

Venture Capital Vs. SISFS (Startup India Seed Fund Scheme): A Comparative Study of Funding Models For Startups

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Abstract: Background: Startup success heavily relies on access to sufficient funds, yet selecting the right funding model is equally critical. Thus, assessing finance options that are in favor of both growth and long-term sustainability is the main requirement in the ever-changing startup ecosystems.

Purpose: The study work has done a comparison between the effect of Venture Capital (VC) and Startup India Seed Fund Scheme (SISFS) on success of startups in terms of growth and competition in the sector.

Design/ Methodology/ Approach: Utilizing data from 403 individuals connected with startups in India, the research examined the impact of funding on growth results along with the role of funding type as a moderating factor between industry competition and startup success.

Findings: Research revealed that the companies supported by VCs outpaced their sales in the market due to customers' accessing them, mentoring, and help from VCs. The companies funded by SISFS, however, had a gradual increase of sales which was the effect of the low-risk approach. The study also indicated that VC financing significantly reinforced the positive association between rivalry and firm growth, whereas SISFS had a minor effect.

Practical Implications: Startup founders, investors, and policymakers may find these outcomes very useful in practical terms. Therefore, if startups want to grow quickly, they may get along with venture capital funding, while SISFS will be their option for slow growth with least financial risk.

Originality/Value: Hybrid models with government support are suggested for successful startups.

Keywords: Entrepreneurship, Funding Models, Indian Startups, SISFS, Startup Growth, Venture Capital.

1. Introduction

Capital is the most important factor that decides if startups are viable for innovation, business scaling, and being competitive in fast-paced markets [1]. Different ways of financing exist in the financial world, and each has its pros and cons. Venture capital (VC) has always been the leading way of financing startups where investors provide money in return for ownership, usually having big expectations of returns and quick growth [2]. On the other hand, this approach tends to result in massive dilution of ownership and to some extent, it is a forced scaling model [3]. Governments in most countries have set up public financing programs to help startups in their early stages, considering the difficulties linked with the private financing route. In India, the Startup India Seed Fund Scheme (SISFS) has been launched to provide monetary support without the transfer of equity hence, not putting any financial strain on the startup companies [4]. While venture capitalists are motivated by profits, the government-backed investment schemes like SISFS aim at nurturing the entrepreneurship sector as a part of the national economic development. This research is intended to make a comparison between the two types of finance Venture Capital and SISFS by looking at their accessibility, impact, and permanence in the Indian startup scene.

Although various financial resources are available, particularly for startups, access to funds is still a major obstacle for firms. Venture Capital grants very high financial support, though it, in general, comes with guidelines, expectations, and also the pressure of immediate success that is hard to meet. On the contrary, SISFS offers non-repayable grants (or gifts) and loans, but the financial power is limited and even more so by the bureaucratic procedures which can delay the effectiveness of decision-making [5]. The question of inquiry is: Which finance strategy offers



greater advantage for startup survival, growth, and lasting sustainability? The research aims to elaborate on the pros and cons of VC-backed companies versus those financed by SISFS.

This research paper is a significant source of information for different parties to come, e.g., lawmakers, financiers, and innovators [6]. It suggests to the admin how to enhance the financial assistance programs that involve the government, thus making it easier for the firms to absorb the money more effectively [6]. The outcome indicates that government participation positively affects the start-up ecosystem, thereby placing investors, especially venture capitalists and angel investors, in a more advantageous position to make more informed decisions regarding their investments [7]. The study helps founders of start-ups in choosing between public and private funding and allows them to align their financial strategies with their business goals accordingly [8]. Besides, the study paves the way for further research in the area of startup fundraising by conducting a comparative analysis of government-funded support schemes versus private investments that are dictated by the market. With the Indian startup ecosystem evolving, comparing venture capital against SISFS (Startup India Seed Fund Scheme) becomes essential for both future funding policies and investment strategies directing the path.

2.OBJECTIVE OF THE STUDY

Obj1: To analyze the trends in startup funding through Venture Capital (VC) and the Startup India Seed Fund Scheme (SISFS) over the past few years.

Obj2: To examine the relationship between industry competition and the growth performance of startups.

Obj3: To investigate the moderating effect of funding type (VC vs. SISFS) on the relationship between industry competition and the growth performance of startups.

Obj4: To compare the long-term benefits and challenges associated with VC funding and SISFS.

3.LITERATURE REVIEW

3.1 Startup Funding Through Venture Capital (VC) And The Startup India Seed Fund Scheme (SISFS)

Governing Fund of Funds for Startups (FSS) and Startup India Seed Fund Scheme (SISFS) have been instrumental for startups in India in making entry to funds and conducting proof of concept tests [9]. The social capital of VCs has a positive impact on the funding of startups in that it has favoured access to better information and opportunities for investments in the future [10]. Micro VC firms support more risky startups but do not bother participating in investment syndication and investment stage activity, in addition to which they have a lower probability of having successful exits than traditional VC firms [11]. The Indian startup ecosystem has grown quickly, but challenges persist, such as a lack of orderliness in the market, non-transparent policies, and infrastructure-related constraints [12].

Startup India Seed Fund Scheme (SISFS) is designed as an initiative initiated by the Government of India to inject money for helping early-stage startups with resources [13]. SISFS has been launched to ensure that the startup ecosystem in India thrives by providing budding startups, which are prodigious with innovative ideas, with funds for prototype development, conducting product trials, entering the market, and eventually commercializing ideas [14]. The program is designed for start-ups that lack substantial external funding, hence making certain that the necessary support is given at the very beginning of their existence [15]. By offering non-dilutive funding, SISFS aids startups in maintaining their ownership while focusing on sustainable development. This is a big push for entrepreneurship, innovation, and the perception of India as a startup hub [16].

3.2 Impact of Funding Type on Revenue Growth

The growth of digital start-ups was largely propelled by venture capital funds, which provided the highest finance amount of \$300,000; however, angel groups have very little impact on growth, be it at the start-up or scaleup stage [17]. Start-ups supported by venture capital grew more and introduced more innovations, but they also experienced a drop in profitability and credit scores, although the effects were gone after four years [18]. Firms supported by VC were not only better off in terms of performance but also because of the value addition provided by the VC; thus, the experience and context of general partners was the determining factor in portfolio company efficiency impact [19].

Regional acceleration schemes in emerging markets had a beneficial effect on financial development, notably in service organizations, benefiting high-growth firms as opposed to normal entrepreneurship [20]. Government incentives, such as grants, subsidies, incubators, and financing assistance programs, were significant in the development of thriving startup ecosystems, stimulating economic growth, employment, and societal progress [21]. The government's Startup India Seed Fund Scheme (SISFS) and Fund of Funds for Startups (FFS) supported Indian startups, allowing them to raise capital and carry out proof of concept trials [9].

3.3 Relationship Between Industry Competition and Startup Growth

Density for competition had a U-shaped influence on young venture growth, though continuous innovation within young ventures moderated this effect [22]. More competitive venture capital markets raised the probability of success for startups financed by less experienced VC firms but lowered it for those financed by the most experienced VC firms [23]. Imitation of extra-industry business models accelerated new venture development when combined with new technologies and when entrepreneurs had the requisite industry experience to properly coordinate resource combinations [24]. Growing market share was one of the parameters of success in growing scalable innovative startups, resulting in higher profits [25]. Green startups achieved competitive advantages by harmonizing economic and environmental gains, enhancing ongoing innovation, securing investment, reducing regulatory threats, and adjusting rapidly to changing markets [26]. Innovative start-ups (ISUPs) had greater growth compared to non-innovative start-ups, where innovation inputs accounted for a greater proportion compared to innovation outputs when explaining their performance [27].

3.4 Effect of Funding on Industry Competition and Startup Growth

State government grants for US technology start-ups increased their survival probabilities and induced follow-on venture capital financing, especially among inexperienced and young firms [28]. Early-stage venture capital investment had a positive effect on startup companies' sustainable performance and growth, with potential absorptive capacity positively mediating this effect [29]. Venture capital involvement had a positive effect on enterprise innovation input and output, and product market competition moderated this effect [30]. Startups located in leading VC funding clusters performed better in terms of M&A and IPO outcomes, whereas startups based in industry concentrations experienced higher odds of M&A success but not IPO exits [31]. Success for startups was a result of the interaction between venture capital, bootstrapping, crowdfunding, planning for finance, and strong marketing and community building [32]. Venture capital booms influenced start-up funding, determining innovation direction and focusing investment on specific sectors and locations, with government policy contributing [33]. Network and digital signals favourably affected the availability of venture capital financing to digital startups, and conventional human capital signals were insignificantly effective [34].

3.5 Key challenges faced by startups in securing and managing Venture Capital (VC) vs. SISFS funding

Relational capital rather than human or structural capital was instrumental in funding Indian healthcare startups with new business models [35]. Venture capital agreements influenced startup performance and value share, with VCs employing their negotiating leverage to secure more investor-preferred terms, yet both entrepreneurs and startups gained from their positive value creation [36]. Venture capitalists alleviated information asymmetry in venture capital financing by identifying the best time, selecting appropriate VC, analyzing the process, and establishing open and transparent collaboration with the VC [37]. Riskier start-ups were invested in by Micro VC firms, but they were less active in syndication and investment staging, and less likely to have successful exits than traditional VC firms [11]. Startups utilized the appropriate mode of financing based on their goals of development and the needs of the industry since venture capital and angel investment had strengths and weaknesses [38]. Team structure, market capitalization, and robust transaction design had a considerable impact on venture capital investment and early-stage firm performance [39].

H1: There is a significant difference in the funding levels between Venture Capital and SISFS for startups in the last few years.

H2: There is a significant relationship between industry competition and the growth performance of startups.

H3: The moderating effect of funding type (VC vs. SISFS) on the relationship between industry competition and the growth performance of startups.

4. RESEARCH METHODOLOGY

4.1 Research Design

The research takes a comparative research approach between VC funded startups and funded ones by Startup India Seed Fund Scheme (SISFS) to find out differences in success. Financial performance, market growth, and long-term viability are three parameters along which both funding models are judged. A mixed-methods method involves measuring startup success through quantitative means and getting qualitative insights from both entrepreneurs and industry experts to make sure that the understanding is comprehensive.

4.2 Data Sources

The research utilizes both primary and secondary data, covering all aspects of the subject. The secondary data consist of financial reports of startups, government documents relating to SISFS guidelines, venture capital industry reports, and relevant academic literature, which provide insights into the context, regulations, and industry. The primary data are collected through a structured questionnaire, which is delivered to startup founders and partners, obtaining direct proof of the positives, negatives, and consequences of VC and SISFS funding. The application of various data sources increases the trustworthiness and legitimacy of the results.

4.3 Primary Data Collection Tool

For this study, the main source of information is a standard survey. The survey includes Likert-scale questions to assess financial performance, market growth, and expansion activities. The research is conducted via email and startup networks ensuring broad coverage across different industries.

4.4 Sample Selection

The research took a systematic sampling method concentrating on those new businesses which, after 2015, had received Venture Capital or SISFS funding, are now in operation, and have at least three years of financial reports available. Because SISFS was launched in 2021, research data for the years 2021–2023 were utilized since the data for 2024 is still in the process of being compiled. The subjects of the study were the founders, partners, or top management who were able to give dependable financial and strategic information. Cochran's formula was applied to arrive at a sample size of 385 which was considered optimal. In order to compensate for the non-response bias, a total of 450 questionnaires were sent out, from which, 427 responses were received, and among them, 403 valid responses were kept from around 300–400 Indian startups which were thereby assured to be statistically significant and reliable for the purpose of comparative analysis.

4.5 Data Analysis Techniques

The performed data analysis employs a wide array of descriptive as well as inferential statistical methods executed through SPSS, Microsoft Excel, and SmartPLS. The "Descriptive statistics (e.g., Mean, Standard Deviation)" serve to condense the major performance indicators of the startups. Trend analysis involves ANOVA for group difference testing, correlation analysis for exploring the interaction between industry competitiveness and startup growth performance, and moderation analysis to see if the kind of financing (VC versus SISFS) affects this relationship.

4.6 Ethical Considerations

Ethical issues are taken care of from the very beginning to the end of the research process. Transparency and voluntary participation are guaranteed by getting the informed consent of all participants before the data collection. Anonymization of all responses is one way to protect privacy, while confidentiality of sensitive financial data is another.

5. RESULTS

The demographic profile indicates that there is a wide representation across all categories. The participants in the study were made up of 57.9% males and 42.1% females. Age distribution was as follows: 13.6% of the participants were less than 30 years old, 29.0% were aged 30–40, 34.1% were aged 40–50, and 23.3% were above 50 years old. There were 10.5% of respondents with higher secondary education, 30.3% were graduates, 38.5% had postgraduate degrees or above, while 20.8% had doctorates. The socio-economic background comprised of 19% lower-middle-class families, 31.5% upper-middle-class families, 28.5% business families, and 21% professional families. The sample

included 59.5% respondents from urban areas and 40.5% from rural areas. The distribution of funding was equal between VC-funded and SISFS-funded startups (50% each), thus ensuring that the sample represented the target population in a balanced way.

5.1 Results Based on Hypothesis

“H1: There is a significant difference in the funding levels between Venture Capital and SISFS for startups in the last few years.”

(Figure 1) illustrates the yearly venture capital investment for the period 2021-2023. It demonstrates a rapid decline over the years. In terms of money raised, the highest amount was \$28.48 billion in 2021. After that, it decreased to \$18.57 billion (a decrease of 34.8%) and eventually to \$8.78 billion (a decrease of 52.7%). This variation indicates a strong decline in venture capital spending. It might be due to the economy, cautious investors, or changing market conditions.

(Figure 2) shows the chart titled "SISFS Funded," the diagram refers to the financial assistance underneath the SISFS (Startup India Seed Fund Scheme) from 2021 to 2023 in billion U.S. dollars. It shows a severe growth in funding for the three years. Funding, for example, was very low in 2021 at \$0.002 billion, whereas in 2022 the funding rose to \$0.012 billion-which shows a six-time increase. The greatest spike was therefore, registered in 2023, when funding shot to \$0.224 billion which is almost an exponential increase from the two preceding years. The observed pattern suggests an increasing priority for supporting startups under SISFS, perhaps due to heightened government support, an increase in startup activity, or a realignment towards promoting entrepreneurship.

(Figure 3) shows the "Funds Growth Graph" compares trends in VC (Venture Capital) funding and SISFS (Startup India Seed Fund Scheme) funding between 2021 and 2023 in billions of U.S. dollars. The sharp decline of VC funding from \$28.48 billion in 2021 to \$18.57 billion in 2022 and further down to \$8.78 billion in 2023 signals either a gradual loss of investor confidence or a transformation of market dynamics. On the other hand, SISFS funding, although an order of magnitude lower, has been on a very high upward curve, rising from \$0.002 billion in 2021 to \$0.012 billion in 2022 to \$0.224 billion in 2023. This inverse relationship points toward a larger share of government-back support for startups as VC investments go down; it may be reflective of a larger shift in the startup ecosystem toward publicly funded support amid dwindling private investments.

“H2: There is a significant relationship between industry competition and the growth performance of startups.”

(Table 2) shows the correlation analysis between industry competition and growth performance in startups observed a higher positive of 0.671 at the 0.01 significance. It means that as competition in the industry goes up, so does the growth performance of the young firms. A p-value of 0.000 shows that this correlation is significant. The average industry competition of 390 startups stands at 18.38 (SD = 4.74), while the average growth performance is at 17.15 (SD = 4.86). These facts indicate that competition leads startups to innovate, enhance efficiencies, and formulate competitive strategies for growth.

“H3: The moderating effect of funding type (VC vs. SISFS) on the relationship between industry competition and the growth performance of startups.”

(Table 3) shows the moderating effect of forms of funding, that is, Venture Capital and SISFS, on the relationship between industry competition (IC) and growth performance (GP) of entrepreneurs. Both SISFS and VC startups in the analysis result in a positive influence of industry competition on growth performance marked by the significant t-values of 10.631 and 22.852 and the corresponding p-value of 0.000, confirming that the above definition is statistically significant. The effect was found to be greater at VC with an original path coefficient of 0.757 as opposed to SISFS with 0.591. Indicating a higher level of deviation standard compared to SISFS-funded startups (0.056), the VC category boasted a lower standard deviation (0.033). Accordingly, the above study defines that venture capital would present a more noticeable and consistent impact on growth performance than SISFS funding in the case of both modes of funding that support startup growth in competitive industries.

(Table 4) shows that the type of funding, VC versus SISFS, moderates the effect of industry competition on GPs of startups. The findings suggest that in the case of SISFS, IC and GP have a correlation that ranges from 0.469 (at the 2.5% percentile) to 0.688 (at the 97.5% percentile), suggesting a moderate positive effect, whereas for VC-backed startups, it has a stronger correlation between 0.680 and 0.814. This means that industry competition affects the growth performance of VC-backed startups more than that of SISFS-backed startups. This suggests that while both

funding types affect startup growth, VC funding tends to enhance the effect of industry competition on growth due to other forms of support provided such as resources, mentorship, and access to the market that venture capitalists provide.

➤ **Model (VC Funded)**

(Figure 4) shows the model developed for VC-funded startups and shows how the industry competition (IC) is related to growth performance (GP). IC is indicated by five strong indicator constructs (IC1-IC5) with factor loadings ranging from 0.843 to 0.919, indicating the extent to which it comprises the construction. For GP, five indicators (GP1-GP5) were included to attain index loadings from 0.812 to 0.920. Path coefficient (0.757) shows that there is a strong positive effect that the IC gives to GP, meaning that higher industry competition drives better growth performance to the investors in their startup companies. The R^2 value indicates the variance of 57.3% within GP which thus explains the IC. In the light of VC funding, this relationship further implies that highly competitive industry startups benefit from VC funding because it allows them to receive strategic mentorship, scaling, and market penetration that enable them to cope with the high-pressure environment and have growth sustainability.

➤ **Model (SISFS Funded)**

(Figure 5) shows the model for SISFS-funded startups that examines the impact of industry competition (IC) on growth performance (GP) about government funding. Starting from the earlier theoretical frameworks, IC has been measured through five indicators (IC1-IC5) with significant factor loadings of 0.824-0.897, sustaining the reliability of the construct. GP is comprised of five indicators (GP1-GP5) where the factor loadings vary from 0.720 to 0.872. The path coefficient shows a moderate positive relationship between IC and GP at 0.591, implying that greater levels of competition will promote startup growth under SISFS funding to a certain extent. The weak R^2 value of 0.349 shows that only 34.9% of the variation in GP is due to IC, a much lower figure compared to VC-funded startups. This suggests that while early-stage support under SISFS funding is important, it may prevent strategic, financing, and market expansion advantages typically associated with venture capital from fully benefiting startup growth in industries with an above-average level of competition.

6. DISCUSSION

Companies' performances varied depending on the type of funding they used. Venture capital-backed start-ups experienced the highest revenue growth which was a signal of the company's aggressive expansion, rapid market entry, and access to other resources like strategic advice, networking, and quite a lot of benefits. The companies that received money from SISFS, however, have a slower, but more stable and consistent growth pattern, which indicates that the government funding has been helping the startup in getting to the break-even point gradually without putting pressure on the company to grow quickly.

The present research fills in the gaps uncovered by the previous studies and adds to the existing body of information. Earlier studies suggested that businesses funded by Venture Capital are highly innovative but face challenges in making profits [18]. According to Jain (2022), it supports the role of the SISFS in financing proof-of-concept testing [9]. This study complements those prior studies by developing growth trajectories and validating that revenues grow faster with venture capital than with SISFS financing. Further, while Zhao et al. (2020) suggested that government grants increased the survival rate of companies, the present study indicates that venture capital financing amplifies the role of industry rivalry in the process of startup development, which is rich and new in input regarding the effectiveness of funding models [28].

While venture capital funding and support from Startup India Seed Fund (SISF) may confer distinct favourable and unfavourable long-term effects, VC funding has the benefit of bringing in greater funds, strategy, and networks that accompany rapid growth and expansion into markets [29, 40]. SISF is also an option that provides funding which does not dilute equity and therefore also financing early-stage ventures. It thus enables startups to keep a focus on sustainable developments [41]. However, funding for SISF is limited, the process of selection is very competitive, and the fund usage is often restricted [42]. If a business is looking for aggressive expansion, it is a suitable choice for VC funding. On the other hand, SISF is the right fit for a company in its early stages that wants stability and controlled growth [9].

The research backs up the claims of Cavallo et al. (2019), who stated that taking venture capital investment is a major factor for the rapid growth of digital startups, especially in the marketplace with more competition [17]. It is provided that the SISFS supports a steady increase along with a non-demanded immediate profit which agrees with Wasnik et al. (2023) [21] mentioning its supporting role. The current investigation, taking the previous research as a

base, shows that venture capital not only shortens the time to growth but also strengthens the performance-competitiveness relationship. Besides, the outcomes reveal that VC-backed firms always outperform SISFS-funded firms, thus contradicting Hong et al. (2018) who spoke about the limited benefits of VC for early-stage firms [23].

7. CONCLUSION

The research demonstrates clear variations in the influence of SISFS as well as VC funding on the performance of startups. The firms that received the VC backing experienced their revenue growth much quicker, especially in the competitive markets, while the firms that got support from SISFS displayed gradual and safe growth which was suitable for the very beginning of development. These findings point out the fact that VC funding allows for quick scaling, whereas SISFS is more suitable for startups that have a longer development cycle or are more cautious with risk. The type of funding has an effect on the startups which means that the ones funded by VCs are more able to take advantage of the competition in the market for growth than those backed by SISFS. The research aids the literature by giving a comparative study of SISFS and VC funding in the Indian startup scenario and also by considering funding type as a moderator of competition-driven growth.

7.1 *Implications for Stakeholders*

- **Startups:** High-innovation and fast-growing startups usually go for venture capital financing in order to gain access to more resources and, on the other hand, the slower developing ventures are considered to be more suitable for SISFS financing as they present less financial risk and higher founder ownership retention.
- **Investors:** Investors must realize that the important strength of VC is the synergy between the concurrent investment in competitors, which makes mentorship and acceleration possible.
- **Government Agencies:** The startup performance and policy effectiveness can be considerably improved through boosting SISFS with mentorship, investor networking, and faster bureaucratic processes.

7.2 *Policy Implications*

Regulators must tweak SISFS via sectoral grants for the longest waiting industries like manufacturing and healthcare, encourage cooperation with VCs for later stage financing and create blended funding models where VC skills come in together with the low-risk backing of SISFS. All these would create an equal financing system for Indian creators, meanwhile, the research clarifies the different effects of seed and VC on fund choosing).

7.3 *Limitations of the Study*

The study provides some valuable knowledge; however, it also presents some drawbacks: One of the main sources of information being self-reported data might open the door for distorted responses. Furthermore, the selection of startups only from 2015 onwards makes it much more difficult to imagine long-term funding, and the urban sample prevents rural entrepreneurs from being heard. To enhance the applicability of the results to other contexts, future research should cover a larger area and companies from various time periods.

7.4 *Future Research Directions*

Future research comparing private capital and public funding models, analyzing the financing results of different industries, and assessing the effects of factors such as mentoring, digital infrastructure, and regulation changes on SISFS will all contribute to the expansion of the current research results. Meanwhile, the application of longitudinal research designs would make it possible to assess the sustainability and the enduring impacts of the various financing methods.

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Conflict Of Interest

None

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