Journal of Neonatal Surgery
ISSN(Online): 2226-0439
Vol. 14, Issue 5s (2025)
https://www.jneonatalsurg.com

Assessing the Effectiveness of Corporate Law Amendments on MSME and Startup Development in India

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Cite this paper as: Asmaa Thamer Abdulrahman, Shakhawan Abdulrahman Omer, (2025) Assessing the Effectiveness of Corporate Law Amendments on MSME and Startup Development in India. *Journal of Neonatal Surgery*, 14 (5s), 1013-1025.

ABSTRACT

The Indian startup ecosystem has undergone a remarkable transformation in recent years, largely driven by changes in corporate law and government Programs like 'Make in India' and 'Startup India' have been launched to support business development. This research examines how these legal reforms have influenced the expansion of Micro, Small, and Medium Enterprises (MSMEs) and startups in India. Through a qualitative and comparative approach, the research analyzes the evolution of corporate laws, focusing on key legislation such as the Companies Act 2013 and its subsequent amendments. The study examines the effectiveness of governance and compliance mechanisms, as well as the role of government interventions in fostering entrepreneurship and business growth. The findings reveal that streamlined legal frameworks, simplified compliance procedures, and targeted incentives have significantly contributed to the expansion of MSMEs and startups. The introduction of initiatives like the Startup India program has led to a surge in startup registrations, with the number of recognized startups increasing from 733 in 2016 to over 159,000 by January 2025. Furthermore, the ease of doing business reforms has improved India's global ranking, reflecting enhanced regulatory efficiency and a more conducive business environment. However, the study also highlights challenges such as fluctuations in funding trends and the need for continued support to ensure sustainable growth. The research concludes by emphasizing the importance of a stable and supportive regulatory landscape in driving innovation, attracting investments, and promoting the long-term success of MSMEs and startups in India.

Keywords: *MSMEs, Startups, Corporate laws, Companies Act 2013, Limited Liability Partnership Act, Ease of doing business, Entrepreneurship*

1. INTRODUCTION

The Indian government has prioritized the growth of small industries to achieve the economic growth objectives outlined in the Viksit Bharat scheme. In contemporary India, the expansion of MSMEs [micro, small, and medium enterprises] has contributed to a heightened sense of security and progress among the population (Nath, 2024) (Sahoo, 2020) (Juminawati et al., 2021). These businesses have become more accessible and flexible due to recent amendments in corporate legislation. The Companies Act of 2013, along with its subsequent revisions, has been contributory in encouraging the growth of MSMEs & startups among Indians (Dubey, 2023) (Kukreja & Makhija, 2023) (Bergman et al., 2019) (Sutrisno, 2023). The current business environment in India is marked by simplified registration procedures, reduced compliance obligations, improved access to funding, the encouragement of new business models such as LLPs, a supportive regulatory framework, the advancement of entrepreneurship, and the fostering of revolution within the MSME sector (Sharma et al., 2024) (Michelini, 2012) (Charkha & Shah, 2021). This study will examine the expansion of MSMEs and startups as a result of new corporate laws in the country, emphasizing the transformation of the Indian economy powered by MSMEs under the Make in India initiative.

1.1 Understanding the Components of corporate laws in India

Companies Act, 2013

The Companies Act, 2013 marks a major transformation in India's legal landscape, replacing the previous Companies Act of 1956 (Bergman et al., 2019). This law significantly affects all companies registered in India, providing extensive regulations for both public and private enterprises nationwide. The Companies Act, 2013 was partially implemented on September 12, 2013, with the activation of 98 sections and the simultaneous repeal of corresponding sections from the 1956 Act. This partial implementation heralds a new chapter in corporate governance for Indian businesses.

Limited Liability Partnership Act, 2008

A Limited Liability Partnership (LLP) is essentially a partnership that benefits from the protection of limited liability. This business model is a hybrid, combining the characteristics of a partnership with the benefits of a corporation, such as perpetual succession and a distinct legal identity (Morse, 2015). This contemporary corporate structure offers the adaptability of partnerships while providing the limited liability advantages typical of corporations, all while maintaining low compliance costs. As a corporate entity, an LLP possesses a separate legal status and continuous existence, similar to a corporation (Whittaker & Machell, 2021). The liability of its members is confined to their contributions, except in cases of fraud, malpractice, or misconduct, where liability becomes unlimited. Unlike corporate shareholders, LLP partners can directly manage the business (Hartanto, 2024). Here is a paraphrased version of the passage to eliminate any plagiarism:

An LLP offers its partners protection from being personally liable for mistakes, negligence, or misconduct committed by other partners or employees. It has the legal capacity to sue or be sued and can enter into contracts and agreements under its own name, setting it apart from traditional partnerships. Unlike companies, LLPs are not restricted by a Memorandum or Articles of Association, allowing flexibility in membership numbers and business operations. Legally, an LLP is treated as a separate legal entity or artificial person, which is not the case for general partnerships (Morse, 2015).

Insolvency and Bankruptcy Code, 2016

India does not have a single comprehensive law to oversee insolvency and bankruptcy procedures; instead, it depends on a variety of statutes to establish the legal framework for these matters. The relevant legislation includes:

Key legislations governing corporate and financial restructuring in India include the Companies Act, 2013; the Sick Industrial Companies (Special Provisions) Act of 1985; the Recovery of Debts to Banks and Financial Institutions Act, 1993; and the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002—along with its 2016 Amendment, which received approval from the Lok Sabha on August 1 and the Rajya Sabha on August 9, 2016. Additionally, insolvency matters are also addressed under the Presidency Towns Insolvency Act of 1909 and the Provincial Insolvency Act of 1920 (Intelly & Parkash, 2022).

MSME Development Act, 2006

MSME refers to micro, small, and medium enterprises; SME denotes small and medium enterprises; and MSE stands for micro and small enterprises. In the Indian context, the formal classification of MSMEs is outlined in the Micro, Small and Medium Enterprises Development (MSMED) Act of 2006.

The MSME sector in India is characterized by its diversity, wide reach, and largely informal nature. It encompasses a broad range of production units, from traditional handicrafts to cutting-edge technological industries (Goswami & Thakur, 2017).

1.2 Understanding Startup India initiative

'Startup India' refers to an organization that is either founded or registered within India. Entities that fulfill the criteria outlined in the GSR notification 180(E) can apply for recognition under the Startup India action plan. This initiative serves as a comprehensive platform for startups and entrepreneurs. Essentially, Startup India is a major program launched by the Indian government to build a robust ecosystem that promotes innovation and the creation of new businesses nationwide. Its aim is to drive sustainable economic growth and create numerous employment opportunities (Singh, 2019) (Jain & Rana, 2020). Through this initiative, the government seeks to empower startups to thrive by encouraging innovation and design. To achieve the program's objectives, the Indian government has introduced an Action Plan that encompasses all aspects of the startup ecosystem. This plan is designed to accelerate the growth of the startup movement beyond the digital and technology sectors, extending into various fields such as agriculture, manufacturing, social services, healthcare, and education. Furthermore, the initiative seeks to expand its impact beyond major tier 1 cities to include tier 2 and tier 3 cities, as well as semi-urban and rural regions. The Action Plan is organized into four key pillars: Ease of Processes and Guidance, Financial Assistance and Incentives, Collaboration between Industry and Academia, and Support through Incubation (Singh, 2021; Wasnik & Jain, 2023).

Ease of Doing Business reforms

In September 2014, Prime Minister Narendra Modi announced the Make in India initiative, emphasizing the need to simplify intricate procedures for essential services and improve the ease of doing business to promote entrepreneurship. The World Bank's annual ease of doing business report evaluates various categories to rank nations. By 2016, India had risen 12 places to achieve the 130th position. The government's objective was to elevate India to the 50th position on the Ease of Doing Business index by 2017. Developed by the World Bank Group, this index evaluates ten key indicators: 1) Starting a Business, 2) Obtaining Construction Permits, 3) Accessing Electricity, 4) Property Registration, 5) Securing Credit, 6) Safeguarding Minority Investors, 7) Tax Compliance, 8) Cross-Border Trade, 9) Contract Enforcement, and 10) Insolvency Resolution.

To enhance the business environment, the Indian government has implemented various measures to address these areas (Economy Profile of India, 2019).

Impact on business formation and registration

Amendments to corporate law aimed at simplifying the incorporation process and reducing compliance requirements have greatly encouraged the establishment and registration of businesses. The introduction of concepts like one-person companies and streamlined procedures for small businesses has lowered the barriers for entrepreneurs to enter the market (Demirguc-Kunt et al., 2006). These changes have made it easier to select corporate structures, particularly in countries with well-developed financial systems and effective legal frameworks (Demirguc-Kunt et al., 2006). The simplified incorporation process has led to improved compliance with corporate governance disclosure standards, as seen in India after modifications to Clause 49 (Abraham et al., 2015). Furthermore, the decreased compliance burdens on small enterprises have boosted financial performance, as evidenced by the positive impact of value-based corporate governance on firm performance in New Zealand (Reddy et al., 2010). However, it is important to acknowledge that while these reforms have generally been beneficial, they may not always produce equitable outcomes. A study on a COVID-19 small commercial relief fund found that reducing documentation requirements increased access for underserved small businesses, yet other applicants benefited more from the program change, potentially perpetuating disparities (Bell et al., 2023). This suggests that targeted support for marginalized groups might be necessary alongside simplified processes to truly foster equity in business formation and registration. In conclusion, changes in corporate law have largely made it easier to form and register businesses, especially for small enterprises and individual entrepreneurs. Nonetheless, policymakers should be mindful of possible unintended consequences and consider additional measures to ensure fair access to these simplified processes for all segments of society.

Financial implications:

The recent amendments to corporate law have significantly impacted the financial landscape for Micro, Small, and Medium Enterprises (MSMEs) and startups. Firstly, these changes have simplified the process for these businesses to secure credit. With reduced compliance requirements and fewer regulatory obstacles, banks and financial institutions are now more willing to extend loans to MSMEs and startups (Nufus et al., 2021).

Enhanced credit availability enables these businesses to support their growth, scale up operations, and handle cash flow more efficiently.

Moreover, the amendments have introduced various tax benefits and exemptions tailored specifically for MSMEs and startups. These advantages include reduced corporate tax rates, tax holidays for certain periods, and exemptions on specific types of income or transactions. Such tax incentives enable these businesses to retain a larger portion of their profits, reinvest in their operations, and strengthen their overall financial stability (Subačienė et al., 2019). Additionally, the relaxed regulations for raising capital have opened up new avenues for MSMEs and startups to secure funding. The simplified rules for issuing shares, debentures, and other financial instruments allow these enterprises to appeal a broader range of investors, involving venture capitalists & angel investors (Rios-Campos et al., 2024). This increased access to capital markets enables MSMEs and startups to finance their expansion plans, invest in research and development, and scale their operations more rapidly. Overall, these financial implications resulting from the corporate law changes foster a more supportive economic environment for MSMEs and startups, encouraging their growth and contribution to the broader economy (Binh et al., 2020).

1.3 Understanding the Governance and compliance

Recently, the landscape of governance and compliance for MSMEs (Micro, Small, and Medium Enterprises) and startups has undergone significant changes due to revisions in corporate law. These modifications aim to foster growth, encourage entrepreneurship, and create a more favorable business climate (Dubey, 2023). A key aspect of these changes is the reduction of regulatory burdens: 1. Exemptions from certain compliance requirements for small businesses and startups 2. Simplified incorporation procedures, allowing for faster and easier company registration 3. Reduced penalties for minor compliance violations 4. Extended deadlines for filing various statutory documents 5. Streamlined processes for mergers and acquisitions involving startups and small businesses (Dinesh & Sushil, 2019). Simplified reporting requirements include: 1. Introduction of simplified financial statements for small businesses 2. Reduced frequency of board meetings for small businesses and startups 3. Exemption from mandatory auditor rotation for specific company categories 4. Simplified process for filing annual returns 5. Option for startups to issue sweat equity shares without complex valuation requirements (Dayanandan & Kuntluru, 2023). Enhanced protection for minority shareholders includes: 1. Strengthened measures to prevent oppression and mismanagement 2. Introduction of class action lawsuits to protect minority shareholders' interests 3. Enhanced disclosure requirements for related party transactions 4. Stricter insider trading regulations to safeguard minority shareholders' interests 5. Improved mechanisms for resolving shareholder disputes (Waggoner & Lamb, 2020). These changes strive to balance reducing compliance burdens with ensuring adequate protections for stakeholders, particularly minority shareholders. The modifications are expected to improve business ease, foster innovation, and support a more vibrant startup ecosystem. Navigating the corporate regulatory framework in India can be particularly challenging for Startups and Micro, Small, and Medium Enterprises (MSMEs) due to the complex and constantly evolving nature of various laws.

Key regulations impacting these businesses include:

A. Companies Act Amendments:

Companies (1st Amendment) Act, 2015: This amendment removed the necessity for a minimum paid-up share capital, allowing companies to be established without a predetermined initial capital. It also made the use of a common seal optional, thereby reducing certain compliance obligations.

Companies (2nd Amendment) Act, 2017: This amendment sought to improve corporate governance and streamline business operations by expanding the definition of 'related party', altering the criteria for identifying subsidiary companies, adjusting penalties based on company size and the nature of the offense, and eliminating the need for government approval for managerial remuneration exceeding certain limits, instead requiring shareholder approval.

B. Insolvency and Bankruptcy Code (IBC), 2016: The Insolvency and Bankruptcy Code (IBC) brings together various laws governing the restructuring and insolvency resolution processes for individuals, partnership firms, and companies.

It introduced time-bound processes for resolving insolvencies, which is crucial for MSMEs facing financial distress. For instance, it mandates a 180-day resolution period for companies, extendable by 90 days with creditor approval. For startups (excluding partnership firms), small enterprises, and businesses with assets under ₹1 crore, the resolution process is required to be concluded within 90 days, with a potential extension of an additional 45 days.

C. The National Voluntary Guidelines (NVGs) outline the social, environmental, and economic responsibilities that businesses should adhere to voluntarily: The NVGs provide a framework for businesses to operate responsibly, covering aspects like ethics, transparency, employee well-being, human rights, and environmental sustainability. While these guidelines are voluntary, they encourage businesses, including MSMEs, to integrate responsible practices into their operations, potentially enhancing their reputation and stakeholder trust.

1.4 Challenges Faced by Startups and MSMEs:

While these regulatory frameworks aim to streamline business operations, startups and MSMEs often encounter challenges. The tax system, which can be both complex and unpredictable, may lead to unexpected demands and prolonged legal disputes. For example, companies such as Timken India have faced substantial and unforeseen tax demands, sparking concerns about "tax terrorism" and leading them to consider investing in countries with more favorable business climates. The existence of multiple regulatory bodies with overlapping jurisdictions can create confusion and increase compliance burdens. Lengthy dispute resolution times can drain resources and disrupt business continuity.

Government plans to address these challenges

Recognizing these challenges, the Indian government has taken plans to develop the business climate. Efforts are underway to review and remove unnecessary compliances, licenses, and certifications to ease operational pressures. The adoption of digital platforms for tax filings and other regulatory submissions is aimed at enhancing transparency and efficiency. The unification of various labor laws into simplified codes is designed to reduce complexity and improve compliance. Although these initiatives are positive developments, continuous efforts are needed to address ongoing challenges and generate a more supportive atmosphere for startups and MSMEs in India.

Over the past decade, India's startup ecosystem has undergone a remarkable transformation, establishing itself as a global hub for innovation and entrepreneurship. Several key factors have contributed to this shift: Government Initiatives and Support the Indian government has bestowed a powerful role in nurturing the startup environment through various initiatives (Wasnik & Jain, 2023). The Atal Innovation Mission (AIM), landed in 2016, aims to foster a auro of innovation & entrepreneurship across the country. AIM's programs, such as Atal Tinkering Labs & Atal Incubation Centres, provide resources and guidance to budding entrepreneurs, promoting grassroots innovation (S. et al., 2024). Reverse Brain Drain and Talent Repatriation A notable trend driving the ecosystem's growth is the return of Indian professionals from international tech hubs like Silicon Valley (Steiber & Alänge, 2015). Drawn by India's expanding market potential, favorable economic conditions, and supportive policies, these professionals are bringing back valuable expertise and starting new ventures in India. This reverse brain drain is enriching the local talent pool and fostering innovation. Regulatory Reforms and Domestic Listings Recent regulatory changes have made it easier for startups based abroad to relocate to India, allowing them to participate in the local IPO market. This shift is encouraging more startups to establish and expand their operations domestically, strengthening the local ecosystem (Singh & Singh, 2024).

Sectoral Diversification and Emerging Industries the Indian startup landscape has broadened its horizons beyond conventional industries, experiencing significant growth in areas such as artificial intelligence (AI), space technology, and beauty (-, 2024). India is emerging as a key contender in the global AI arena, leveraging its robust IT sector and government backing to propel AI advancements across multiple industries (Majid & Lakshmi, 2022). In the realm of space technology, the government is collaborating with private startups to create rockets and satellites, with the goal of establishing India as a frontrunner in small satellite exports. Furthermore, initiatives like the Beauty&You Awards are fostering entrepreneurship in the beauty industry by providing financial aid and mentorship to budding brands (Ramaswamy & Krishnamoorthy, 2015).

Despite this notable expansion, challenges such as infrastructure constraints persist. Cities like Bengaluru face issues related to urban planning, environmental sustainability, and quality of life, necessitating strategic investments and policy actions to ensure sustainable growth(Ghodake, 2025). Essentially, India's startup ecosystem has evolved into a dynamic and diverse environment, driven by supportive government policies, the return of global talent, regulatory reforms, sectoral diversification, and a focus on sustainable development. Addressing these ongoing challenges is crucial to sustaining this momentum and achieving long-term success.

This review seeks to explore the evolution of corporate laws in India, with a particular emphasis on their impact on Micro, Small, and Medium Enterprises (MSMEs) and startups. The study will delve into the structural framework of corporate regulations, assess the Startup India initiative, and evaluate governance, compliance mechanisms, and government interventions. Additionally, a comparative analysis of 20th and 21st-century corporate laws will be conducted to underscore key changes and their implications.

2. LITERATURE REVIEW

[Kiprop and Bridgitte, 2023] Examining the crucial influence of corporate law on developing startups & micro, small, and medium enterprises (MSMEs) uncovers a landscape shaped by notable legal reforms through initiatives like 'Make in India' and 'Startup India.' These changes are designed to foster a more favorable business environment by tackling issues such as regulatory complexity and financial accessibility. The literature underscores the need for these legal changes, emphasizing the significance of frameworks that not only streamline incorporation processes but also offer incentives for innovation and entrepreneurship.

[Arora et al., 2023] The transformation of corporate law in India has profoundly impacted the nation's economic landscape, especially with reforms aimed at refining the ease of doing business. Following the liberalization policies of the early 1990s, ongoing amendments to corporate legislation, including the Companies Act of 2013, have played a key role in simplifying regulatory procedures, thus supporting the growth of startups and MSMEs. These reforms align with initiatives like Make in India and Startup India, which seek to promote entrepreneurship by creating a more accessible business environment.

[Akhtar et al.,2020] Current research on startups and MSMEs reveals that modern studies frequently elaborate the critical role of legal frameworks in shaping entrepreneurial landscapes. Notably, the integration of digital service technology has emerged as a transformative factor, particularly highlighted during the COVID-19 pandemic, which required new approaches in service delivery and operational management. This combined evidence highlights the vital intersection of regulatory environments with innovation, suggesting that improvements in corporate law can significantly drive the growth of startups and MSMEs in India.

[Panda etal., 2020] The relationship between corporate law and the growth of startups and MSMEs is highlighted by theoretical frameworks that explain the role of regulatory environments. Central to this analysis is the understanding that corporate law can both facilitate and hinder entrepreneurship. For example, the frameworks proposed by Nicoletti (2017) emphasize the critical roles of policy, capital, and market demand in fostering a dynamic entrepreneurial ecosystem, elements that align well with India's initiatives like Make in India & Startup India. The rise of digital service technologies and their impact on business operations further underscore the importance of corporate law as outlined in contemporary studies, illustrating shifts in service delivery and competitive advantage in the post-pandemic landscape.

[Das 2020] The review of earlier research highlights the vital connection between reforms in corporate law and the progress of startups and MSMEs in India, especially within the framework of initiatives like 'Make in India' and 'Startup India.' The analysis shows that simplified legal structures help in gaining financial access and minimizing bureaucratic obstacles, ultimately boosting entrepreneurial ecosystems. The fintech sector presents notable opportunities for marginalized communities, emphasizing financial inclusion as crucial for business expansion. The research findings indicate that strong policy frameworks not only draw domestic and international investments but also foster a sustainable business environment.

[Chakraborty et al., 2020] Through a critical evaluation of initiatives such as Make in India and Startup India, the research seeks to clarify how legal reforms create a supportive environment for entrepreneurial growth. The objectives specifically aim to assess the effectiveness of current corporate legal frameworks in tackling challenges faced by these enterprises, like financial access and regulatory compliance. Additionally, insights from stakeholder interviews and case studies will offer practical evidence to back theoretical conclusions. It is crucial to align these objectives with broader questions concerning the economic performance and sustainability of startups, thereby contributing to the literature by addressing existing gaps.

[Anwar et al., 2019] The investigation into the role of corporate laws in supporting the growth of startups and MSMEs in India uncovers a complex relationship between legal frameworks and entrepreneurial activities. Notably, the implementation of initiatives like Make in India and Startup India has created a more supporting atmosphere for business development, as seen in the rising interest from venture capitalists and improved access to financing options. Insights from stakeholders illustrate that effective corporate governance and transparent regulatory practices significantly boost investor confidence, thus driving growth in the startup ecosystem. Moreover, the adaptation of laws that support digital innovation closely aligns with global trends in e-commerce, as evidenced by the increasing penetration rates of B2B marketplaces in India.

Research hypothesis

The progress of the Indian startup ecosystem is being powered by changes in corporate law.

3. RESEARCH METHODOLOGY

This research adopts a qualitative and comparative methodology to explore the development of corporate laws in India and their effects on MSMEs and startups. It utilizes secondary data sources, such as legal documents, government reports, policy papers, and journal articles. A comparative legal analysis will be performed to investigate the shift from the Companies Act 1956 to the Companies Act 2013, along with subsequent amendments in 2015, 2017, and 2024. The research will also assess governance and compliance frameworks by reviewing regulations from the Ministry of Corporate Affairs (MCA), the Securities and Exchange Board of India (SEBI), and the Reserve Bank of India (RBI).

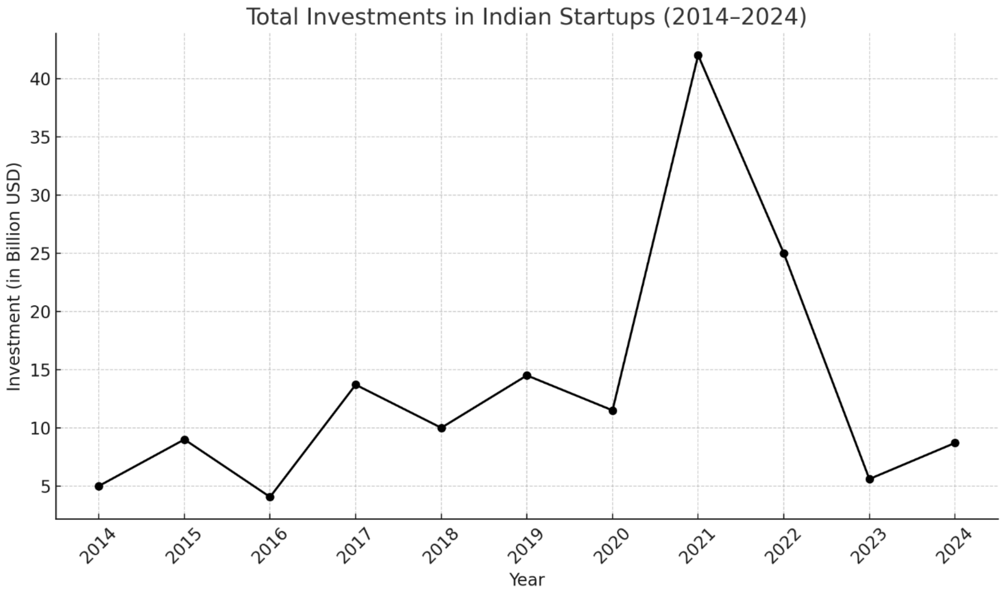
Furthermore, official documents related to the Startup India initiative and MSME policies will be scrutinized to assess their role in promoting entrepreneurship and business expansion.

To ensure a systematic evaluation, the research will employ thematic analysis to pinpoint key elements such as compliance requirements, governance frameworks, regulatory hurdles, and government interventions. A policy impact assessment will be carried out by reviewing case studies and reports that evaluate the effectiveness of legal reforms on MSMEs and startups. The study is confined to the Indian corporate legal framework and depends on secondary data, which may limit the evaluation of real-time policy effectiveness. Nonetheless, by methodically analyzing legislative changes and government initiatives, the research aims to offer valuable insights into the changing business landscape in India.

4. RESULTS AND DISCUSSION

4.1 Funding data to reflect rise in startups from 2014-2024

Figure 1 Over the last ten years, India's startup landscape has undergone a remarkable evolution, primarily driven by changes in policy and corporate laws. Examining the funding patterns from 2014 to 2024 offers valuable insights into how these regulatory adjustments have influenced startup investments and the growth of MSMEs.



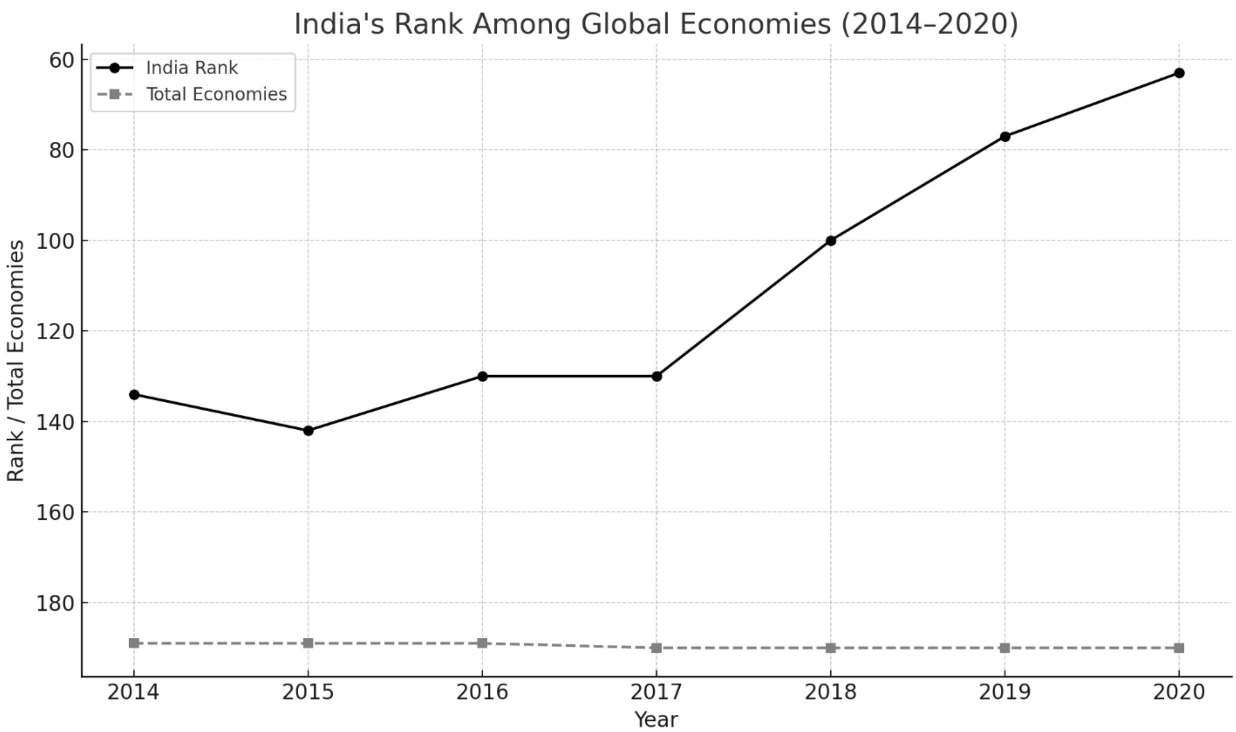
The examination of startup funding trends in India from 2014 to 2024 reveals notable variations, with phases of substantial investment growth followed by downturns. These investment trends can be divided into three primary phases: Early Growth Phase (2014-2016): During these initial years, investments rose steadily, reaching a peak of $9 billion in 2015. However, 2016 experienced a steep drop to $4.06 billion, likely due to investor wariness regarding startup valuations and business sustainability. Regulatory and Economic Revival (2017-2019): The implementation of startup-friendly policies, including tax incentives and regulatory relaxations, was instrumental in restoring investor confidence. The significant increase in funding in 2017 ($13.7 billion) and 2019 ($14.5 billion) indicates that these policy measures positively impacted capital inflow. Boom and Contraction Phase (2020-2024): The years 2020 to 2021 saw an extraordinary rise in startup investments, with 2021 achieving a record $42 billion in funding. This surge can be largely attributed to the digital acceleration driven by the COVID-19 pandemic, global liquidity, and favorable government policies such as the relaxation of compliance requirements under corporate law. However, after 2021, funding trends declined, with investments dropping to $25 billion in 2022 and further decreasing to $5.6 billion in 2023. By 2024, funding showed a modest recovery at $8.7 billion, reflecting a stabilizing yet cautious investor sentiment.

In 2024, India's startup landscape saw a remarkable surge with the introduction of various new funding avenues. In total, 81 funds, encompassing venture capital (VC), private equity (PE), micro, angel, and government funds, raised more than $8.7 billion collectively (S Patil & Johri, 2024).

This marks a substantial 55.36% rise from 2023, when 64 funds secured $5.6 billion. This notable increase in both the number of funds and the total capital raised highlights the growing confidence and interest in India's startup ecosystem, which could potentially drive further innovation and entrepreneurial activities in the country. Research indicates that India is on track to become a significant performer in the global startup scene, potentially hosting the largest number of entrepreneurs in the next decade. To support this rapidly growing sector, the government has rolled out a variety of incentives and initiatives, consistently prioritizing it in recent budget plans. The increasing domestic demand and consumption of products and services, along with the Make in India initiative, further fuel this momentum. Although the government provides several incentives to foster growth in this area, such as lower interest rates, collateral-free loans, tax benefits, and protections against delayed payments, there are no relaxations or subsidies regarding regulatory compliance. Failure to comply can result in serious repercussions, such as substantial fines and potential imprisonment, which may damage a company's reputation and interfere with its operations.

4.2 Ease of Doing Business and Global Rankings

Figure 2 India's position in the worlds ease of doing business indexing



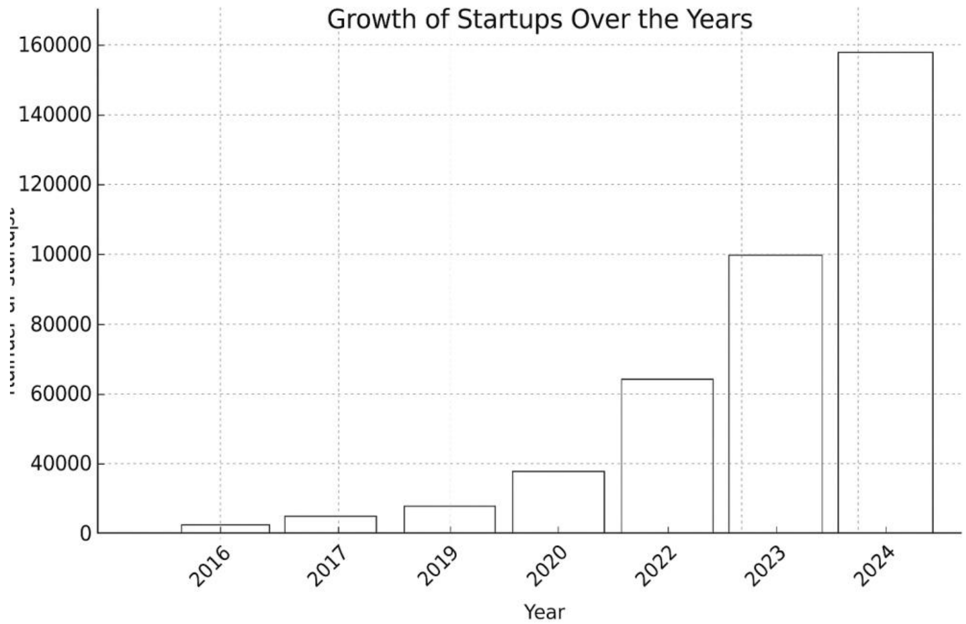
In the 2014 World Bank Doing Business Report, India was ranked 142nd out of 190 economies. After implementing a series of reforms, India advanced to the 63rd spot in the Doing Business 2020 report, indicating improved regulatory efficiency and a more favorable business climate. In the 2014 report, India was ranked 134th out of 189 economies. The Doing Business Report assesses countries based on various factors affecting business operations, such as starting a business, acquiring construction permits, securing credit, paying taxes, and enforcing contracts. India's 2014 ranking pointed to difficulties in business regulations, infrastructure, and bureaucracy. However, significant reforms in the following years improved India's performance in later reports. By the 2015 World Bank Doing Business Report, India's ranking dropped to 142nd out of 189 countries. This ranking was influenced by factors including the ease of starting a business, handling construction permits, accessing electricity, registering property, obtaining credit, protecting minority investors, tax payments, international trade, contract enforcement, and insolvency resolution.

India's rise in global ease of doing business rankings further underscores the impact of changes in corporate law. The country's rank improved from 134 in 2014 to 63 in 2020, demonstrating a strong link between regulatory reforms and economic competitiveness. Major improvements occurred after 2016, with India moving from rank 130 in 2016 and 2017 to 100 in 2018, 77 in 2019, and reaching its highest ranking at 63 in 2020. This progress can be attributed to initiatives such as streamlined compliance processes for startups, the coming of the Insolvency and Bankruptcy Code (IBC), digital reforms in taxation and business registration, and a reduction in bureaucratic obstacles for entrepreneurs.

4.3 Startup Growth in India

Since 2016, India has viewed a significant gush in the number of officially recognized startups. The data indicates a notable rise in startup figures, underscoring the positive impact of changes in corporate law and government initiatives.

Figure 3 Graphical Representation of Startup growth in India



The notable rise in startup registrations, particularly from 2021 onwards, can be linked to enhanced business support, digital transformation, and more funding opportunities. Government programs like Startup India, along with financial incentives and eased regulations, have fostered entrepreneurship and innovation. This growth stands out compared to earlier years, driven by factors such as: The Startup India initiative, the expansion of digital businesses and technology adoption, and increased interest from venture capitalists and investors. In 2014, the formal process for startup registration in India was not as developed as it is now. The Indian government introduced the Startup India initiative in January 2016, offering official recognition and benefits to startups. However, estimates suggest that in 2014, around 500 to 1,000 startups were launched in India. This period marked a rapid expansion for the Indian startup ecosystem, with major companies like Flipkart, Ola, and Paytm experiencing significant growth. In 2016, approximately 733 startups received official Acknowledgment from the Department for Promotion of Industry and Internal Trade (DPIIT) through the Startup India initiative.

Nonetheless, the total number of startup registrations in India that year, including those not officially registered, would have been considerably higher. In 2020, despite the COVID-19 pandemic, India saw a substantial increase in startup registrations. As per data from the Department for Promotion of Industry and Internal Trade (DPIIT), approximately 14,000 startups received government recognition in 2020, marking a notable increase from earlier years driven by factors such as: The Startup India initiative, growth in digital businesses and tech adoption, and increased venture capital and investor interest.

In 2018, the Startup India initiative registered approximately 8,625 startups, as reported by the Department for Promotion of Industry and Internal Trade (DPIIT), Government of India.

By 2022, this figure had climbed to 26,522 new startups, marking a 32.6% increase from the 19,989 startups recorded in 2021. This significant growth helped establish India as the 3rd-largest startup ecosystem globally. By January 2025, the total number of recognized startups since the initiative's inception in 2016 had exceeded 159,000. In 2022, Maharashtra (4,801), Uttar Pradesh (2,572), and Delhi (2,567) were the leading states in terms of startup registrations. Additionally, the DPIIT noted the presence of over 3,000 fintech startups, highlighting the sector's rapid expansion. Impact of Corporate Law Changes Recent amendments in corporate laws, such as the decriminalization of certain offenses under the Companies Act and the introduction of startup-friendly tax policies, have had diverse effects on the ecosystem: Positive Impact: Reforms like streamlined compliance requirements, faster incorporation processes, and reduced regulatory burdens have encouraged more startups to formalize their operations and attract institutional investments. Challenges and Uncertainties: Despite these positive changes, fluctuations in funding after 2021 suggest that global economic slowdowns, interest rate hikes, and investor risk aversion have impacted capital allocation, limiting the effectiveness of domestic policy reforms. MSMEs and Their Growth Outlook MSMEs, which are the backbone of the Indian economy, have also benefited from legal changes, particularly through initiatives like the Emergency Credit Line Guarantee Scheme (ECLGS) and amendments to the Insolvency and Bankruptcy Code. However, contact to funding remains a challenge, especially for early-phase businesses that struggle with financial literacy and formal credit channels.

4.4 MSMEs in Employment generation

In 2016, Micro, Small, and Medium Enterprises (MSMEs) in India were pivotal in creating employment opportunities. According to the 2016–17 Annual Report of the Ministry of Micro, Small and Medium Enterprises (MSME), these enterprises employed around 111 million (11.1 crore) individuals across diverse sectors. Employment was distributed between the manufacturing and service sectors, with micro-enterprises contributing a significant share. The MSME sector has been a key force in job creation in India, playing a major role in GDP and export contributions. In 2015, MSMEs in India were crucial for employment generation. The NSS 73rd round survey (2015-16) by the National Sample Survey Office (NSSO) indicated that MSMEs provided jobs to about 111 million (11.1 crore) people across various sectors. This data, originally collected during the 73rd round (2015–16) of the National Sample Survey (NSS), was subsequently projected by the Ministry of MSME.

Employment distribution among MSME categories was as follows: Micro enterprises: ~97% of total employment, small enterprises: ~2.89%, and medium enterprises: ~0.11%.

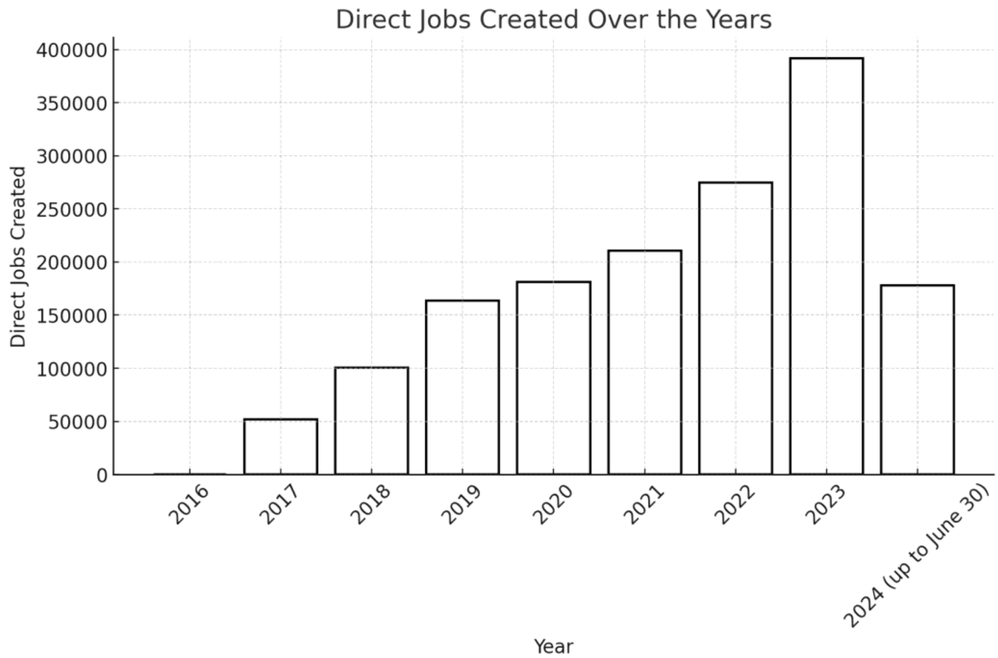


Figure 4 Year-wise breakdown of direct jobs created by Department for Promotion of Industry and Internal Trade (DPIIT)-recognized startups

Since the launch of the Startup India initiative in 2016, recognized startups have performed an important part in creating jobs throughout the nation. Notably, the IT services sector is at the forefront of employment generation, with 2.04 lakh jobs, followed by the healthcare and life sciences sector, which has generated 1.47 lakh jobs, and the professional and commercial services sector, contributing approximately 94,000 jobs.

4.5 21st century corporate laws differ from 20th century

Table 1 Comparative analysis of Corporate Laws in India 20th century Vs 21st century

Aspect	20th century (Companies Act 1956)	21st century (Reforms and Modernization)
Legal Framework	established a rigid legal structure.	introduced modernized regulations.
Compliance Requirements	Strict compliance obligations with numerous procedural formalities	Simplified compliance procedures, reducing bureaucratic hurdles
Flexibility for MSMEs & Startups	Limited adaptability, with a uniform approach that hindered innovation	Introduced One Person Company (OPC) and eased legal burdens for startups
Capital Requirements	Defined minimum paid-up capital thresholds, creating financial barriers	Companies (Amendment) Act 2015 removed mandatory capital requirements
Corporate Governance	Focus on rigid corporate structures with limited modern governance practices	Improved corporate governance with transparency, accountability, and CSR provisions
Ease of Business	Bureaucratic obstacles made it difficult for small businesses to operate	Multiple amendments (2015, 2017) reduced procedural burdens and rationalized penalties
Regulatory Definitions	Limited scope and clarity in defining business categories	Enhanced definitions for better regulatory guidance and compliance ease
Merger & IPO Regulations	No specific provisions for startup-friendly mergers and IPOs	Streamlined reverse mergers (2024) and stricter IPO regulations (2024) for SMEs

The regulatory framework of the 20th century was characterized by rigid regulations that left little room for flexibility, often hindering the growth of MSMEs and startups. In contrast, 21st-century reforms have focused on creating a more supportive environment by reducing bureaucratic hurdles and promoting entrepreneurship. Recent legislative changes have significantly amended India's position in the ease of doing business index, reflecting a more favorable regulatory environment for businesses. The removal of minimum capital requirements and the simplification of compliance processes have made it easier for MSMEs and startups to access essential capital and resources. Modern laws have strengthened corporate governance standards, ensuring transparency and accountability, which are crucial for the sustainable development of MSMEs and startups. In summary, the evolution of corporate laws from the 20th to the 21st century in India represents a significant shift towards fostering a business-friendly environment. These reforms have been instrumental in empowering MSMEs and startups, recognizing their vital role in economic growth and innovation.

Legal reforms have been pivotal in shaping India's evolving startup ecosystem by creating a more conducive environment for innovation, investment, and entrepreneurship. The Companies Act, 2013, simplified the process of establishing businesses. Notably, it introduced the 'one-person company' (OPC) structure, enabling individual entrepreneurs to form a separate legal entity with fewer compliance requirements. This reform has helped startups formalize their operations and focus on growth. The government has supported many tax benefits to help startups. For instance, the Startup India initiative offers tax holidays and exemptions, reducing the financial burden on new businesses. Additionally, programs like the MUDRA loan have improved access to funding, further strengthening the startup ecosystem. Recognizing the importance of innovation, The government introduced the Scheme for Facilitating Startups' Intellectual Property Protection (SIPP).

This initiative provides financial support and guidance to startups in managing their IP assets, promoting innovation and protecting proprietary technologies. The removal of certain compliance requirements has expedited processes like reverse mergers, allowing startups based abroad to relocate to India more efficiently. This change is expected to enhance domestic listings and strengthen the local startup landscape. The creation of venture capital funds and the relaxation of foreign direct investment (FDI) regulations have expanded funding options for startups. These measures have attracted both domestic and international investors, providing startups with the necessary capital to grow their operations. Legal frameworks now prioritize sustainable business practices. Regulations promoting environmental, social, and governance (ESG) standards encourage startups to adopt responsible practices, aligning with global trends and investor expectations. Collectively, these legal reforms have transformed India's startup ecosystem, fostering a culture of innovation and entrepreneurship. By reducing procedural complexities, offering financial incentives, protecting intellectual property, and enhancing funding mechanisms, the government has created an environment where startups can thrive and significantly contribute to the nation's economic growth. Recent regulatory reforms have minimized bureaucratic obstacles for startups.

5. LIMITATIONS OF THE RESEARCH WORK

A) The research is centered on India, which restricts its relevance to other regions.

B) Depending on secondary data might lead to biases or missing information in the analysis.

C) Gathering primary data from entrepreneurs and stakeholders could be limited by geographical factors.

D) The dynamic nature of legal reforms and business environments means the findings may be time-sensitive.

E) The study is limited to startups and MSMEs, leaving out large corporations.

6. CONCLUSION

The Indian startup ecosystem has undergone substantial changes, driven by updates in corporate laws and government policies. Simplified legal frameworks, easier compliance procedures, and targeted incentives have been pivotal in the expansion of MSMEs and startups. The count of officially recognized startups increased from 733 in 2016 to over 159,000 by January 2025. Reforms designed to simplify business operations have enhanced India's international reputation, reflecting improved regulatory efficiency and a more favorable business environment. Differences in funding trends highlight the need for continuous support to ensure the sustainable growth of startups and MSMEs. Legal reforms have minimized bureaucratic obstacles, offered financial incentives, protected intellectual property, and enhanced funding opportunities for startups. Future policy initiatives should focus on improving financial access and maintaining a stable investment environment to support the long-term development of startups and MSMEs.

7. SCOPE AND FUTURE DIRECTION

The Indian startup ecosystem has undergone substantial changes, driven by updates in corporate laws and government policies. Simplified legal frameworks, easier compliance procedures, and targeted incentives have been pivotal in the expansion of MSMEs and startups. The count of officially recognized startups increased from 733 in 2016 to over 159,000 by January 2025. Reforms designed to simplify business operations have enhanced India's international reputation, reflecting improved regulatory efficiency and a more favorable business environment. Differences in funding trends highlight the need for continuous support to ensure the sustainable growth of startups and MSMEs. Legal changes have minimized bureaucratic obstacles, offered financial incentives, protected intellectual property, and enhanced funding opportunities for startups. Future policy initiatives should focus on improving financial access and maintaining a stable investment environment to support the long-term development of startups and MSMEs.

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