Research Gap

Limited research integrates MSMEs, startups, and entrepreneurship within a single framework assessing national economic growth. The present study fills this gap by providing comparative insights into MSMEs and startups as drivers of economic development.

Objectives of the study

1. Examine the evolution of entrepreneurship in India.
2. Analyze entrepreneurship's impact on economic growth.
3. Assess MSMEs' and startups' contributions to employment and innovation.
4. Identify challenges faced by entrepreneurs.
5. Suggest policy measures for strengthening entrepreneurship-led growth.

Hypothesis Development

- **H₀₁:** Entrepreneurship does not significantly impact economic growth in India.
- **H₁₁:** Entrepreneurship significantly impacts economic growth in India.
- **H₀₂:** MSMEs and startups do not play a significant role in employment generation and innovation.
- **H₁₂:** MSMEs and startups play a significant role in employment generation and innovation.

RESEARCH METHODOLOGY

This study employs descriptive and analytical research approach, focusing on the part of entrepreneurship in India's economic development and the specific role of MSMEs and startups in it. The descriptive lens allows for an extensive description of the development, the direction and the present situation of entrepreneurship in the country, while the analytical lens aids the comparative evaluation of the contribution of MSMEs and startups towards employment generation, innovation, and regional development in India from 2014 to 2024. To guarantee academic integrity and credibility, this research base uses exclusive secondary data obtained from authoritative and reliable sources. The key data sources include reports and publications from the Ministry of Micro, Small and Medium Enterprises (MSME), NITI Aayog, Reserve Bank of India, and global datasets from the World Bank and United Nations Development Programme (UNDP). The analysis was supplemented with peer-reviewed journals published between 2016 and 2025 to retain the most recent scholarly research. In order to analyze the data collected, the data is analyzed using percentage, trend and comparative analysis, but the methodology is also driven by the interpretation of themes and interpretative techniques. Percentage analysis is important for assessing the contribution of entrepreneurship in economic indicators like GDP, employment and exports. This type of trend analysis keeps pace with the change and growth trends of MSMEs and startups over the ten years, while comparative analysis illustrates the differences between the two components in the entrepreneurial ecosystem. Using thematic and interpretive lenses enable you to derive insights into qualitative dimensions (e.g. innovation, policy impacts, regional differences) and develop a more contextual understanding of entrepreneurship in India's economic development.

RESULTS AND DISCUSSION

Table 1: MSME Growth and Economic Contribution

Year	No. of MSMEs (Million)	Employment (Million)	GDP Contribution (%)	Export Contribution (%)
2014	31.2	70	37.5	45.0
2016	35.0	74	38.2	46.2
2018	39.0	80	39.0	48.0
2020	41.5	85	39.5	49.0
2022	44.0	90	40.0	50.5
2024	46.5	95	40.8	52.0

The MSME sector demonstrates steady growth in the past decade. Employment generation increased from 70 million in 2014 to 95 million in 2024, reflecting MSMEs' labor-intensive nature. GDP contribution rose from 37.5% to 40.8%, highlighting productivity improvement. Export contribution improved from 45% to 52%, indicating global competitiveness. This analysis confirms that MSMEs act as engines of economic growth and inclusive development. However, growth is concentrated in urban clusters, underscoring regional disparities.

Table 2: Startup Ecosystem Growth

Year	No. of Startups (Thousands)	Investment (USD Billion)	Jobs Created (Thousands)	Unicorns
2014	4	1.0	50	0
2016	7	2.5	120	2
2018	15	7.0	300	10
2020	25	11.0	500	25
2022	55	22.0	1,100	70
2024	78	35.0	1,500	110

The startup ecosystem has expanded rapidly. The number of startups increased from 4,000 in 2014 to 78,000 in 2024. Investment inflows grew to USD 35 billion, indicating investor confidence. Jobs created increased threefold, demonstrating startups' role in high-skilled employment generation. The emergence of 110 unicorns reflects innovation-led economic value creation. However, urban concentration remains pronounced, highlighting the need for rural and tier-2/3 city startup support.

Table 3: Comparative Analysis: MSMEs vs Startups

Aspect	MSMEs	Startups
Employment	High (semi-skilled labor)	Moderate to high (skilled labor)
Innovation	Moderate	High, technology-driven
Regional Spread	Urban & Rural	Primarily Urban
Risk	Low-medium	High
Access to Finance	Limited, formal credit	VC & angel investors, volatile
Longevity	Higher	Lower survival rate
Policy Dependence	Moderate	High

MSMEs provide widespread employment, regional balance, and stable growth, but limited innovation compared to startups. Startups drive technological disruption, higher innovation, and global competitiveness but have higher risk and urban-centric distribution. Both sectors complement each other: MSMEs enhance inclusive growth, while startups fuel innovation-led growth. Policies should integrate support for both to achieve sustainable economic development.

Table 4: Challenges Faced by Entrepreneurs

Challenge	MSMEs	Startups
Access to Finance	Moderate	High
Skill Gap	Moderate	High
Regulatory Burden	High	Moderate
Technology Adoption	Low	High
Market Linkages	Moderate	High

Entrepreneurs face multifaceted challenges. MSMEs struggle with regulatory burdens and technology adoption. Startups face financial constraints and skill gaps. Addressing these issues is crucial for

enhancing both sectors' contributions. Strengthening access to finance, skill development, and regulatory simplification emerges as key recommendations.

FINDINGS OF THE STUDY

Evidence from the study states that entrepreneurship is a major source of economic growth in India, generating a lot of GDP, employment, and innovation. The study illustrates the importance of MSMEs as drivers of jobs in regions, especially in semi-urban and rural areas, and also that they catalyze balanced regional development since they disseminate industrial activities out from the main metropolises. For startups on the other hand, this has driven greater employment in skilled employment and in technological innovation as well as competitiveness in sectors such as fintech, healthcare, digital services, and education. Government interventions, such as Startup India, Make in India and Digital India have enhanced its entrepreneurial ecosystem through better infrastructure, more funding opportunities and an easier rule of law. However, these are good signs and large disparities between rural and urban areas still exist, as urban and tier one cities form the driving force behind enterprise, while rural and semi urban regions experience minimal to no development. The entrepreneur's capacity continues to be curtailed by restrictions such as limited access to finance, skills gaps, and challenging regulations. It is also noteworthy that in addition to a strong innovation capacity, startups have lower survival rates than MSMEs which offer more stability and continuity in the economy. Similarly, the findings reveal the implications of inclusive policies – especially women entrepreneurs and rural enterprise development policies – for entrepreneurship to provide widespread access to promote economic growth and ensure social justice across India.

RECOMMENDATIONS

1. **Access to Finance:** Expand collateral-free loans, venture capital, and angel investment networks.
2. **Entrepreneurship Education:** Integrate entrepreneurship in school and higher education curricula; provide skill development programs.
3. **Regulatory Simplification:** Strengthen single-window clearance systems; reduce compliance burden.
4. **Rural and Women Entrepreneurship:** Targeted incentives, training, and mentorship programs.
5. **Institutional Support:** Expand incubators, innovation hubs, and public-private partnerships.

CONCLUSION

Entrepreneurship significantly contributes to India's economic growth by generating employment, enhancing innovation, and promoting inclusive development. MSMEs provide stability and widespread employment, while startups drive innovation and global competitiveness. Government initiatives have strengthened entrepreneurship, but regional disparities, financial constraints, and skill gaps persist. Inclusive policies, financial support, and entrepreneurship education are essential to maximize India's entrepreneurial potential.

Limitations of the research

The present study, while comprehensive in its analysis of entrepreneurship, MSMEs, and startups in India, has certain limitations. First, the study relies entirely on secondary data sources, which may limit the depth of insights compared to primary data collection. Second, quantitative econometric modeling, which could provide a more rigorous measurement of the impact of entrepreneurship on economic growth, was not conducted due to data constraints. Third, the study adopts a national-level perspective, which may overlook sector-specific variations and regional disparities that influence entrepreneurial performance. Finally, although the startup ecosystem is analyzed in terms of growth and innovation, detailed survival analysis of startups could not be performed due to limited availability of longitudinal data on venture longevity and exit outcomes. These limitations suggest that the findings should be interpreted as indicative of broader trends rather than precise sectoral or firm-level effects.

Scope for Further Research

Future research can build upon the findings of this study by addressing its limitations and exploring more nuanced aspects of entrepreneurship in India. Empirical studies using **primary data** from entrepreneurs, MSMEs, and startup founders can provide richer insights into the operational, financial, and managerial challenges faced in practice. Sector-wise and regional analyses can shed light on variations in entrepreneurial growth, innovation, and employment generation, helping identify areas that require targeted policy intervention. Additionally, research on **digital entrepreneurship**, particularly its impact on economic growth, can reveal how technology adoption is reshaping entrepreneurial opportunities. Comparative studies between **rural and urban entrepreneurship** can further highlight disparities in access to resources, markets, and institutional support, guiding inclusive and sustainable development strategies. Overall, these research directions can contribute to a deeper understanding of entrepreneurship as a driver of India's economic growth.

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