SUSTAINABLE ENTREPRENEURSHIP
REGIONAL AND COUNTRY STUDIES

Southern Asia

SUSTAINABLE ENTREPRENEURSHIP PROJECT

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Sustainable Entrepreneurship: Regional and Country Studies (Southern Asia)

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Sustainable Entrepreneurship: Regional and Country Studies

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PART VIII
SOUTHERN ASIA

Preface

In 1985 Ronen and Shenkar reviewed the then-published literature on country clustering[1], including works by Haire, Ghiselli and Porter[2]; Sirota and Greenwood[3]; Ronen and Kraut[4]; Hofstede (1976)[5]; Griffeth, Hom, Denisi and Kirchner[6]; Hofstede[7]; Redding[8] and Badawy[9]. Ronen and Shenkar integrated and synthesized the available data to propose their own map of country clusters based on patterns of employee work attitudes derived after reviewing responses of thousands of employees in dozens of countries around the world to questions about their general attitudes towards work (e.g., the importance of various work goals, their satisfaction of needs through work, organizational factors and managerial issues and the nature of roles and interpersonal relationships in the workplace including how well managers related to subordinates).

Using a statistical procedure known as "smallest space analysis", Ronen and Shenkar identified and diagrammed eight country clusters: Arab, Near Eastern, Nordic, Germanic,

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[1] S. Ronen and O. Shenkar, "Clustering countries on attitudinal dimensions: A review and synthesis", Academy of Management Review, 10 (1985), 435-454. For further discussion of the various research studies reviewed by Ronen and Shenkar, see "Globalization: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

[2] M. Haire, E. Ghiselli and L. Porter, Managerial thinking: An international study (New York: Wiley, 1966).

[3] D. Sirota and J. Greenwood, "Understand your overseas work force", Harvard Business Review, 49(1)(1971), 53-60.

[4] A. Kraut and S. Ronen, "Similarities among countries based on employee work values and attitudes", Columbia Journal of World Business, 12(2) (1977), 89-96.

[5] G. Hofstede, "Nationality and espoused values of managers", Journal of Applied Psychology, 61 (1976), 148-155.

[6] R. Griffeth, P. Hom, A. Denisi and W. Kirchner, A multivariate, multinational comparison of managerial attitudes. Paper presented at the annual meeting of the Academy of Management, Detroit (August 1980).

[7] G. Hofstede, Culture's consequences: International differences in work related values (Beverly Hills: Sage, 1980). Hofstede's IBM survey is referenced frequently in this Guide and Ronen and Shenkar noted that several survey instruments used by Hofstede included various items relating to work goals (i.e., Hofstede's famous initial four dimensions of power distance, uncertainty avoidance, individualism and masculinity), need deficiency, fulfillment and job satisfaction. Hofstede also sought the opinions of respondents regarding their choice among four types of managers as to actual and preferred types of characteristics for their manager. Information regarding the variables used in the study and survey procedures that were followed is derived from S. Ronen and O. Shenkar, "Clustering Countries on Attitudinal Dimensions: A Review and Synthesis", The Academy of Management Review, 10(3) (July 1985), 435-454 (Table 1 – "Variables Used in the Studies Reviewed").

[8] G. Redding, "Some perceptions of psychological needs among managers in South-East Asia", in Y. Poortinga (Ed.), Basic problems in cross-cultural psychology (Amsterdam: Swets and Zeitlinger B.V.: 1976), 338-343.

[9] M. Badawy, Managerial attitudes and need orientations of Mid-Eastern executives: An empirical cross-cultural analysis. Paper presented at the annual meeting of the Academy of Management, Atlanta (August 1979).

Far Eastern, Latin American, Latin European and Anglo.[10] They also categorized four countries that they felt could not be easily fit into one of the clusters as "independents": Brazil, India, Israel and Japan. In general, countries tended to cluster together based on similarities in level of development and technological progress, geographic proximity, language and religious values and beliefs. Those countries that were classified as independents each had a unique language, religion, and history. The composition of the membership of each cluster is represented in the following table[11]:

Arab	**Near Eastern**	**Nordic**	**Germanic**	**Far Eastern**	**Latin American**	**Latin European**	**Anglo**
Abu-Dhabi	Greece	Denmark	Austria	Hong Kong	Argentina	Belgium	Australia
Bahrain	Iran	Finland	Germany	Indonesia	Chile	France	Canada
Kuwait	Turkey	Norway	Switzerland	Malaysia	Columbia	Italy	Ireland
Oman	Yugoslavia	Sweden		Philippines	Mexico	Portugal	New Zealand
Saudi Arabia				Singapore	Peru	Spain	South Africa
United Arab Emirates				Taiwan	Venezuela		United Kingdom
				Thailand			United States
				Vietnam			
			Independents				
Brazil		India			Israel		Japan

Ronen and Shenkar found that there country clusters generally corresponded to how countries might be grouped based on their measurements on the four original dimensions in Hofstede's cultural dimension model[12]:

	Power Distance	**Individualism**	**Uncertainty Avoidance**	**Masculinity**
Nordic	Low	Medium-High	Low-Medium	Low
Germanic	Low	Medium-High	Medium	High
Anglo	Low-Medium	High	Low-Medium	High
Latin European	High	High	High	Varies
Latin American	High	Low	High	Varies
Far East	High	Low	Low-Medium	Medium
Near East	High	Low	High	Medium

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[10] S. Ronen and O. Shenkar, "Clustering countries on attitudinal dimensions: A review and synthesis", Academy of Management Review, 10 (1985), 435-454. Ronen and Shenkar actually presented the clusters in a "pie chart" format that grouped countries together in terms of their similarity on work-related variables and the table in the text follows this grouping of countries. For example, Latin American and Latin European countries were closely related as were Nordic and Germanic countries.

[11] Id. For discussion of "smallest space analysis," see L. Guttman, "A general non-metric technique for finding the smallest coordinate space for a configuration of points", Psychometrika, 33 (1968), 461-469.

[12] Derived from S. Ronen, Comparative and multinational management (New York: John Wiley & Sons, 1986), 262-265; and S. Ronen and O. Shenkar, "Clustering countries on attitudinal dimensions: A review and synthesis", Academy of Management Review, 10 (1985), 435-454.

Two of the cluster studies analyzed by reviewed by Ronen and Shenkar identified a Far Eastern cluster (i.e., Redding and Hofstede (1980)) and they decided to include most of the countries identified in those studies—Hong Kong, Indonesia, Malaysia, the Philippines, Singapore, South Vietnam, Taiwan and Thailand—but exclude Japan, India and Pakistan.[13] Ronen and Shenkar noted that countries in their Far Eastern cluster scored comparably on Hofstede's dimensions—high power distance, low to medium uncertainty avoidance, low individualism and medium masculinity—but cautioned that it may be an oversimplification to place all these countries in one cluster due to the sheer size of the geographic area involved and the diversity of languages and religions existing among the countries. Ronen and Shenkar advised that the whole issue of clustering countries from the "Oriental world" might prudently be revised once most studies had been completed so that most thorough analysis and cross-comparisons could be made.[14]

1	2	3	4	5	6	7	8	9
				Hong Kong				Hong Kong
				Indonesia				
				Japan				
				Malaysia				
				Philippines				Philippines
				Singapore				Singapore
				South Vietnam				
				Thailand				Thailand
								India
								Pakistan
								Taiwan

Cluster Studies: (1) Haire, Ghiselli and Porter; (2) Sirota and Greenwood; (3) Ronen and Kraut (1977) (SSA of Sirota and Greenwood); (4) Hofstede (1976); (5) Redding; (6) Ronen and Kraut; (7) Badawy; (8) Griffeth, Hom, Denisi and Kirchner; and (9) Hofstede (1980).

Researchers working on the Global Leadership and Organizational Behavior Effectiveness project, commonly referred to as "GLOBE" project[15], concluded that the respondents to their surveys could be classified into 62 "societal cultures". In order to facilitate meaningful interpretation of the results the researchers determined that the societal cultures they were investigating could be meaningfully placed into one of ten "societal clusters," sometimes simply referred to as clusters. The clusters were designed, defined and created before the research was conducted, not as a result of the findings reached once the data was collected and analyzed, and were based on a variety of factors including the results of previous empirical studies; other factors such as common

[13] Id.
[14] Romen and Shenkar noted that the Redding study only include eight Asian countries and thus it was not possible to evaluate how those countries compared to other countries in the same study for purposes of identifying and defining clusters.
[15] For detailed discussion of the GLOBE project, see "Globalization: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

language, geography and religion; and historical accounts.[16] Societal cultures in the Southern Asia cluster include India, Indonesia, Malaysia, the Philippines and Thailand.[17] Societies in the Southern Asia cluster were high on humane orientation and in-group collectivism meaning that these societies placed the highest value on devotion and loyalty to their families and other in-groups.[18]

The degree of similarity or dissimilarity between the Southern Asia cluster and the other nine societal clusters with respect to the cultural dimensions measured during the GLOBE study was as follows[19]:

Correlation	**Societal Clusters**
Strong Similarity	Confucian Asia; Latin America
Mild Similarity	Middle East (Arab); Nordic Europe
Neutral	Eastern Europe; Anglo
Mild Dissimilarity	Sub-Saharan Africa; Germanic Europe
Strong Dissimilarity	Latin Europe

Based on the information in the table above a manager from a society in the Southern Asia cluster would expect to find familiar cultural values, although not precisely the same as in his or her own society, in the Confucian Asia and Latin America clusters but would need to be especially careful and mindful of significant cultural differences in the Latin Europe cluster.

The following chart depicts the relative importance and intensity of endorsement of the six culturally endorsed leadership dimensions to the societies included in the Southern Asia cluster:

Level of Importance/Endorsement	**Leadership Dimension**
High	Self Protective Leadership
Moderate	Charismatic/Value-Based Leadership
Moderate	Humane Oriented Leadership
Moderate	Team Oriented Leadership
Moderate	Autonomous Leadership
Low	Participative Leadership

Leaders in societies in the Southern Asia cluster are most likely to be perceived as effective if they focus on ensuring the safety and security of the group or group members.

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[16] For extensive discussion of the design of the societal cultures and the reasons for placement of societies within those clusters see Chapter 10 of R. House, P. Hanges, M. Javidan, P. Dorfman and V. Gupta (Eds), Culture, Leadership, and Organizations: The GLOBE Study of 62 Societies (Thousand Oaks CA: Sage, 2004), 536. See also V. Gupta, P. Hanges and P. Dorfman, "Culture clusters: Methodology and findings," Journal of World Business, 37(1) (2002), 11-15.

[17] For further information on this cluster, see V. Gupta, G. Surie, M. Javidan and J. Chhokar, "Southern Asia cluster: Where the old meets the new?" Journal of World Business, 2002:37(1), 16-27.

[18] P. Northouse, Leadership: Theory and Practice (4th Ed) (Thousand Oaks, CA: Sage, 2006), 313.

[19] Chapter 10 of R. House, P. Hanges, M. Javidan, P. Dorfman and V. Gupta (Eds), Culture, Leadership, and Organizations: The GLOBE Study of 62 Societies (Thousand Oaks CA: Sage, 2004).

Preferred leadership behaviors among these societies include being status- and class-conscious, face saving, ritualistic, procedural, normative, secretive, evasive, indirect, self-centered, asocial and inducing conflict.[20] Societies in the Southern Asia cluster do not expect their leaders to involve others in making and implementing decisions. The leadership profile of the Southern Asia cluster is moderately similar to the profiles for the Confucian Asia and Latin America clusters and moderately different than the profile for the Germanic Europe cluster. Leaders from the US and other societies in the Anglo cluster can expect substantial difficulties in deploying their preferred leadership styles in the Southern Asia cluster due to differences regarding the value and effectiveness of a number of leadership styles notably the self protective and participative styles.

References and Resources

Additional information on studies and commentaries relating to various aspects of leadership and management styles and practices in India can be found in the Sustainable Entrepreneur's Libraries of Resources prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org) covering Leadership, Management, Organizational Design, Organizational Culture, Strategic Planning, Governance, Corporate Social Responsibility, Finance, Human Resources, Product Development, Technology Management, Globalization and Managing Growth and Change.

§1:1 Introduction

The South Asian nation of India, officially the Republic of India, is geographically the seventh-largest country in the world. As of July 2011, it was estimated that India's population stood at just below 1.2 billion — second in the world after China — with a median age of 26.2 years and roughly 30% of the population under the age of 15 and 70% of the population under the age of 35. 30% of the population lived in urban areas and the projected rate of urban growth for the next five years was 2.4% per annum. Notably, India is also the most populous democracy in the world and has a long and compelling history as a major trading hub and birthplace of several major religions including Hinduism and Buddhism. India's exposure to other cultures, particularly its recent period of annexation and colonization by the British, has also had a substantial impact on the cultural values of its inhabitants. A number of different languages are spoken throughout India; however, the official languages are English and Hindi with English is widely used in business and political situations and taught in the schools.

India is one of the world's oldest civilizations, with roots that can be traced back to evidence of vigorous trade and commerce occurring as long ago as the 3rd and 2nd

[20] While self protective leadership was one of the most highly approved leadership styles in this cluster the mean score of just below 4 on the 1-to-7 measurement scale among societies in the cluster meant that the overall position of countries in this cluster regarding self protective leadership actually tended to be neutral. The GLOBE researchers commented that "…the Confucian Asia and Southern Asia clusters viewed Self-Protective leadership in an almost neutral manner (with some attributes of this factor being viewed positively, such as face saving). [It has been suggested] that the concept for Asian cultures actually reflects "group-protective" rather than "self-protective" elements…." See R. House, P. Hanges, M. Javidan, P. Dorfman and V. Gupta (Eds), Culture, Leadership, and Organizations: The GLOBE Study of 62 Societies (Thousand Oaks CA: Sage, 2004), 702.

millennia BC. Buddhism and Jainism arose from 800 BC to 300 BC and religion and commerce were gradually integrated with one another during that period. Control of much of the area that is South Asia was consolidated during the Mauryan Dynasty (300 BC – 100 BC), which also played host to the development of codes and rules and the proliferation of structured, governed and regulated business organizations. An interesting historical footnote with respect to India is the claim of a number of historians that India's economy was probably the largest in the world during the Mauryan Dynasty period.[21]

India traded extensively with the Romans from 100 BC to 250 AD and the Gupta Dynasty (250 AD to 500 AD) oversaw a Golden Age for Indian culture, science and the arts, as well as the innovative development of rules and regulations guiding managerial systems and accounting. International trade declined during 550 AD to 1000 AD and at the same time Islamic influence began to grow in the area. Invasions by the Turks and Afghans in the 10th and 11th centuries eventually led to the establishment of the Delhi Sultanate. The Mughal Dynasty began in the early 16th century and ruled India for over three hundred years, a period during which more and more European explorers visited the area for economic and political reasons.

By the 19th Century, Britain had asserted itself as the dominant power in the region and had imposed its economic and legal systems on the Indians. After Indians fought bravely in both World Wars, unrest, including non-violent protests and resistance by Gandhi and Nehru, led India to independence from Britain in 1947. Following independence India worked to create the foundation for a democratic economy; endured periods of tense political conflict with its neighbors, particularly China and Pakistan; and struggled with the internal conflicts that inevitably arise when numerous and diverse ethnic groups seek to unite under one government and set of governing principles. India was actually one of the most industrialized countries in Asia during the late 1940s and seemed poised to prospect in the post-World War II global economy. However, in reaction to the often traumatic aspects of colonial domination, the new Indian government aggressively sought to achieve "self-reliance" and freedom from foreign influence and this led to often overzealous attempts to control every aspect of economic life in the country, as well as extensive state involvement in other fundamental areas such as media, education and health. The role of the State in India from 1947 through 1990 has often been described as an "interventionist, socialist 'command' economy"[22] and much has been written about the "License Raj" that featured State control of the private sector "through licences, permits, taxes and tariffs (which) exasperated enterprise, quality, global competitiveness and managerial imagination".[23] Foreign investment was also unwelcome in India during this period and the economy was almost entirely dependent on local capital. As a result, the Government became an important, if not the primary, stakeholder in a number of state owned enterprises that staked out a dominant position in major industrial sectors.

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[21] R. Grainger and S. Chatterjee, "Chinese and Indian Systems: Divergent in the midst of Global Trends", in University of Sydney (Eds), Asia-Pacific Economic and Business History Conference (Sydney, Australia: University of Sydney, 2007), 1-45, 32.
[22] Id. at 33.
[23] S. Chatterjee, "Bridging the gap between potential and performance: The challenges of Indian Management", in S. Chatterjee and A. Nankervis (Eds.), Asian Management in Transition: Emerging Themes (London: Palgrave Macmillan, 2007), 83.

While the concerns of India's leaders after independence could probably be understood, their policies triggered a steady and precipitous decline in India's role in the global marketplace and, in fact, India's share of world trade went from 2.4% in 1947 to just 0.4% in 1990.[24] Discontent and criticism from all parts of the country finally led to the adoption of sweeping economic reforms in 1991 including the lifting of restrictions on foreign inbound investment, opening of Indian markets to foreign competition and privatization and deregulation of many of the state owned enterprises, a move which ultimately allowed a number of these firms to become important drivers of growth for the entire economy.[25] Mani, citing Mohan, described the reforms as follows: ". . . massive deregulation of the industrial sector, in fact, constituted the first major package of reforms in July 1991. The obsolete system of capacity licensing of industries was discontinued; the existing legislative restrictions on the expansion of large companies were removed; phased manufacturing programmes were terminated; and the reservation of many basic industries for investment only by the public sector was removed. At the same time restrictions that existed on the import of foreign technology were withdrawn, and a new regime welcoming FDI, hitherto discouraged with limits on foreign ownership, was introduced."[26]

Commenting on the impact of these reforms, Chatterjee noted that they quickly led to rapid economic growth; increased productivity; development of a "new" economy based on IT, telecommunications and financial services; and transition of the economy from one where food shortages periodically occurred to a services-oriented economy operated using world-class management techniques.[27] The results achieved by the reforms were truly astounding: the Indian economy—buoyed by advances in services and manufacturing—enjoyed 8% annual growth from 2000-2006, all the more impressive when one understands that the average annual growth rate for India from 1900 to 1950 was less than 1%[28], and this rate of growth placed India among the world "growth leaders" with China, Korea, Thailand and Vietnam; and India rose to become the fourth largest economy in the world by 2006, trailing only the US, China and Japan.[29] Writing

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[24] R. Grainger and S. Chatterjee, "Chinese and Indian Systems: Divergent in the midst of Global Trends", in University of Sydney (Eds), Asia-Pacific Economic and Business History Conference (Sydney, Australia: University of Sydney, 2007), 1-45, 33.

[25] Id. at 31-32 (citing M Ahluwalia, "Economic Reforms in India Since 1991: Has Gradualism Worked?", Journal of Economic Perspectives, 16(3) (2002), 67-88). According to Grainger and Chatterjee, strong performers among India's state owned enterprises included Indian Oil, the Steel Authority of India, and ONGC.

[26] S. Mani, The Growth of Knowledge-intensive Entrepreneurship in India, 1991-2007 (Maastricht, The Netherlands: United Nations University-MERIT Working Paper Series No. 2009-051, 2009), 12 (citing and quoting R. Mohan, "Economic Reforms and Corporate Performance in India", Special Talk at the FICCI-IBA Conference on Global Banking: Paradigm shift Towards Meeting the Emerging Challenges, Mumbai, India, September 26-28, 2007)).

[27] S. Chatterjee, "Bridging the gap between potential and performance: The challenges of Indian Management", in S. Chatterjee and A. Nankervis (Eds.), Asian Management in Transition: Emerging Themes (London: Palgrave Macmillan, 2007), 83.

[28] J. Sachs, A. Varshney and N. Bajpai (Eds), India in the Era of Economic Reforms (New Delhi: Oxford India Paperback, 2000).

[29] G. Das, "An economy unshackled", Foreign Affairs, 85(4) (July/August 2006), 2. With regard to India's recent economic performance and the causes for growth in the Indian economy, see K. Basu, "The Enigma

in 2007, Grainger and Chatterjee noted that "India today is widely considered as one of the most exciting and vibrant emerging economies in the world".[30] At that time, ten sectors in particular were attracting the attention of the Indian government and foreign businesses, and were seen as key opportunities for India to achieve faster growth by leveraging growth in these sectors: architecture, construction, engineering (ACE) and construction equipment; civil aviation; education services; environment and water; healthcare and medical equipment; infrastructure; mining and mineral processing equipment; plastics; power and renewable energy; travel and tourism; agriculture; and retailing.[31]

Models created just after the beginning of the new century suggested that India would likely emerge as the largest economy in the world during the second half of the 21st century.[32] Foreigners have begun looking to India as a dynamic market for their goods and services, and Indian firms, flush with well-educated and hard-working employees, have transitioned from competing on cost advantages to strategies based on innovation and asserting technology leadership. However, while the near past for India has certainly included impressive economic and social advances, and prospects for the future appear to be promising in many ways, all is not totally well in India. One still finds significant levels of poverty, illiteracy, hunger and disease in those areas of the country that have not shared in the economic progress and per capita GDP in India remains low in comparison to other countries around the world.[33] Development has had negative side effects in India, such as overcrowding in urban areas, and there are clearly significant and somewhat daunting challenges facing Indian managers and policymakers as noted in the following list compiled and published by Grainger and Chatterjee in 2007[34]:

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of India's Arrival: A Review of Arvind Virmani's Propelling India: From Socialist, Stagnation to Global Power", Journal of Economic Literature, 46(2) (2008), 396-406; and A. Panagariya, India: The Emerging Giant (New York: Oxford University Press, 2008).

[30] R. Grainger and S. Chatterjee, "Chinese and Indian Systems: Divergent in the midst of Global Trends", in University of Sydney (Eds), Asia-Pacific Economic and Business History Conference (Sydney, Australia: University of Sydney, 2007), 1-45.

[31] Doing Business in India: 2010 Country Commercial Guide for U.S. Companies (2010).

[32] R. Grainger and S. Chatterjee, "Chinese and Indian Systems: Divergent in the midst of Global Trends", in University of Sydney (Eds), Asia-Pacific Economic and Business History Conference (Sydney, Australia: University of Sydney, 2007), 1-45 (citing G. Hooke, Asian Economies in Coming Decades, 103 (2003)), (predicting that between 2051-2100, India would emerge as the largest economy in the world with 16% of world income followed by China with 15%)).

[33] Sources for a summary of Indian history include CIA, The World Fact Book: India, https://www.cia.gov/library/publications/the-world-factbook/geos/in.html [Accessed March 18, 2011]; and R. Grainger and S. Chatterjee, "Chinese and Indian Systems: Divergent in the midst of Global Trends", in University of Sydney (Eds), Asia-Pacific Economic and Business History Conference (Sydney, Australia: University of Sydney, 2007), 1-45 (based on V. Khanna, The Economic History of Organizational Entities in Ancient India, Michigan Law and Economics Research Paper No. 05-014 (November 15, 2005); and A. Sen, The Argumentative Indian: Writings on Indian History, Culture and Identity (2005).

[34] Listed information and commentary, including citations to other sources and quotations, is derived from R. Grainger and S. Chatterjee, "Chinese and Indian Systems: Divergent in the midst of Global Trends", in University of Sydney (Eds), Asia-Pacific Economic and Business History Conference (Sydney, Australia: University of Sydney, 2007), 1-45, 26-28.

- There are significant "macro level" issues including the commitment of politicians and other policymakers to political reforms and the commitment of business leaders to embrace and adopt and accept corporate governance reforms that improve "accountability, efficiency and transparency". Notably, corruption remains a big issue in both the government and corporate sectors in India.[35] Grainger and Chatterjee specifically noted the challenges of designing a governance system that accommodates participation among a wide variety of stakeholders including industry, unions and political actors.
- Massive "meso-economic" reforms are needed to create a new institutional and financial infrastructure that can support the rapid expansion and evolution of the economy and the society and achieve "managerial stability, predictability and transparency". For example, major initiatives will be required with respect to infrastructure, education, health, energy, irrigation, transportation and housing. Grainger and Chatterjee emphasized that "[p]erhaps the weakest link in India's potential is its infrastructure. Improvements in the delivery of public services, education and health have become major areas of concern. Enhanced connectivity with roads, telephone systems and supply chain flexibility are desperately needed."[36]
- Labor law reform is desperately needed in India, and Grainger and Chatterjee observed, consistent with the views of many others, that labor laws in India "are amongst the most bureaucratic and complex in the world". In addition, industry, unions and politicians must reach a consensus on the best way to advance education and training initiatives for the workforce.
- Economic progress has been uneven among the many diverse regions of India. While a number of states and regions have experienced impressive stretches of development (e.g., Andhra Pradesh, Gujarat, Hariyana), many others have failed to achieve any progress in spite of substantial investments of resources (e.g., Bihar, Madhya Pradesh, Uttar Pradesh and Assam).
- While India is often celebrated for its acceptance and endorsement of democratic principles and institutions, there has often been frustration caused by what Grainger and Chatterjee referred to as "its plurality of political voices and lack of national consensus on specific developmental issues". Infrastructure projects, such as dams and the launch of new production facilities with associated jobs and other rewards for the surrounding communities, often stall due to an inability to reconcile the concerns of multiple stakeholders and address the problems of citizens who might be displaced.
- While India has been praised for its initial efforts to integrate former residents of its rural areas into the urban cities, the sheer magnitude of the challenge of transitioning from what is still largely an agricultural economy is still quite daunting. As noted by Grainger and Chatterjee, "[t]he challenge of managing the transition of these large rural based industries into globally integrated sectors remains as a serious issue".
- India has yet to be as successful as China in leveraging the resources, particularly capital, and other support that might be available from the large number of residents who have previously left the country to live and work in Asia, the Middle East and

[35] See, e.g., B. Jalan, The Future of India: Politics, Economics and Governance (2005).

[36] Grainger and Chatterjee noted from 1992 to 2002 China increased its railway freight traffic by an amount much larger than India's rural rail freight in 2002 and that as of 2007 electricity production in China was nearly three times higher than in India.

the US. Grainger and Chatterjee note that while entrepreneurship is the common path of the Chinese "diaspora", Indians who have left their country tend to pursue careers as professionals or industrial workers (i.e., salary-based activities as opposed to activities that generate excess profits that can be sent back to the homeland).

- Pollution and other environmental issues are particularly problematic in India and the dangers are accelerating as India shifts more and more toward industrial activities concentrated in sprawling and often overcrowded urban centers. Sawhney reported that as of 2004 India was the world's sixth largest and second fastest growing producer of greenhouse gases and was home to three of the ten most polluted cities of the world (i.e., Delhi, Mumbai and Chennai).[37]
- Labor costs in key sectors have risen substantially in recent years and this is likely to undermine the competitiveness of India in global markets. For example, writing in 2007 Grainger and Chatterjee noted that "[s]alaries in information technology sector have increased over 30% per year in recent years and sourcing of qualified graduates has become highly competitive".
- While entrepreneurship is apparent in both India and China, Indian entrepreneurs have enjoyed much stronger support from credit granting institutions, such as banks, than their counterparts in China and this has allowed private sector firms in India to aggressively pursue and attain leadership positions in many key areas.[38]

India ranked 51st out of 183 countries with regard to the overall competitiveness of its marketplace in the World Economic Forum's Global Competitiveness Report for 2010-2011. Areas of relative strength included the extent of market dominance (26th), the state of cluster development (29th), company spending on research and development (37th), venture capital availability (31st) and access to loans (39th), while areas of relative weakness included infrastructure (86th), hiring and firing practices (89th) and quality of primary education (98th). India has been distinguished from the majority of poor countries in the world for its strong spirit of entrepreneurship, the rise of a reasonably large and well-educated middle class and the number of global companies that have launched offices, and moved important operational activities, in India. These factors, coupled with a relatively young population, have been touted as the foundation for the development of one of the world's most vibrant entrepreneurial ecosystems; however, the recent stagnation in growth rates has driven commentators to renew their pleas for India to take serious steps to improve its physical and human infrastructure by investing in bridges, roads and electricity, expanding access to education, health care and decent housing, creating meaningful jobs for its young people and providing support for entrepreneurs interested in creating businesses that provide work for persons beyond their immediate families and produce goods and services demanded by Indian consumers.[39]

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[37] A. Sawhney, The New Face of Environmental Management in India (2004).

[38] It is well documented that banks and other lending institutions in China rarely make loans to the private sector and generally focus their support on the state owned enterprises in China. In 2006, Das observed that even though private sector firms in China employed 40% of the workers, just 10% of the credit was allocated to those firms. In contrast, Indian entrepreneurs received 80% of all of the loans made in that country. G. Das, "An economy unshackled", Foreign Affairs, 85(4) (July/August 2006), 2.

[39] R. Tham, "Resolving India's Entrepreneurial Paradox: Key To Starting Up The Economy?", Economic Watch (December 13, 2012), http://rise.mahindra.com/resolving-indias-entrepreneurial-paradox-key-to-starting-up-the-economy/ (accessed May 30, 2014).

Other long-term issues identified in the CIA Fact Book relating to India include "widespread poverty, inadequate physical and social infrastructure, limited non-agricultural employment opportunities, insufficient access to quality basic and higher education, and accommodating rural-to-urban migration".[40]

An interesting perspective on the current state of the Indian economy and the future of the business landscape comes from the results of a survey of 62 CEOs of large Indian companies conducted by PricewaterhouseCoopers in September 2009.[41] Within the group, China, South Asia and the US were tapped as the most important markets for Indian companies, with Europe being much less important; however, when it came to identifying which countries were expected to provide the most competition for Indian firms the CEOs pointed to China and Europe, although China was the clear leader being named by 34% of the respondents as opposed to 15% for Europe.[42]

When asked what characteristics have contributed the most to make the Indian economy competitive over the past 10 years the following received the most mentions from the CEOs: adequate supply of educated and healthy workers (74% of the respondents), entrepreneurial base (56%), technological readiness (47%) and stable economic policy-making and institutions (37%). When asked what was needed for continuous growth and improvement over the next decade the most popular suggestions of the CEOs were strengthen the infrastructure (97% of the respondents), stable economic policy-making and institutions (48%), innovation (45%), stable and deep domestic capital markets (31%) and efficient markets for goods (29%).[43]

§1:2 Entrepreneurship

Manufacturing entrepreneurship in India goes back hundreds of years and one can find attempts to establish and grow factories and related facilities in a variety of sectors including shipbuilding, gun powder production, textiles, iron and steel. In general, however, entrepreneurship grew relatively slowly during the period of British occupation of India for a variety of reasons, including failure of the British to afford adequate protection to new enterprises and the practice of the British to limit encouragement of entrepreneurial activity to those industries where British capital was at risk; high railway freight charges; exorbitant tariffs imposed on Indian-made goods; suffocating regulations in the form of restrictions and controls on licenses and capital needed to establish and

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[40] CIA, The World Fact Book: India (March 8, 2011) https://www.cia.gov/library/publications/the-world-factbook/geos/in.html [accessed March 18, 2011]

[41] PricewaterhouseCoopers 13th Annual Global CEO Survey (2009) (as cited and described in N. Rajan and J. Purandare, "India's Competitiveness: The View from CEOs" in The India Competitiveness Review 2009 (World Economic Forum, 2009), 57-63.

[42] Id. at 59.

[43] PricewaterhouseCoopers 13th Annual Global CEO Survey (2009) (as cited and described in N. Rajan and J. Purandare, "India's Competitiveness: The View from CEOs" in The India Competitiveness Review 2009 (World Economic Forum, 2009), 57-63, 61.

operate business facilities; and a lack of facilities and other resources to provide the technical education necessary to strength indigenous entrepreneurship.[44]

Dhenak argued that entrepreneurship only began to develop in India at the beginning of the 19th century, even though industrialization had already been firmly in place in the country for some period of time, and that entrepreneurship was slow to take hold for several reasons including the strong influence of the caste system, which essentially dictated the occupations of the members of each caste and severely restricted social and economic mobility; continuing emphasis on agriculture with farmers and cultivators exploiting laborers and accumulating large amount of capital that were stockpiled for their luxury and rarely placed at risk in new industrial activities; an education system that pushed talented young Indians toward government or professional services positions rather than preparing them to act as industrialists, technicians or managers; the influence of the colonial rulers from Britain who did not encourage industrialization and entrepreneurship among their Indian subjects; a lack of managerial talent to assist Indian industrialists who might have been interested in entrepreneurial ventures—the system of managerial agents that was in place was dominated by managers more interested in excising profits from local business owners than developing the businesses; the dominance of the joint family system in which patriarchal business owners retained control and discouraged younger family members from diversifying business activities and pursuing innovations; a strong devotion to religious practices that discouraged Indians from pursuing material wealth and religious literature that encouraged Indian to be patient and continue working without expecting the fruits of their labors; a lack of recognition of entrepreneurship as a valuable and celebrated activity within Indian society; and the absence of a large number of families with successful industrial backgrounds, a factor often found to be a significant prediction of entrepreneurship.[45]

After the British occupation of India ended the new government began to take tangible steps to provide support for Indian entrepreneurs and the development of the private sector of the economy. In its first statement of “industrial policy” in 1948 the government stated its commitment to maintain a proper distribution of economic power between private and public sector; accelerate industrialization by spreading entrepreneurship from the existing centers to other cities, towns and villages; and disseminate the entrepreneurship acumen concentrated in a few dominant communities to a large number of other potential entrepreneurs from various social classes. Since then, development of small-scale industries has been a stated priority for successive governments and the State has continuously provided various incentives and concessions to potential entrepreneurs, including capital, technology, markets and land.[46] The result has been that the prevalence rate of entrepreneurial activity in India as measured by the Global Entrepreneurship Monitor, while lower than Brazil and China, compared quite

[44] Growth of Entrepreneurship in India, http://www.scribd.com/doc/25299363/Growth-of-Entrepreneurship-in-India [accessed March 22, 2011]
[45] M. Dhenak, Factors Affecting Entrepreneurial Growth, http://www.scribd.com/doc/32063138/15-Factors-Affecting-Entrepreneurial-Growth (accessed June 1, 2014)
[46] Id.

favorably to the US as of 2007.[47] Another factor supporting entrepreneurial activity in India has been the relatively young age of population as a whole and one commentator has specifically noted that "the current generations of youth do not have hang-ups about the previous legacy and are willing to experiment. These are the people who will bring about entrepreneurship in India."[48]

In general, new venture creation increased dramatically since the economic reforms—rising from 25,896 in 1992 to 52,496 in 2006—and paid-up capital of private sector firms as a percentage of GDP increased from 3.94% in 1992 to 17.31% in 2006.[49] According to figures compiled by the National Knowledge Commission, by far the largest share of companies since 2003-04 have focused on "emerging sectors", many of which have a significant knowledge base as their foundation, including information technology, finance, insurance and business services, construction, community, social and personal services, supply chain, transport, storage, communications and the like.[50] Mani has observed and praised the role of the private sector, particularly "entrepreneurial firms" as defined above, in the growth performance of India since the economic reforms of 1991. Among the factors that he noted were the increases in savings and investments of the corporate private sector since 2003-04, particularly the level of investment in "innovation" in the form of allocation of financial and other resources to research and development activities[51] and the filing of patent applications; the push among many private sector firms toward greater integration with the global economy through high export activities and acquisitions by Indian firms in foreign markets[52]; and the rapidly

[47] The Global Entrepreneurship Monitor, which has been measuring entrepreneurial activities around the world since 1999, defines "overall entrepreneurial activity" as the percentage of the 18-64 year old population in a country who are either involved in early stage entrepreneurial activity or owner-managers of an established business (i.e., a business that has been visibly operating and distributing wages or other comparable payments to the owners for more than 42 months). India's overall entrepreneurial activity percentage for 2007 was 13.9% while the percentages for Brazil, China and the US were 22.4%, 24.6% and 14.1%, respectively. See Global Entrepreneurship Monitor (2007).

[48] Growth of Entrepreneurship in India, http://www.scribd.com/doc/25299363/Growth-of-Entrepreneurship-in-India [accessed March 22, 2011]

[49] S. Mani, The Growth of Knowledge-intensive Entrepreneurship in India, 1991-2007 (Maastricht, The Netherlands: United Nations University-MERIT Working Paper Series No. 2009-051, 2009), 14-15 (citing figures from National Knowledge Commission (2008)).

[50] Id. at 12-13 (citing figures from Ministry of Company Affairs (2007)). Mani acknowledged that large conglomerate groups, such as Tata, had expanded massively—Tata's sales revenue was over 3% of the national GDP—but pointed out that much of this expansion was from international operations and thus should not mask the impressive development of small- and medium-sized private enterprises that, at least for the time being, focus on domestic markets and opportunities. Id., Footnote 5.

[51] Mani cited another of his own works that showed that the share of the industrial sector in the performance of research and development doubled during the post-liberalization period and that by 2005-06 the industrial sector accounted for about 30.4% of the overall gross expenditure on research and development in India. See S. Mani, "Government Support for Sustaining a Knowledge-based Economy—An examination of India's Technology Policy Initiatives, 1990-2005" in A. Vaidyanathan and K. Krishna (Eds), Institutions and Markets in India's Development, Essays for K.N. Raj (New Delhi: Oxford University Press, 2007).

[52] Mani noted two indicators of globalization: "there has been a significant improvement in the average export intensity of an Indian private sector firm; it increased from about 8 per cent in 1991 to about 25 per cent in 2007, [and] (ii) Indian firms have made a number of acquisitions abroad and as a result the ratio of FDI from India to India now stands at around 0.61." He observed that the export activity of India's

expanding presence of Indian firms as significant players in knowledge- and technology-intensive industries in a diverse array of industries including auto components, biotechnology, software and wind turbines”.[53]

An interesting development, particularly given India’s long aversion to allowing foreign participation in its own economy, has been the rapid expansion in Indian investments abroad and the corresponding rise of a small, yet increasingly influential, group of Indian multinationals that have become global players in a number of key industries.[54] Mani listed several apparent reasons for this trend, including “. . . to access high growth markets, technology and knowledge, boost their positioning in the value chain, attain economies of size and scale of operations, to tap global natural resource banks and leverage international brand names for their own brand building”.[55] Among the industries of interest to Indian investors have been pharmaceuticals, automobiles, basic metals, telecommunications and electrical equipment. As of 2007-2008, net foreign direct investment (FDI) from India was 52% of net FDI into India—a notable jump from the 19% in 2000-01—and in some years the percentage was even higher; for example, 66% in 2005-06.[56]

India’s National Knowledge Commission undertook an extensive survey of innovation in India and published the results in 2007 along with recommendations for improving and expanding India’s innovation capacity.[57] The survey included collection and analysis of data from industry leaders all around the country as well as from a number of small- and medium-sized enterprises (“SMEs”) and the sample group extended across sectors from manufacturing and services to diversified businesses. The definition of “innovation” used by the Commission for purposes of the survey was as follows: ‘Innovation is defined as a process by which varying degrees of measurable value enhancement is planned and achieved, in any commercial activity. This process may be breakthrough or incremental, and it may occur systematically in a company or sporadically; it may be achieved by introducing *new or improved goods or services* and/or implementing *new or improved operational processes* and/or implementing *new or improved organizational/ managerial processes* in order to improve market share, competitiveness and quality, while reducing costs.”

The Commission found that “innovation intensity”, defined as the percentage of revenue derived from products and services which were less than three years old, had increased

knowledge- and technology-intensive firms was often even more significant—typically 30% to 95% of the total sales. Id.

[53] Id. at 5.

[54] For further discussion of Indian multinationals, see D. Nayyar, “The Internationalization of Firms from India: Investment, Mergers and Acquisitions”, Oxford Development Studies, 36(1) (2008), 111-131. For further details regarding the Tata Group, arguably the most powerful and well-known Indian multinational group, see “Out of India”, The Economist (March 5, 2011), 75-78.

[55] S. Mani, The Growth of Knowledge-intensive Entrepreneurship in India, 1991-2007 (Maastricht, The Netherlands: United Nations University-MERIT Working Paper Series No. 2009-051, 2009), 19-21 (citing data from the National Entrepreneurship Network online at http://www.nenonline.org/).

[56] Id. From 2000-01 through 2007-08 the average was 42%.

[57] National Knowledge Commission, Innovation in India (2007), iv-vii.

for both large firms and SMEs, that 42% of the large firms and 17% of the SMEs could be classified as "highly innovative" firms, meaning that they had introduced "new-to-the-world" innovations during the five year period leading up to the collection of data for the survey. Nearly half of the larger firms and SMEs attributed more than 25% of their changes in the following factors to innovation: increase in competitiveness, increase in profitability, reduction in costs and increase in market share. Among the larger firms, innovation had the most significant impact on competitiveness, while among the SMEs innovation had the most significant impact on increasing market share. A substantial majority of the large firms including in the survey reported that innovation was one of their top strategic priorities and that they expected to see innovation spending increasing in the following three to five years and there was also general agreement among the large firms that innovation has become critical to growth and competitiveness since the beginning of economic liberalization in India and that they could not survive and grow without investing in innovation.

With regard to their innovation strategies, the large firms in the survey reported that that their innovation activities were most highly concentrated in operations and sales and marketing and that their customers were the primary external factor in motivating them to innovate. Among the SMEs the most effective innovative strategies in terms of increasing market share, competitiveness and profitability and reducing costs were development and introduction of new products, processes and services. While 37.3% of the large firms had introduced "breakthrough innovations", "incremental innovations" were more common (76.4% of the large firms) and the average timeframe for innovation projects among the large firms—from idea generation to market—ranged from one to three years, with the timeframe being longer among manufacturing firms than among companies engaged in services.

While innovation had been increasing among both large firms and SMEs, the Commission found that the SMEs had greater innovation intensity than the large firms and also found that innovation intensity was significantly higher among privately and publicly-owned firms than in government-owned firms and that firms with majority foreign ownership had greater innovation intensity than those with majority Indian ownership. Innovation intensity was also higher among multinational corporations ("MNCs"), as opposed to non-MNCs; firms with their primary markets in India, as opposed to firms primarily focused on markets abroad; firms in industries in which patent filings and use of intellectual property consultants were important; and firms that were more actively engaged in partnerships and collaborations with government agencies, universities and research laboratories. Innovation was higher among respondents that invested more in research and development and strategically prioritized innovation activities and effective internal innovation processes of the most innovative companies included maintaining a specific innovation department, allocating funds, rewarding innovative employees, forecasting probabilities of success, formalizing processes and systematic attempts, maintaining physical locations for innovation and constituting cross-functional teams.

In 2008 the Indian National Knowledge Commission completed and issued an extensive report on entrepreneurship in India that was based on one-on-one interviews with 155 Indian entrepreneurs from diverse backgrounds in selected cities all across India and on information collected from other relevant stakeholders in the local entrepreneurial ecosystem (i.e,, educational institutions, incubators, the financial community, chambers of commerce and entrepreneurial associations). Among the key findings that were noted and elaborated on in the report were the following[58]:

- "Challenge" was the principal motivator for the entrepreneurs included in the survey, almost all of whom were anxious to avoid being in a "routine job", and a significant majority of them enjoyed emotional and financial support from their families for the entrepreneurial path they had chosen.
- Almost two-thirds of the Indian entrepreneurs in the survey were self-financed and the other received funding from a variety of outside sources including venture capitalists, angel investors and banks. While 61% of the entrepreneurs who approached Indian banks for financial support were successful, the general perception among the entrepreneurs was that it was difficult to obtain bank financing during the startup stage.
- Education was a key element in the backgrounds of almost all of the entrepreneurs, with 95% of them confirming that they believed that education was a critical success factor for entrepreneurship and 98% of them reporting that they were graduates of colleges or universities. Interestingly, however, only 16% of the entrepreneurs selected the sector in which their new business operated based on their educational background.
- A significant percentage of the entrepreneurs reported difficulties in recruiting candidates with the right skills and many entrepreneurs also complained of problems in retaining employees once they had been identified and hired.
- More than half of the entrepreneurs reported difficulties identifying and overcoming regulatory hurdles to starting and operating their businesses and corruption was also cited as a common problem when dealing with regulators to obtain statutory clearances and licenses.

For all of the efforts to encourage entrepreneurship in India serious barriers to innovation continue to slow progress. For example, the Indian National Knowledge Commission found that the most important external impediment identified by respondents of all sizes, both large firms and SMEs, was skill shortages attributed to shortcomings in India's education curriculum, notably a lack of emphasis on industrial innovation, problem solving, design and experimentation. Other external barriers to innovation identified during the survey included a lack of effective collaboration between firms engaged in commercial activities and universities and other research institutes, excessive government regulation and insufficient pricing power to allow companies to derive value from their innovations. The Commission recommended that the government should respond to these problems by implementing systematic reforms within the Indian higher education system, including skill-based marketable vocational education, and implementing

[58] National Knowledge Commission, Entrepreneurship in India (2008), viii-ix.

initiative to create and promote an innovation ecosystem in India that linked industry, government, education, research and development and consumers. As for internal barriers to innovation, large firms mentioned a lack of organizational focus on innovation as a strategy for growth and competitiveness; inefficient internal knowledge management systems; and inadequate information about, and understanding of, customer needs and market dynamics. Lack of insight into customer needs and market dynamics was also cited as a problem by the SMEs, who also reported their efforts to innovative were challenged by a lack of effective in-house training programs to address skill shortages and difficulties moving beyond their first successful innovation to develop a sustainable model for continuous innovation.

Another report from the National Knowledge Commission based on circumstances in 2008-2009 noted that while entrepreneurship had been a traditional characteristic of India, the country had not performed well on various global studies that had been conducted with respect to the entrepreneurial and business potential of countries, with India often being criticized for excessive regulatory burdens on starting and growing a business and the low level of growth expectation among potential entrepreneurs.[59] According to the Commission, some of the main issues for entrepreneurship in India at that time included the following:

- In the finance area, entrepreneurs were continuously struggling to obtain access to credit. The Commission noted that new sources of financing, including venture capital firms, angel investors and private equity funds, were becoming more available; however, Indian entrepreneurs still lacked sufficient financing support from institutional lenders, many of which were reluctant to advance funds to companies still in their startup stage.
- The Commission reiterated India's poor standing in surveys relating regulation and governance challenges for new businesses and noted that Indian entrepreneurs were often overwhelmed with cumbersome paperwork and long delays to register their businesses and obtain government licenses and were forced to invest substantial time and effort in paying their taxes and complying with labor regulations. The Commission also noted that Indian entrepreneurs had difficulties in obtain information about the legal and procedural aspects of starting a new business.
- Indian entrepreneurs typically were unable to find and hire the skilled manpower that they needed in order to launch their businesses and develop their business models and the Commission was critical of the poor levels of efficiency and flexibility in the Indian labor market.
- The Commission noted that shortcomings in India's physical infrastructure—roads, railways, ports, power and telecommunications—often creating problems for Indian entrepreneurs and significantly increased their transport and supply chain costs.
- The Commission recognized that education has become a recognized characteristic of a robust entrepreneurial ecosystem and noted that India needed to do more in terms of developing a practical entrepreneurship curriculum, establishing incubators and creating opportunities for mentoring and industry-research linkages.

[59] Id. at 212-214.

Among the key recommendations in the report for improving the entrepreneurial ecosystem were the following[60]:

- Indian entrepreneurs are eager for information regarding best practices and stories about unsuccessful ideas and ventures that can be used to demystify the process of entrepreneurship and alleviate fears regarding risks and prospects for failure. Support from the government for entrepreneurial networks and associations recommended as being critical for increasing the visibility and recognition of entrepreneurship in India.
- Sources of capital for Indian startups, including banks and other financial institutions as well as venture capitalists, angel investors and private equity funds, needed to be more proactive in assessing business opportunities generated by Indian entrepreneurs and developing creative financing packages and new instruments for startup funding.
- More needed to be done within the Indian educational system to provide training and skills development focusing specifically on generating new ideas and converting them into wealth and employment. As part of an expanded entrepreneurship curriculum, efforts needed to be made to improve financial literacy among entrepreneurs.
- Closer and stronger ties between academic research and the business community should be forged by enacting legislation that would grant universities and research centers intellectual property rights in the results of publicly-funded research so that they could contract with private sector firms for commercialization of the results. Further incentives should be created for research scholars to engage in entrepreneurship and in activities relating to startups including allowing them to share in royalties received by their universities and research centers from commercialization of innovations that they created.
- Additional support for improving and expanding India's fledgling incubator network was recommended including funding to provide needed services such as market data, mentoring and training in preparing business models and recruiting skilled workers.
- Extensive reforms in the Indian education system were recommended with the goal of dramatically expanding the pool of skilled workers through improving the quality of vocational education and training. Specific ideas included developing innovative delivery models, ensuring performance-based training and assessment, certification, encouraging learning-by-doing and incentivizing English-speaking skills
- Multiple steps to ease the burdens of launching and operating a business in India were suggested including consolidation of application and reporting requirements (e.g., introducing a single unique company number that could be used for all company, tax and social security registrations), reducing the frequency of tax payments for entrepreneurs from monthly to quarterly; creating specialized commercial courts; introducing limited liability partnerships and creating "one-stop shops" where entrepreneurs could go to find all of the information they need to launch a new venture.
- The Indian government was admonished to take steps to improve the country's infrastructure and implement legal and regulatory changes that would liberalize domestic markets and ease the anxieties of prospective entrepreneurs regarding the

[60] Id. at ix-x.

consequences of honest failure (e.g., modernization of laws pertaining to business entities to clarify limited liability and reforming bankruptcy laws).

Interviews of Indian entrepreneurs conducted during the preparation of a 2008 report on Indian entrepreneurship by the National Knowledge Commission included a number of interesting recommendations by the respondents for fledgling entrepreneurs including the following: increase networks with other entrepreneurs to encourage sharing of ideas and experiences, and to mentor upcoming entrepreneurs; invest in people and build teams that follow inclusive approaches ("translate business strategy into talent strategy'); understand the product and markets well and conduct extensive background research, especially on marketing and financial aspects; focus on quality; avoid clinging to control of the venture, especially when the company is pushing to expand, and be prepared to hire individuals with better skill sets, provide them with autonomy and divest authority; be open to ideas and taking informed risks; be honest and be prepared to work hard and with confidence and persistence; and develop clear business plans and targets for growth.[61]

The World Bank's 2008 ranking of various countries with respect to "doing business" placed India relatively low on a number of important dimensions including establishing a business, dealing with licenses, employing workers (including hiring and firing practices), registering property, taxes, enforcing contracts and closing businesses.[62] In the 2011 update to that ranking, the World Bank placed 134th out of 183 countries with regard to the challenges associated with starting, operating and closing a business. Indian entrepreneurs had to complete 12 procedures to start a new business and the average time required to complete those procedures was 29 days. Rankings with regard to employing workers, getting credit and closing a business were 104th, 32nd and 134th, respectively.[63] Other often mentioned impediments to entrepreneurial activity include the availability of skilled manpower; poor physical infrastructure (i.e., roads, railways, ports, power and telecommunications) and high transport and supply chain costs; shortcomings in the area of entrepreneurship education, including not only formal training but also the availability of mentoring and networking opportunities; and a shortage of risk capital.[64]

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[61] Id. at 89-90.

[62] See also KPMG-TiE, "Entrepreneurial India—An Assessment of the Indian Entrepreneur's Confidence in their Business Ecosystem" http://www.in.kpmg.com/TL_Files/Pictures/TiE08.pdf [Accessed March 25, 2011] (entrepreneurs complained about shortcomings in state involvement in entrepreneurial ecosystem including governance issues). Publication cited in S. Mani, The Growth of Knowledge-intensive Entrepreneurship in India, 1991-2007 (Maastricht, The Netherlands: United Nations University-MERIT Working Paper Series No. 2009-051, 2009), 19.

[63] By way of comparison to another emerging market, Brazilian entrepreneurs must complete 15 procedures to start a new business and the number of days required to complete those procedures was 120. Interestingly, however, India ranked slightly below Brazil (127th) with regard to the overall challenges associated with starting, operating and closing a business.

[64] Growth of Entrepreneurship in India, http://www.scribd.com/doc/25299363/Growth-of-Entrepreneurship-in-India [accessed March 22, 2011] Government agencies at the national and state levels, as well as other organizations (i.e., chambers of commerce), have made an effort to support entrepreneurship through training programs and seminars, dissemination of information to entrepreneurs and research on entrepreneurship. Id.

According to Yu and Tandon, who were writing for Gallup, entrepreneurship has played a significant, and continuously increasing, role in India's economic growth and development since market liberalization policies were implemented in the early 1990s and they reported governmental statistics that showed that between 2007 and 2010 the number of micro, small and medium sized enterprises ("MSMEs") in India grew at a rate of 4.51% annually, the number of people employed by MSMEs grew by 5.29% annually, and production by MSMEs grew at 11.48% annually to the point where MSMEs were contributing almost 9% of the country's overall GDP.[65] While these numbers were impressive, Yu and Tandon noted that a 2011 study of 20 economic entities in Asia conducted by Gallup placed India in the bottom quartile on several important indicators of a well-functioning entrepreneurial ecosystem and that another Gallup survey conducted only in India in 2012 showed that while 16% of Indians owned their own business, within that group only 22% of the businesses were formerly registered, half of the owners worked alone, 47% of the companies had five or fewer employees, and only 12% of the owners had plans to hire additional employees within the next twelve months. Yu and Tandon argued that while the Gallup survey confirmed the existence of entrepreneurial talents and attitudes in India, entrepreneurship would be stifled unless and until steps were taken to minimize barriers for Indian entrepreneurs willing to launch businesses that could satisfy growing demands in the local marketplace and create jobs for people beyond their immediate families.[66] Interestingly, it was reported that just 1.6 million of the estimated 26.1 million MSMEs in business at that time were registered, meaning that a significant segment of the MSMEs preferred to remain informal and operate outside of the difficult direct governmental regulation system.[67]

Yu and Tandon interpreted the data from Gallup's 2012 survey as evidence of an abundant reserve of entrepreneurial talent in India, finding that more than 60% of the Indian population possessed personality traits that Gallup had identified in advance as being crucial for success as an entrepreneur including business thinking (i.e., agreeing that "a successful business is one that makes a big profit"), optimism and persistence.[68] Yu and Tandon noted that Indian entrepreneurs ranked higher on these traits than their counterparts in other Asian countries and India's relatively youthful population contributed to a higher sense of optimism. At the same time, however, most of the Indians surveyed remained reluctant to take on the risk of launching and running a business, with just 39% of the respondents agreeing that they would rather take a risk and build their own business as opposed to working for someone else. Yu and Tandon blamed this result on a lack of robust support from the government, the public and an entrepreneurial community and cataloged several perceived risks that were likely holding

[65] D. Yu and Y. Tandon, India's Big Problem: Nurturing Entrepreneurs, Gallup Business Journal (August 1, 2012), http://businessjournal.gallup.com/content/156143/india-big-problem-nurturing-entrepreneurs.aspx#1 (accessed May 27, 2014).
[66] Id.
[67] See S. Timm, "How South Africa can boost support to small businesses: Lessons from Brazil and India," http://www.tips.org.za/paper/how-south-africa-can-boost-support-small-businesses-lessons-brazil-india [accessed May 14, 2011], 19.
[68] D. Yu and Y. Tandon, India's Big Problem: Nurturing Entrepreneurs, Gallup Business Journal (August 1, 2012), http://businessjournal.gallup.com/content/156143/india-big-problem-nurturing-entrepreneurs.aspx#1 (accessed May 27, 2014).

back entrepreneurship in India including personal risk (i.e., emotional strain and the unpredictability of success), financial risk (i.e., loss of savings and a lack of resources to all back on if a business failed or was slow to achieve profitability) and vested interest risk (i.e., lack of fair and transparent regulations and effective law enforcement).

Yu and Tandon cited four factors associated with their assessment of the social and economic systems of India that they believed were significantly inhibiting growth-oriented entrepreneurship and development of the formal MSME sector in that country.[69] First, they argued that Indian entrepreneurs lacked reliable support from honest and efficient government institutions, noting that it remained extremely difficult to launch a new business in India and that India continued to lag behind most other countries in the world with respect to transparency and corruption. The need for Indian business owners to pay bribes to government officials in order to get things done with respect to their businesses negatively impacted the reputation of businesspeople in the eyes of the public, thus making entrepreneurship and business ownership a less desirable and culturally acceptable career path among Indians. Second, they noted that Indian entrepreneurs needed more diversified and localized funding at the initial stage. Yu and Tandon pointed out that while India had attracted the interest of global investors and venture capital funds were commonplace, most of these investors were primarily interested in backing export-oriented IT or mobile solutions and generally avoided startups operating in other sectors. Yu and Tandon also reported that India had yet to develop an angel investment community that could provide mentoring and managerial support to local startups. Third, Yu and Tandon lobbied for improving access of Indian entrepreneurs to training and mentorship, particularly in rural areas. Finally, Yu and Tandon were critical of an Indian legal system that was ranked among the worst in the world with respect to enforcement of contracts, explaining that the time needed to enforce contracts in India was almost triple the average among OECD countries and that the cost of enforcing contracts in India was almost double the OECD average. They explained that this situation generally left Indian entrepreneurs, who were typically strapped for both cash and time, powerless in the face of cheating by business partners who chose to ignore the terms of their contract with the entrepreneur. As a result, Indian entrepreneurs were understandably averse to pursuing business relationships with anyone outside of their family, which meant that it was quite difficult for those entrepreneurs to build their businesses and accumulate valuable social capital through collaborations with customers and other business partners.

Jain explained that prior to liberalization of the Indian economy in the early 1990s, the success stories in Indian business were those firms with the requisite ambition, government contracts, licenses and ability to understand and work the country's bureaucratic systems to their advantage.[70] Before 1991, connections, rather than markets and competition, were the key factors in governmental decisions that impacted the domestic economy and local companies operated behind a thick wall of protection and

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[69] Id.

[70] V. Jain, Indian Entrepreneurship and the Challenges to India's Growth, Global Business (September/October 2011), http://iveybusinessjournal.com/topics/global-business/indian-entrepreneurship-and-the-challenges-to-indias-growth#.U4nlsfldUgR (accessed May 31, 2014).

import substitution designed to build self-reliance and freedom from the West. A byproduct of this situation was that entrepreneurship was stifled, with little capital available for new ventures outside of the government's plans, and the overall aversion to risk throughout Indian society pushed people towards career paths that offered some degree of security and stability.

Jain noted that the key risks to continued growth in India included terrorism, political corruption/stalemate, non-inclusive growth that focused only on the urban rich, and stalled reforms.[71] However, he argued that these risks, while real, are somewhat overstated and should not dissuade foreign investors from placing bets on Indian entrepreneurs. For example, Jain noted that much of the terrorist activity in India comes from religious communities and extreme radical movements, and that while these activities cannot be expected to disappear, India has proven to be a resilient culture that has a long history of coping with differences. With respect to politics, Jain noted that while uncertainly will remain into the foreseeable future all of the major political parties are committed to liberalization and economic reforms. Moreover, India, as the largest democracy in the world, has demonstrated its ability to manage political processes and differences and accept transitions of power in an orderly fashion through the ballot box as opposed to violence. Jain conceded, however, that management and reduction of the perceived risks associated with doing business in India would require decisions that might be delayed by coalition politics including establishment of public-private partnerships for upgrading and modernizing India's infrastructure, additional economic reforms to liberalize the domestic market for inputs and more aggressive steps to address issues of widespread corruption.

Indeffurth and Khambatta described the results of various surveys relating to impediments to entrepreneurship in India and noted that some of the most frequently cited problems included infrastructures, particularly power and electricity but also roads, water and public transportation; bureaucracy and corruption; tax administration; labor regulations; and labor skills.[72] In 2010 the US Commercial Service noted: "U.S. firms have identified corruption as one obstacle to foreign direct investment. Indian businessmen agree that red tape and wide-ranging administrative discretion serve as a pretext to extort money. According to some foreign business representatives in India, corruption lies in the lack of transparency in the rules of governance, extremely cumbersome official procedures, and excessive and unregulated discretionary power in the hands of politicians and bureaucrats."[73] Since then the situation seems to have become even more problematic with an article in The Economist reporting in March 2011 that [c]orruption is dreadful in India . . . [and] [w]orries have grown that graft is scaring away foreign businesses".[74] The same article referred to an survey released by PERC, a Shanghai-based consultancy, that indicated that investors are more negative because of

[71] Id.
[72] K. Inderfurth and P. Khambatta, "Entrepreneurship in India: The Next Wave", Center for Strategic and International Studies: US-India Insight, 1(9) (December 14, 2011).
[73] Doing Business in India: 2010 Country Commercial Guide for U.S. Companies (Washington, DC, US & Foreign Commercial Service, 2010).
[74] "Business in India: The price of graft", The Economist (March 26, 2011), 76-77.

corruption than they were five years ago and that India ranked fourth among 16 Asian countries among 1,275 businesspeople questioned with regard to the level of corruption—worse than China or Vietnam and on a par with countries such as Cambodia. Corruption is derailing deals that need to be completed in order to resolve fundamental infrastructure issues in India and foreign investment in 2010 ($24 billion) was down a third from the year before, although factors other than corruption (i.e., bureaucracy, weak property rights and limits on foreign investment in certain sectors) contributed to investor wariness of committing more capital to India. Adding insult to injury is that not only are investors being asked to pay bribes but in many instances the officials who take the funds ultimately fail to "deliver their side of the bargain".[75]

Maheshwari and Agarwal, writing about the entrepreneurial environment in India, noted that entrepreneurship has been embedded in the Indian genius and is a part of its tradition and history and suggested that modern Indian entrepreneurs are needed to create employment and wealth and act as catalysts for change to take advantage of economic and social opportunities that exist throughout the country.[76] According to Aggarwal, at least two new ventures were being launched daily in India in early 2014, but barely one out of ten were able to survive for any meaningful length of time.[77] Maheshwari and Agarwal argued that entrepreneurship in India is hindered by the strong aversion to risk among many members of Indian society. They noted that the unstable political conditions, including constantly shifting governmental policies and regulations, discourage entrepreneurs and chase away potential investors who are rightly concerned about their ability to recover capital provided to entrepreneurs.[78] They also pointed out that Indians typically seek secure and long-term employment, particularly jobs within the huge governmental bureaucracy, and that this tendency has been passed on from generation-to-generation to the point where parents push their children to find secure jobs and actively discourage any glimmer of entrepreneurial spirit. Interestingly, Aggarwal speculated that the large pool of unsuccessful Indian entrepreneurs would eventually become an attractive recruiting ground for new companies looking for talented people who had an understanding, albeit somewhat painful, of the trials and tribulations of trying to start a new business. In fact, many of these entrepreneurial veterans are being hired for marketing and operations positions and Aggarwal noted that they are being brought in because they have a real understanding of setting and pursuing audacious goals.

§1:3 Governmental policies and programs

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[75] Id. The article noted that in other countries where bribes are expected and paid, such as China, investors can at least be assured that they will get what they bargained for, thus leading some to comment that graft can sometimes actually be an "efficient" way to conduct business in certain markets.

[76] S. Maheshwari and S. Agarwal, Entrepreneurial Environment in India (April 6, 2013), http://techaloo.com/entrepreneurial-environment-in-india/ (accessed May 30, 2014).

[77] V. Aggarwal, Why Startups are Hiring Failed Entrepreneurs, Economic Times (April 23, 2014), http://economictimes.indiatimes.com/articleshow/34085569.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst (accessed May 27, 2014).

[78] S. Maheshwari and S. Agarwal, Entrepreneurial Environment in India (April 6, 2013), http://techaloo.com/entrepreneurial-environment-in-india/ (accessed May 30, 2014).

Shivani et al noted that India had launched a large variety of programs to promote entrepreneurship throughout the country and that these programs had included initiatives to create an institutional support infrastructure for Indian entrepreneurs, including technical and other consultancy assistance, provide financial incentives to small and micro entrepreneurs and provide training and skills development.[79] Shivani et al suggested, however, that more needed to be done to widen the social basis for entrepreneurship in India and increase support for entrepreneurship as an acceptable choice of career path. They pointed out that given the strong influence of kinship in Indian society, it was particularly important to focus structural interventions not only on actual and prospective entrepreneurs, but also on their immediately family members, and argued that this was especially necessary to increase the number of female entrepreneurs in India.

In its Draft National Entrepreneurship Policy, the Entrepreneurship Development Institute of India argued that efforts need to be made to: "trigger an entrepreneurial culture and inculcate entrepreneurial values in society at large and influence the mind-set of people towards entrepreneurship; create awareness about the charms of being an entrepreneur and the process of entrepreneurship, especially among youth; encourage more dynamic start-ups by motivating educated youth, scientists and technologists to consider entrepreneurship as a lucrative, preferred and viable career; support early phase of entrepreneurship development including the pre-start-up, nascent as well as early post start-up phase and growth enterprises; broaden the base of entrepreneurial supply by meeting specific needs of underrepresented target groups like women, minorities, socially and economically backward communities, scheduled castes and scheduled tribes and underrepresented regions to achieve inclusive, balanced and sustainable growth of entrepreneurship in the country; facilitate creation of social enterprises to address the needs of the population at the 'bottom of the pyramid'; ensure adequate availability and flow of information to potential entrepreneurs, eliminate entry and exit barriers, create a business friendly, non-threatening and conducive regulatory and policy environment to reduce administrative burden related to compliances of various kinds; and create an eco-system by evolving an institutional framework and organisational structure to achieve the above objectives".[80]

According to the Institute, attainment of the above-described objectives required a multi-pronged strategy that focused on sensitising, promoting and igniting entrepreneurship; creating and fostering entrepreneurship; nurturing entrepreneurship; recognizing and celebrating entrepreneurship; and institutionalising the entrepreneurship movement. The Institute suggested that specific policy instruments that needed to be included in India's national entrepreneurship development strategy should cover the following areas:

- Promoting entrepreneurship through electronic and print media;

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[79] S. Shivani, S.K. Mukherjee and R. Sharan, "Socio-Cultural Influences on Indian Entrepreneurs: The Need for Appropriate Structural Interventions", Journal of Asian Economics, 17(1) (February 2006), 5.
[80] Entrepreneurship Development Institute of India, Draft National Entrepreneurship Policy, http://ediindia.ac.in/e-policy/Doc/Draft-National-Entrepreneurship-Policy.pdf (accessed June 8, 2014).

- Introducing entrepreneurship in the education system at all levels to orient and prepare students for an entrepreneurship career by imparting skills, knowledge and aptitude for entrepreneurship;
- Placing special focus on introduction of entrepreneurship as a core subject in engineering colleges and other technical institutions to promote technology based enterprises through promoting Incubators; and, creating a system to encourage scientists to commercialise R&D without hampering their IPRs; and bringing industry-academia closer to augment the process of commercialisation of scientific discoveries.
- Promoting 'inclusive entrepreneurship' by bringing women, minority communities, scheduled caste and scheduled tribes and other underprivileged groups within the ambit of the Policy so that they get their fair share in the Government efforts to promote entrepreneurship. Provisioning business development services and business counselling for these target groups will be ensured, given its importance in promoting and nurturing entrepreneurship;
- Fostering 'Social Entrepreneurship';
- Promoting an eco-system for accelerating entrepreneurship, enhancing the flow of information on procedures and formalities to set up an enterprise by strengthening the one-stop-shop i.e. single-window system; and, ensuring ease of 'entry and exit';
- Enhancing access to finance for start-ups, growth enterprises, tech enterprises and micro entrepreneurs.
- Recognising entrepreneurial achievements and organising 'Awards', setting up Young Entrepreneurs' Consortium, etc.
- Creating an organisational structure for advocacy and coordination to promote an 'Entrepreneurship Movement'.

Abrar and Krishnamurthy reported that Indian entrepreneurs often complain of excessive regulatory hurdles and a lack of policy support that they believe is holding back India's startup scene and new companies are generally confronted with difficulties in obtaining true risk capital.[81] Hopes and expectations were high within the Indian startup community that the Modi government will move aggressively to bring clarity and simplicity to regulatory and tax policies, ease restrictions on foreign direct investment that is needed to fuel innovation in India's growing online retail industry and create tax breaks for India's angel investors.[82]

§1:4 Knowledge-based entrepreneurship in India

Mani has defined "knowledge-based entrepreneurship", which he noted was a term often used interchangeably with "technology-based entrepreneurship", as "entrepreneurship in

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[81] P. Abrar and K. Krishnamurthy, Indian Startup Sector: Why New Businesses Face More Hurdles than Advantages, Economic Times (May 9, 2014), http://economictimes.indiatimes.com/articleshow/34851255.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst (accessed May 27, 2014).

[82] Indian Startup Sector Draws a Big Wishlist for Narendra Modi, Economic Times (May 27, 2014), http://economictimes.indiatimes.com/articleshow/35624661.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst (accessed May 27, 2014).

the context of medium and high technology industries, both in the manufacturing and service sectors as well".[83] With respect to India, the specific industries considered to meet the criteria for "knowledge-based" status include chemical and chemical products, metal products and machinery, electrical machinery, transport equipment, communication services, computer-related services and research and development services.[84] Mani has described three traits of "entrepreneurial firms" in India that distinguished them from "conventional firms": (i) corporate governance—although many of the firms were originally established by entrepreneurs with technical, as opposed to managerial training, they have opted for listing their shares on public securities markets and accepted the accompanying listing requirements that call for more transparent disclosure practices regarding their operations and performance, (ii) involving in knowledge- and technology-intensive industries, including service industries where barriers to entry are relatively low and success depends upon continuous innovation; and (iii) the extent of "globalization" or integration with the global economy, as measured by the level of exports as a percentage of total sales—typically ranging between 30% to 95%--and the pursuit and consummation of acquisition opportunities in foreign markets to expand the scope of operations beyond India.[85]

An analysis by Mani of the "hottest startups" in India identified by the National Entrepreneurship Network as of 2008 revealed the following characteristics of technology-based entrepreneurship activities in the country: 40% of the companies were technology-based (i.e., information technology, Internet, software, telecommunications and mobile); most of the companies—63%--were based in the larger cities (Bangalore (25%), Mumbai (19%) and Delhi (19%); 78% of the companies had been in existence less than three years and the oldest companies had been formed in 2003; just under half of the founders were still in their 20s and more than half of the founders were "first generation" entrepreneurs launching their first business; however, only 8% of the founders were women; 585 of the founders had either studied abroad or received their education in one of India's "Tier I" institutions; and the number of employees ranged from five to 15.[86]

There has also been a significant increase in the number of Indian companies included among the Deloitte Technology Fast 500 Asia Pacific, a collection of the fastest growing technology companies in the Asia Pacific Region. Indian representation grew from just

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[83] S. Mani, The Growth of Knowledge-intensive Entrepreneurship in India, 1991-2007 (Maastricht, The Netherlands: United Nations University-MERIT Working Paper Series No. 2009-051, 2009), 11.
[84] Id.
[85] Id. at 5. Other sources of information on entrepreneurship in India include R. Bansal, Stay Hungry, Stay Foolish (Ahmedabad: Indian Institute of Management, 2008); H. Damodaran, India's New Capitalists, Caste, Business, and Industry in a Modern Nation (New Delhi: Palgrave Macmillan, 2008); R. Karki, Competing with the Best (New Delhi: Penguin Books, 2008); T. Khanna, Billions of Entrepreneurs: How China and India Are Reshaping Their Futures–and Yours (New Delhi: Penguin Books India, 2008); and F. Taube, "Diversity and the Geography of Technology Entrepreneurship: Evidence from the Indian IT Industry", in M. Keilback, J. Tamvada and D. Audretsch (Eds), Sustaining Entrepreneurship and Economic Growth—Lessons in, Policy and Industry Innovations from Germany and India (New York: Springer, 2009).
[86] S. Mani, The Growth of Knowledge-intensive Entrepreneurship in India, 1991-2007 (Maastricht, The Netherlands: United Nations University-MERIT Working Paper Series No. 2009-051, 2009), 15.

12 firms in 2003 to 82 (engaged predominantly in information technology or software) in 2007, the second highest among all countries represented on the list that year.[87] By 2010, the number of Indian firms had dropped to 60, fourth among all countries represented behind China, Taiwan and Australia; however, India still outpaced traditional technology leaders such as Korea, Japan and Singapore.[88]

Mali observed that the following factors appear to have been particularly important to the rapid rise of knowledge-based entrepreneurship in India over the last two decades:

- The new market opportunities presented by a liberalizing economy, particularly the reduction of the discretionary role of the state in economic affairs (e.g., licensing and other regulatory requirements) and the corresponding lowering of barriers to entry and increase in the influence of "market forces";
- The availability of financial support schemes from both official and private sources, including bank loans and the establishment and expansion of a local venture capital market that grew at an annual rate of 90% over the last several years and will soon rival Europe in size[89];
- The existence of a large number of governmental programs and public-private partnership programs to encourage technology-based entrepreneurship, including programs to establish technology parks and incubators and programs to provide basic assistance to entrepreneurs on the basics of entrepreneurship and developing, protecting and commercializing new ideas and technologies[90]; and
- The emergence of a number of private sector initiatives for supporting knowledge-intensive entrepreneurship by complementing government programs and by reducing information asymmetries by ensuring that entrepreneurs can easily access vital information regarding technologies, projects, funding sources, available talent and the policy environment and incentive schemes[91]; and
- The increased availability of technically trained manpower due to a phenomenal increase in the enrollment rate for engineering and technology education, at especially the tertiary level, in the country and the willingness of engineers and others who received their technical training overseas to return to India to participate in the

[87] Id. at 21. For purposes of determining eligibility as a "technology company", the following criteria are used: (i) the company must own proprietary technology that contributes to a significant portion of the company's operating revenues; (ii) the company must manufacture a technology-related product; and (iii) the company must devote a significant portion of its operating revenues to research and development.

[88] http://www.deloitte.com/fast500asiapac [Accessed March 25, 2011]

[89] Id. at 6. It should be noted, however, that while India has made progress with regard to the availability of financing from external sources (i.e., banks, venture capitalists, private equity investors and angel investors), a larger percentage of the entrepreneurs continue to rely on personal savings both for initial funding requirements and for additional funding as their businesses mature. Id. at 23-26.

[90] Id. at 27. Mani describes the work of Technopreneur Promotion Programme administered by the Department of Scientific and Industrial Research of the Government of India which "helps the inventor to identify and network with an appropriate R&D/academic institution for guidance, technical consultancy, development of models/prototypes, etc., assists in the filing and securing of intellectual property rights and last but not the least, linking with appropriate source of finances for commercialization of the product". Id.

[91] Mani describes the work of several organizations that organize workshops and seminars relating to entrepreneurship education and provide mentoring to prospective entrepreneurs. Id. at 30.

formation of technical ventures that have provided the foundation for the launch of knowledge-intensive industries almost totally new to India.[92]

Maheshawari and Sahu provided a list of markets and sectors that they believed offered particularly promising opportunities for entrepreneurship in India, including tourism, automobiles and automobile components, textiles, social ventures, software, engineering goods, franchising, education and training, food processing, traditional medicine, organic farming, media, packaging, floriculture, toys, healthcare, biotechnology, energy solutions and recycling.[93] Štrukelj and Dolinšek identified Bangalore as the more important ICT cluster in India and noted that Bangalore had become the home for many transnational corporations that had established local research and development (R&D) units and engaged in R&D alliances and/or procurement arrangements with local Indian companies and collaborations with Indian research and educational institutes.[94] They noted that overseas companies had been attracted to Bangalore as the destination for launching their Indian software operations due to the need to strengthen interactions with Indian suppliers. Štrukelj and Dolinšek reported that mechanisms had been established within the Bangalore ICT cluster to collect and share information about software practices, including organizational methods, and "benchmarking". In addition, foreign companies enjoy the close proximity to the local R&D institutes that provide a steady stream of well-educated and skilled workers. For their part, the foreign companies have increased the amounts that they are willing to invest in R&D activities in Bangalore and have also increased the number of patents relating to work performed in the cluster. Other types of support from foreign companies to the local research community have included research awards, research grants, equipment grants, sabbatical opportunities, conference sponsorships, student internships, student project training and consultation on curriculum.

§1:5 Socio-cultural influences on Indian entrepreneurship

Generalities regarding societal culture in India are difficult to identify and describe due to the diversity associated with the vast array of regional and sub-regional influences. The strong impact of the traditional "caste system" on Indian culture cannot be denied even though it has been formally outlawed and its influence is gradually ebbing as the country continues to move forward rapidly with economic development and attempts at modernization in all aspects of society. The caste system influenced interpersonal relationships within Indian society and, specific to business and management issues,

[92] Id. at 6, 30-31. In addition, the formal education of engineers in India, which traditionally did not include strong management and economics components, is gradually being supplemented by entrepreneurship training. Id.
[93] D. Maheshawari and S. Sahu, Present Scenario of Entrepreneurship in India, II(IV) AISECT University Journal (September 2013).
[94] P. Štrukelj and S. Dolinšek, "Internationalization of R&D in Two High-Tech Clusters and Cooperation of R&D Units in those Clusters", Journal of Industrial Engineering and Management, 3(2) (2010), 294, 303-306.

determined how workplace roles were divided among members of society. Chatterjee briefly described the four major castes as follows[95]:

- “Brahmins” occupied the highest, or “supreme”, status in society and served as priests, intellectuals and teachers;
- “Kshatriyas” were responsible for maintain order with society and served as warriors and aristocrats;
- “Vaishyas” were originally agricultural workers and merchants and the class expanded to include the managers in business and commerce that dominated indigenous entrepreneurial activities in India during the period that the British were in power; and
- “Shudra” included those members of society whose primary role was to serve others.

The so-called “untouchables” included groups that did not fall within the four castes described above and which were listed in schedules of the Indian constitution—sometimes referred to as the “scheduled castes”—for their social deprivation and their need for affirmative action.[96]

When first measured by Hofstede on his cultural dimensions, India preferred a much larger power distance than in the US; however, the countries were roughly equivalent with respect to both uncertainty avoidance and masculinity and, in fact, appeared together in a cluster in the weak uncertainty avoidance/masculine quadrant.[97] The US was much more individualist than India although India was still in the middle on that axis and much less collectivist than other then-developing countries. India scored above the average on long-term orientation in a range with countries like Brazil and Thailand yet still well below the scores of China, Hong Kong, Japan, Taiwan and other Asian countries. Nigam and Su later reported that societal culture in India has traditionally been described as collectivist, high power distance, high on masculinity and high uncertainty avoidance.[98] In their study of India and nine other countries based partly on Hofstede’s model Aycan et al. found that India scored high on paternalism, power distance, uncertainty avoidance, and loyalty towards community. Aycan et al. also found that India scored higher than Canada on futuristic orientation, reactivity, and obligation towards others, but that Indian employees scored lower than the counterparts in Canada with respect to autonomy, skill variety and self-control.[99] Morris et al. found that the value of power was rated much more highly by managers in China, India and the Philippines than by managers in the

[95] S. Chatterjee, “Bridging the gap between potential and performance: The challenges of Indian Management”, in S. Chatterjee and A. Nankervis (Eds.), Asian Management in Transition: Emerging Themes (London: Palgrave Macmillan, 2007), 80.
[96] Id.
[97] G. Hofstede, “Motivation, Leadership and Organization: Do American Theories Apply Abroad”,” Organization Dynamics, 9 (1980), 42-63, 51-54. See also G. Hofstede, Culture’s consequence: International differences in work-related values (Newbury Park, CA: Sage, 1980).
[98] R. Nigam and Z. Su, “Management in Emerging versus Developed Countries: A Comparative Study from an Indian Perspective”, Journal of CENTRUM Cathedra, 4(1) (2011), 121-133, 124.
[99] Z. Aycan, R. Kanungo, M. Mendonca, K. Yu, J. Deller and G. Stahl, “Impact of culture on HRM practices: A 10 country comparison”, Applied Psychology: An International Review, 4(1) (2000), 192-221.

US.[100] The researchers also found that China and the Philippines scored higher than India and the US with respect to social conservatism (i.e., conformity and adherence to tradition).

Antonites and Govindasamy explored the critical factors that appeared to influence the success of Indian small business owners in the largest metropolitan area in South Africa—the Tshwane metropolitan area—and found that while there were no significant differences between groups of successful and unsuccessful entrepreneurs in relation to management skills and certain financial and ownership factors, there were significant differences relating to personal factors, such as the level of education, family support and experience.[101] They began by noting that research conducted during the course of the 2005 Global Entrepreneurship Monitor ("GEM") Report on South Africa indicated that Indian entrepreneurs created more jobs than other racial groups in South Africa and that the 2008 GEM Report on South Africa confirmed that businesses started by Indians and whites in South Africa were more likely to mature into new firms than any other racial groups in the country. Antonites and Govindasamy pointed out that the Indian entrepreneurs in South Africa had developed their own sense of community based on socio-cultural connections and regular patterns of interaction and that this had led to development of self-generating process of successive generations of Indian entrepreneurs who benefitted from training received through employment in existing enterprises, networking linkage, informal communication, niche market opportunities and community role models.

Specifically, the researchers found that there were no significant differences in managerial functions and business skills between successful and less successful entrepreneurs included in the survey meaning, for example, that entrepreneurs in both groups tended to work the same number of hours per day and spent roughly the same amount of time on managerial functions such as financial issues, marketing, people management and operations. Entrepreneurs in the two groups also did not differ significantly in their prioritization of the importance of certain business skills including business linkages, industry clusters and networking; computer literacy; financial management, cash flow, pricing and costing; human resource management; quality management; role models (learning from others); and good networks with suppliers and understanding customer requirements. Finally, all of the entrepreneurs, regardless of their level of success, appeared to be able to identify the market in which their business operated and describe how they stayed informed about what their customers required; however, Antonites and Govindasamy pointed out that this did not necessarily mean that the entrepreneurs had correctly identified or understood the relevant market parameters in the market in which they were operating.

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[100] M. Morris, K. Williams, K. Leung, R. Larrick, M. Mendoza, D. Bhatnager, et al., "Conflict management style: Accounting for cross-national differences," Journal of International Business Studies, 29(4) (1998), 729-747.

[101] A. Antonites and T. Govindasamy, "Critical Success Factors of Indian Entrepreneurs", The Southern African Journal of Entrepreneurship and Small Business Management, 6 (2013), 115.

The story was somewhat different when attention turned to differences in personal factors between successful and unsuccessful Indian entrepreneurs. For example, the researchers found that there significant differences in the successful and less successful group of entrepreneurs in terms of education, with the level of formal education (degree and higher) being higher among the successful group compared with the less successful group. The researchers also found significant differences between the groups with respect to their experience in running businesses: the successful businesses had been operating longer and a higher percentage of the successful entrepreneurs had started another business prior to the one that there were operating when the survey was done. In addition, there were significant differences between the groups in terms of the family involvement in the business and reliance on family members to help run the business. However, there were no significant differences between the groups in terms of describing the entrepreneurial orientation of respondents or their motivation for starting their business, nor were there any differences in terms of having a network of family and friends that were self-employed or the degree to which entrepreneurs followed a family tradition with respect to the nature of their businesses.

Finally, the researchers found no significant differences between the successful and unsuccessful entrepreneurs with respect to financing and ownership of their businesses. For example, there were no significant differences between the two groups with respect to how the ownership of their businesses came about and that the majority of both groups had founded their businesses as opposed to inheriting or purchasing their businesses. There were also no significant differences between the groups in terms of the sources of capital that were used to launch their businesses with entrepreneurs across the board favoring their own capital first followed by commercial financing and then capital obtained from their families. As for their future plans for their businesses, both the successful and unsuccessful entrepreneurs were focused on growth-oriented strategies.

Jain noted that family businesses had dominated Indian markets prior to liberalization and attributed their success to “the close-knit joint family structure that fosters family values, teamwork, tenacity and continuity”. These businesses were typically operated with complex organizational structures that included distinct entities with separate rules, yet all owned and managed by family members. Jain described how multiple generations of family members lived and worked together under the same roof, thus creating strong bonds of trust and reliance. Wealth generated from activities of these family businesses was distributed within the family and created a valuable safety net for family members at a time when the government was not in a position to offer much in the way of social and economic protections. After liberalization, however, family businesses were forced to change their ways to survive and prosper in the face of global competition and, in particular, the entry of foreign multinationals into the previously protected domestic markets of India. Jain argued that successful companies in the post-liberalization period were the ones who did the best job with respect to efficient capital allocation, strong execution and achieving and maintain a customer orientation. Jain also pointed out that after liberalization Indian companies that grew did so “because they had knowledge, not because of who they knew”.

Jain described several steps that Indian family businesses took in order to adapt to the new post-liberalization business environment. First, senior family members overseeing their family businesses gradually came to the realization that they needed to segregate operating control of the business from beneficial ownership in order to mitigate both business and family succession risks. This was not an easy path to take given that India has long been considered to be a male-centric culture and patriarchs were reluctant to relinquish control and institutionalize business processes. However, an increasing number of family businesses eventually realized that management control should be shifted to professional managers who could perform more efficiently and break down the traditionally rigid organizational structures to achieve the enhanced flexibility thought to be necessary for innovation. Introduction of professional managers from outside of the family meant that younger generations no longer ascended to high positions within the company without proving their worth and Jain noted that family businesses began to develop and enforce clear criteria for advancement of family members that included spending time in middle management positions, working across several divisions as well as in the audit and finance departments and complete all the educational and training programs necessary for effective performance as a senior manager of the business.

Shivani et al. summarized the views of various commentators regarding the perceived relationship between Indian culture and entrepreneurship and noted that some scholars had argued that the spirit of entrepreneurship in India was often inhibited by the rigid social organization of the caste system and the joint family, which provided little in the way of choice or flexibility for new generations with respect to their path of employment (i.e., people tended to stay within the profession or business of their ancestors and often simply joined family businesses that operating in much the same way for generations), and religious philosophies of resignation and "karma", which caused Indians to avoid questioning their situations and proactively seeking the type of change that often occurs by embracing entrepreneurship.[102] Other scholars suggested that the Indian personality was "unentrepreneurial" and that socio-cultural influences in India tended to deprive Indians of the requisite achievement motivation necessary for entrepreneurship.

Shivani et al. examined potential linkages between success and traits of 200 small Indian entrepreneurs in Ranchi, the capital of one of the lesser-developed states of India, and socio-cultural factors such as religiosity, caste, family structure and family support.[103] After first defining entrepreneurial success by reference to measures of net profit, turnover growth rate and diversification level of the enterprises, Shivani et al. presented the results of their empirical findings on the relationship between success and the several socio-cultural factors mentioned above:

- A significantly large proportion of the respondents, almost ninety percent, identified themselves as having high or medium religiosity based on observance of various religious habits and practices, and all of the respondents said they had faith in the power of God, and the researchers found no statistically significant relationship

[102] S. Shivani, S.K. Mukherjee and R. Sharan, "Socio-Cultural Influences on Indian Entrepreneurs: The Need for Appropriate Structural Interventions", Journal of Asian Economics, 17(1) (February 2006), 5.
[103] Id.

between religiosity and entrepreneurial success. As such, the researchers concluded that religiosity was not a barrier to entrepreneurial success in India and noted that, in fact, religious functions, norms and practices of the respondents provided positive support and gave them confidence to confront and overcome the difficulties that inevitably accompanied efforts to launch a new business.

- With respect to entrepreneurial success and caste, the researchers began by separating respondents into various castes groups referred to as "forward", "backward", "scheduled" and "others" and concluded that while, in general, there was no apparent relation between caste and success, the caste system did influence the supply of entrepreneurs since the overwhelming majority of the respondents were from high caste and a relatively small number of respondents came from low caste. The researchers suggested that entrepreneurs from higher castes were able to continue their enterprises because of their caste orientation and were often able to overcome problems and failure because of the tacit support of their castes while entrepreneurs from lower castes were often overcome by problems more quickly because of a lack of support from their groups.
- The researchers found a positive and significant relationship between moral and financial support from families and entrepreneurial success. While a majority of the respondents reported receiving a lot of family support, there was a statistically significant difference in the intensity of support received by male and female entrepreneurs, with a majority of the males reporting high levels of family support while a majority of females reported receiving only moderate support from their families. A majority of the entrepreneurs who reported receiving high familial support were from extended families and Shivani et al. noted that other researchers had found that joint family units in India provided the financial, physical and social security necessary for successful entrepreneurial activity.
- The researchers found a significant relationship between the educational level of the respondents and their level of entrepreneurial success, with respondents who had completed higher levels of education being more successful than those with lower levels of education. The researchers noted that while formal education was not necessary to start a new business, completion of coursework in schools and universities provided the prospective entrepreneurs with various types of technical skills and a keener understanding of the value of achievement.

Shivani et al. also analysed the significance of certain entrepreneurial traits among the respondents and found that, in general, the level of risk taking propensity (i.e., taking decisions and acting on an uncertainty), innovativeness, achievement orientation and managerial skills were positively and significantly correlated with entrepreneurial success. The researchers found low levels of risk taking propensity and innovativeness among the respondents and noted that the results with respect to risk taking propensity could be linked to structural factors as evidenced by the widespread perception among the respondents that the level of uncertainty in the social, political, legal and economic environment in which they were living and working was either high or very high. With respect to innovativeness, very few of the respondents were engaged in developing new innovative products or services or new manufacturing processes and most of the respondents were limiting their innovativeness to trying out new marketing strategies for existing products, identifying new sources of raw materials or adopting new methods for motivating their employees or maintaining records. The level of achievement orientation was described as "moderate", with achievement orientation being lower among the women in the survey and family support being an important influence on the level of achievement orientation. As for managerial skills, which included technical, human and conceptual skills, the researchers found that more than half of the respondents possessed high levels of such skills; however, the level of managerial skills among female respondents, especially technical and conceptual skills, was significantly lower than among their male counterparts, a result that the researchers suggested could be attributed to a lack of entrepreneurial training and networking among the women. The researchers also found that social background and structural factors were equally important influences on the levels of entrepreneurial traits among the respondents.

Rao analyzed the effects of leadership styles and entrepreneurial orientations on the business performance of micro, small and medium-sized enterprises in Visakhapatanum, A.P., India and found that transactional leadership was significantly more correlated to business performance than transformation leadership and that specific elements of entrepreneurial orientation—innovating and risk taking—also likely contributed positively to business performance.[104]

§1:6 Leadership

The GLOBE researchers found that societies in their Southern Asia cluster, which included India, Indonesia, Malaysia, the Philippines and Thailand, were high on group collectivism, power distance and humane orientation and low on gender egalitarianism, meaning that these societies could be distinguished as highly group oriented, human, male dominated and hierarchical.[105] Submission to power, and reliance on groups for support, could be attributed to decades of colonial occupation and foreign ways and the high levels of power distance in these societies are not surprising given their historically rigid and hierarchical organization into various socio-economic classes. Low gender egalitarianism is consistent with a traditional role of subordination for woman that called for them to observe the commands of their father while they were children and the duties and responsibilities assigned to them by husbands and in-laws after marriage.[106]

Societies in the Southern Asia cluster gave their strongest endorsement to charismatic/value-based and team-oriented leadership as being the most effective styles for leaders to obtain outstanding results in Southern Asia. As explained by Gupta et al.: "In other words, visionary and inspirational leaders who are decisive and performance oriented, and who have high levels of integrity and are willing to make personal sacrifices, are deemed to be effective. Furthermore, leaders who are team builders,

[104] M. Rao, "The Impact of Entrepreneurial Orientation and Leadership Styles on Business Performance: A Study on Micro Small and Medium Enterprises", International Journal of Entrepreneurship and Business Environment Perspectives, 1(2) (October-December 2012), 111.
[105] V. Gupta, G. Surie, M. Javidan and J. Chhokar, "Southern Asia cluster: Where the old meets the new?" Journal of World Business, 2002:37(1), 16-27, 20.
[106] Id.

collaborative and diplomatic are also highly valued."[107] Gupta et al. observed that the societal preferences in Southern Asia with respect to leadership are consistent with the cultural characteristics of high power distance and family orientation and sketched a picture of the workplace in which "[l]eaders are expected to act as patriarchs who help subordinates aspire toward more ambitious and collective goals . . . [while making] . . . sure their actions and decisions help develop and sustain the team and family orientation in their organizations".[108] Notice should also be taken of the relative popularity of two other leadership style characteristics in this cluster: humane and participative. Gupta et al. explained that this means that leaders should also strive to be modest, act in a caring fashion and, whenever possible, delegate responsibilities to others.[109] Southern Asia also provided the strongest support among all the clusters for self-protective leadership; however, the GLOBE researchers commented that the overall effect of this style was essentially "neutral" given the mean score for this style was just below 4 on the 1-to-7 measurement scale.[110]

Gupta et al. noted that the historical and political tradition within the cluster points to a preference for, and comfort with, a hierarchical system headed by a "benevolent patriarch" acting on behalf of the clan or family system.[111] They argue, however, that a transition toward a more egalitarian system that promotes greater individual development is needed in order for business organizations from Southern Asia to become and remain competitive. In other words, a strict adherence to a patriarchal system favoring insiders should be progressively abandoned and replaced by a system that develops the skills and capabilities of employees and creates and encourages horizontal sharing of information and knowledge in order to support speedy new product development.[112] It has also been suggested that leaders in Southern Asia can borrow from local behavioral models provided by Gandhi and Mother Teresa to operate in a manner grounded in compassion, friendliness, humility and gratitude.[113]

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[107] Id. at 23.
[108] Id. at 23-24.
[109] In international comparisons to the results in other country clusters, managers in the Southern Asia found human leadership significant more facilitative. Id. at 24.
[110] The GLOBE researchers commented that "…the Confucian Asia and Southern Asia clusters viewed Self-Protective leadership in an almost neutral manner (with some attributes of this factor being viewed positively, such as face saving). [It has been suggested] that the concept for Asian cultures actually reflects "group-protective" rather than "self-protective" elements…." See R. House, P. Hanges, M. Javidan, P. Dorfman and V. Gupta (Eds). Culture, Leadership, and Organizations: The GLOBE Study of 62 Societies. (Thousand Oaks CA: Sage, 2004), 702.
[111] V. Gupta, G. Surie, M. Javidan and J. Chhokar, "Southern Asia cluster: Where the old meets the new?" Journal of World Business, 2002:37(1), 16-27, 23-24. In international comparisons to the results in other country clusters, managers in the Southern Asia found human leadership significant more facilitative. Id. at 24.
[112] Gupta et al. explained that while "age" has played an extremely important role in determining status and authority within societies in this cluster it is necessary to shift toward a model in which influence is based not solely on age but on character, ability, skills and experience, a formula that is more like what is seen in Germany and Japan. V. Gupta, G. Surie, M. Javidan and J. Chhokar, "Southern Asia cluster: Where the old meets the new?" Journal of World Business, 2002:37(1), 16-27, 25-26.
[113] See S. Charkraborty, Management by Values (Bombay: Oxford University Press, 1991).

Sinha observed that "India has a collectivist culture where maintaining relationships is more important than task accomplishment" and pointed out that research on leadership in India had provided support for three specific expectations of followers[114]: "(1) a preference for a personalized over a contractual relationship with the leader[115]; (2) a tendency to depend on a leader for guidance, direction, and support[116]; and (3) a willingness to accept the superior status of the leader, i.e. a preference to work in a superior-subordinate rather than a peer relationship[117]". Sinha's own research led to the conclusion that Indian followers who shared the aforementioned expectations would be most comfortable working under a "nurturant-task" leader, who is someone that "cares for his subordinates, shows affection, takes personal interest in their well-being, and above all is committed to their growth" and yet, in order to be effective, conditions nurturance on the accomplishment of assigned tasks by the subordinate.[118] A nurturant leader provides support to subordinates in their attempts to complete their tasks by carefully structuring their roles and making sure that subordinates understand and accept the goals that have been set for them. At the same time, the leader expects subordinates to work hard and strive to maintain a high level of productivity. The intense interaction between a leader and his or her followers should, if done correctly, lead to "a relationship of understanding, warmth, and interdependence".[119]

It should be noted that India's preferences regarding leadership styles in the GLOBE study were generally aligned with the average for all of the countries in that cluster with charismatic and team-oriented leadership designated as most effective.[120] Jagdeep et al. explained that Indian managers expected their leaders to be flexible in their behavior and display a complex mixture of leadership styles depending on the situations they face, and that they were expected to be pro-active, morally principled and ideological, and bold and assertive; as compared to reactive, pragmatic and instrumental, and quiet and nurturing styles respectively.[121] An overwhelming majority of the respondents in the GLOBE survey maintained that ideological and moral commitment was essential for outstanding leadership. Cappelli et al. reported that Indian executives who were questioned about why they were successful consistently pointed to their employees as being most important and did not mention factors typically touted by CEOs in the West such as clever strategies, efforts of the top management team, financial markets, mergers and

[114] J. Sinha, "A model of effective leadership styles in India" in A. Jaeger and R. Kanungo, Management in Developing Countries (London: Routledge, 1990), 252-263, 252.
[115] Citing I. Dayal, Cultural factors in designing performance appraisal system (New Delhi: SRC Industrial Relations and Human Performance, 1976).
[116] Citing J. Sinha, Development Through Behavior Modification (Bombay: Allied Publishers, 1970).
[117] Citing R. Kothari, Politics in India (New Delhi: Orient Longman, 1970).
[118] See J. Sinha, The Nurturant Task Leader (New Delhi: Concept Publishing, 1980) and J. Sinha, "A model of effective leadership styles in India", International Studies of Management and Organization, 14(2-3) (1984), 86-98.
[119] J. Sinha, "A model of effective leadership styles in India" in A. Jaeger and R. Kanungo, Management in Developing Countries (London: Routledge, 1990), 252-263, 253.
[120] V. Gupta, G. Surie, M. Javidan and J. Chhokar, "Southern Asia cluster: Where the old meets the new?" Journal of World Business, 2002:37(1), 16-27, 23.
[121] Jagdeep S. Chhokar, Leadership and Culture in India: The GLOBE Research Project, http://www.hs-fulda.de/fileadmin/Fachbereich_SW/Downloads/Profs/Wolf/Studies/india/india.pdf[Accessed September 13, 2012].

acquisitions or deal making[122] Also of interest is a comparative study of leadership practices of Indian and US executives that found that the Indians outscored their US counterparts with respect to use of leadership practices described as challenging, modeling, inspiring and enabling, but lagged behind US executives with respect to relying on encouragement as a primary leadership tool.[123]

§1:7 Management

When first measured by Hofstede on his cultural dimensions, India preferred a much larger power distance than in the US; however, the countries were roughly equivalent with respect to both uncertainty avoidance and masculinity and, in fact, appeared together in a cluster in the weak uncertainty avoidance/masculine quadrant.[124] The US was much more individualist than India although India was still in the middle on that axis and much less collectivist than other then-developing countries. India scored above the average on long-term orientation in a range with countries like Brazil and Thailand yet still well below the scores of China, Hong Kong, Japan, Taiwan and other Asian countries. Nigam and Su later reported that societal culture in India has traditionally been described as collectivist, high power distance, high on masculinity and high uncertainty avoidance.[125] In their study of India and nine other countries based partly on Hofstede's model Aycan et al. found that India scored high on paternalism, power distance, uncertainty avoidance, and loyalty towards community. Aycan et al. also found that India scored higher than Canada on futuristic orientation, reactivity, and obligation towards others, but that Indian employees scored lower than the counterparts in Canada with respect to autonomy, skill variety and self-control.[126]

Nigam and Su have observed that the management system in India "is based upon centuries of rules and regulations from various dominating empires; different religions; a very influential caste system that, knowingly or unknowingly, intentionally or unintentionally, influences the organizational system of Indian enterprises; the British Raj who ruled India for about 200 years; and more recently, the globalization of world economies and its influence on the Indian management system".[127] Chatterjee has

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[122] P. Cappelli, H. Singh, J. Singh and M. Unseem, "Leadership Lessons from India", Harvard Business Review (March 2010).

[123] S. Kakar, S. Kakar, M. KesdeVries and P. Vrignaud, "Leadership in Indian Organizations from a Comparative Perspective", International Journal of Cross Cultural Management, 2 (August 2002), 239-250.

[124] G. Hofstede, "Motivation, Leadership and Organization: Do American Theories Apply Abroad"," Organization Dynamics, 9 (1980), 42-63, 51-54. See also G. Hofstede, Culture's consequence: International differences in work-related values (Newbury Park, CA: Sage, 1980).

[125] R. Nigam and Z. Su, "Management in Emerging versus Developed Countries: A Comparative Study from an Indian Perspective", Journal of CENTRUM Cathedra, 4(1) (2011), 121-133, 124.

[126] Z. Aycan, R. Kanungo, M. Mendonca, K. Yu, J. Deller and G. Stahl, "Impact of culture on HRM practices: A 10 country comparison", Applied Psychology: An International Review, 4(1) (2000), 192-221. Samii et al. also found high future orientation among younger Indian managers. See M. Samii, S. Schragle-Law and C. Yan, "A Cultural Analysis of Management Styles: The United States with a New Generation of Managers in India and China", academicarchive.snhu.edu/bitstream/handle/10474/1770/snhu_00155.pdf [accessed January 22, 2012]

[127] R. Nigam and Z. Su, "Management in Emerging versus Developed Countries: A Comparative Study from an Indian Perspective", Journal of CENTRUM Cathedra, 4(1) (2011), 121-133, 122. The authors

argued that the sources for the emerging management style in India are "strong national pride in the tradition and history of the country; existing bureaucratic institutional infrastructure and regulatory framework; commitment and vision to achieve a global identify by becoming engaged in the region and beyond; and new levels of confidence in innovation, enterprise and knowledge networks".[128] In addition, Grainger and Chatterjee have noted that "[m]anagers in India retain a strong orientation towards the cultural legacy of an ancient but continuously living and evolving civilization. However, in recent years this legacy has been impacted by the changing economic and managerial contexts… The contemporary managerial elite in India are more pragmatically than ideologically driven than in the past."[129] They also observed that "[d]ynamic domestic economic competition and global challenges are providing a sustainable momentum towards a new managerial and leadership culture".[130]

Researchers such as Kumar and Shankaran have observed that a "hierarchical mindset" permeates all aspects of Indian life including people, relations and ideas.[131] As a result, it is not surprising that researchers have found evidence of a preference for, and acceptance of, centralized "top down" decision making in Indian business organizations.[132] Personal relationships among employees in the workplace are highly valued in India, and Indian workers have traditionally been quite loyal to their companies. As a result, they have been rewarded by a promotion system that emphasizes years of experience and loyalty as opposed to individual performance.[133] The loyalty shown by Indian workers follows from the high level of trust that younger workers have that their elders will take care of them as they progress through their careers.[134] Researchers have also noted that respect, affection for the young and deference to elders leads to strong bonding to and within the firm.[135]

The large power distance score for India is consistent with the long-standing tradition of recognizing and enforcing caste systems. Large power distance also correlates with Hinduism, which is practiced by about 80% of the population of India—the only country with over 50% of its population embracing the Hindu religion. Large power distance

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based their research on an extensive review of relevant journals, particularly "articles with a special focus on management, Asian management, and Indian management".

128 S. Chatterjee, "Bridging the gap between potential and performance: The challenges of Indian Management" in S. Chatterjee and A. Nankervis (Eds.), Asian Management in Transition: Emerging Themes (2007), 83.

129 R. Grainger and S. Chatterjee, "Chinese and Indian Systems: Divergent in the midst of Global Trends", in University of Sydney (Eds), Asia-Pacific Economic and Business History Conference (Sydney, Australia: University of Sydney, 2007), 1-45.

130 Id.

131 M. Kumar and S. Sankaran, "Indian culture and the culture for TQM: A comparison", The TQM Magazine, 19(2) (2007), 176-188.

132 R. Nigam and Z. Su, "Management in Emerging versus Developed Countries: A Comparative Study from an Indian Perspective", Journal of CENTRUM Cathedra, 4(1) (2011), 121-133, 126.

133 R. Kanungo and M. Mendonca, "Culture and performance improvement", Productivity, 35(4) (1994), 447-453.

134 J. Sinha, The cultural context of leadership and power (1995).

135 S. Chatterjee, "Human resource management in India: 'Where from' and 'where to?'", Research and Practice in Human Resource Management, 15(2) (2007), 92-103; M. Kumar and S. Sankaran, "Indian culture and the culture for TQM: A comparison", The TQM Magazine, 19(2) (2007), 176-188.

provides the underpinnings for a strong respect for hierarchy that necessarily influences organizational structure within Indian firms. Researchers such as Kumar and Shankaran have observed that that a "hierarchical mindset" permeates all aspects of Indian life including people, relations and ideas.[136] As a result, it is not surprising that researchers have found evidence of a preference for, and acceptance of, centralized "top down" decision making in Indian business organizations.[137] However, there are some signs of changes and researchers such as Samii et al. claim to have found evidence that among younger managers in India there is a different approach regarding acceptance of power distance than in the more traditional segments of Indian society and that younger Indian managers have a lower power distance attitude relative to their US colleagues.[138]

Personal relationships between employees in the workplace are highly valued in India and Indian workers have traditionally been quite loyal to their companies and been rewarded by a promotion system that emphasizes years of experience and loyalty as opposed to individual performance.[139] The loyalty shown by Indian workers follows from the high level of trust that younger workers have had that their elders will take care of them as they progress through their careers.[140] Researchers have also noted that respect, affection for the young and deference to elders leads to strong bonding to and within the firm.[141]

The emphasis on relationships in the Indian business culture has other important consequences. For example, Hofstede has noted that the relationship orientation within Indian firms leads to greater flexibility with respect to exceptions to formal rules and regulations.[142] In fact, Nigam and Su reported: "Similar flexibility is extended to agreements. It has been noticed that formal contracts were not of high importance; personal relationships carry more weight in Indian culture. Contracts were seen more from the moral point of view, as a course of action for the future, and were debatable and adjustable with mutual understanding."[143] In addition, the importance of relationships can

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[136] M. Kumar and S. Sankaran, "Indian culture and the culture for TQM: A comparison", The TQM Magazine, 19(2) (2007), 176-188.

[137] R. Nigam and Z. Su, "Management in Emerging versus Developed Countries: A Comparative Study from an Indian Perspective", Journal of CENTRUM Cathedra, 4(1) (2011), 121-133, 126.

[138] M. Samii, S. Schragle-Law and C. Yan, "A Cultural Analysis of Management Styles: The United States with a New Generation of Managers in India and China", academicarchive.snhu.edu/bitstream/handle/10474/1770/snhu_00155.pdf [accessed January 22, 2012]

[139] R. Kanungo and M. Mendonca, "Culture and performance improvement", Productivity, 35(4) (1994), 447-453.

[140] J. Sinha, The cultural context of leadership and power (New Delhi, India: Sage, 1995).

[141] S. Chatterjee, "Human resource management in India: 'Where from' and 'where to?'", Research and Practice in Human Resource Management, 15(2) (2007), 92-103; and M. Kumar and S. Sankaran, "Indian culture and the culture for TQM: A comparison", The TQM Magazine, 19(2) (2007), 176-188.

[142] G. Hofstede, "Asian management in the 21st century", Asia Pacific Journal of Management, 24 (2007), 411-420. Also with regard to the use of formal rules and regulations in India, Taylor observed that India's relatively low score on uncertainty avoidance in relation to other countries likely means that India is generally more tolerant of risk and thus less inclined to rush to deploy formal laws, regulations and policies as means to control the unknown. See S. Taylor, "International Business Etiquette and Manners—India Page" http://www.cyborlink.com/besite/india.htm [accessed April 14, 2010]

[143] R. Nigam and Z. Su, "Management in Emerging versus Developed Countries: A Comparative Study from an Indian Perspective", Journal of CENTRUM Cathedra, 4(1) (2011), 121-133, 125.

be seen in the business group structures used in India that provide a context for social networking among managers and employees of firms involved in the same group.[144]

Chatterjee described the behavior of Indian managers as a combination of collectivism on the outside and individualism on the inside.[145] Nigam and Su explained this to mean that "power is considered important in the Indian culture, and obtaining more power is a strong motivational factor".[146] In fact, several researchers have found that money is not the primary motivator among Indian managers and workers.[147] For example, Lang's study of Indian employees working for Lufthansa found that status and "pleasure of doing the job" were more important motivating factors than money.[148] Chatterjee's research revealed that lifetime employment, medical care and housing and educational support were valued highly among Indian workers and Aycan found that maternity leave and sabbaticals were popular benefits in India.[149]

Determination and distribution of rewards within Indian firms is tightly aligned with the collectivist thinking that dominates the country. Several groups of researchers have found that distribution of rewards is based on a philosophy of equality, rather than the merit- and performance-based rewards systems found in more individualistic societies such as the US. Managers and workers have generally been willing to accept that raises and promotions will be based on loyalty and seniority as part of the overall bargain of lifetime employment.[150] This approach to determination and distribution of rewards tends to encourage cooperation rather than competition among workers. It also means that relatively little attention is paid to the formal objective appraisal systems, which are used in individualistic countries to measure performance as the basis of rewards and establish career paths and training objectives for employees.[151] In fact, several researchers have

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[144] J. Sinha and D. Sinha, "Role of social values in Indian organizations", International Journal of Psychology, 25 (1990), 705–714.

[145] S. Chatterjee, "Human resource management in India: 'Where from' and 'where to?'", Research and Practice in Human Resource Management, 15(2) (2007), 92-103; M. Kumar and S. Sankaran, "Indian culture and the culture for TQM: A comparison", The TQM Magazine, 19(2) (2007), 176-188.

[146] R. Nigam and Z. Su, "Management in Emerging versus Developed Countries: A Comparative Study from an Indian Perspective", Journal of CENTRUM Cathedra, 4(1) (2011), 121-133, 126. In the same vein, Morris et al. found that the value of power was rated much more highly by managers in China, India and the Philippines than by managers in the US. M. Morris, K. Williams, K. Leung, R. Larrick, M. Mendoza, D. Bhatnager, et al., "Conflict management style: Accounting for cross-national differences", Journal of International Business Studies, 29(4) (1998), 729-747.

[147] D. Arora, "Foreign multinationals in India: Adapting to India's work culture and management practices", in W. Schmeisser, T. Hummel, G. Hannemann and D. Ciupka, Internationale Geschäftstätigkeiten in Asien, (2005).

[148] J. Lang, "Human resources in India: Retaining and motivating staff in a Lufthansa subsidiary", Compensation Benefits Review, 40 (2008), 56-62.

[149] S. Chatterjee, "Human resource management in India: 'Where from' and 'where to?'", Research and Practice in Human Resource Management, 15(2) (2007), 92-103; Z. Aycan, "The Interplay between cultural and institutional/structural contingencies in human resource management practices", International Journal of Human Resource Management, 16(7) (2007), 1083–1119.

[150] N. Ramamoorthy, A. Gupta, R. Sardessai and P. Flood, "Individualism / collectivism and attitudes towards human resource systems: A comparative study of American, Irish and Indian MBA students", International Journal of Human Resource Management, 16(5) (2005), 852-869.

[151] R. Nigam and Z. Su, "Management in Emerging versus Developed Countries: A Comparative Study from an Indian Perspective", Journal of CENTRUM Cathedra, 4(1) (2011), 121-133, 128.

noted that performance appraisal methods in India are crude or non-existent and when appraisals are carried out they are limited only to a certain level of employees.[152]
While Indian business culture and management styles remain strongly influenced by historical factors, there are signs of incremental changes as India continues to be exposed to foreign multinationals and the challenges of competing in the global marketplace. For example, as noted above, researchers have found a relatively high future orientation in their cultural profile of India, and Aycan et al. speculated this was an indication that Indian managers have begun to realize some level of future planning is necessary in light of the need for them to compete in a complex and unpredictable political and economic environment using limited resources.[153] In addition, changes in the fundamental characteristics of Indian societal culture may be occurring, albeit slowly, as evidenced by the findings of Kumar and Sankaran in 2007 that India is shifting from high to moderate with respect to uncertainty avoidance.[154] Finally, there is evidence that, at least among private firms, Indian managers are recognizing the importance of following the lead of their competitors in the US and elsewhere in establishing new management systems such as in the area of knowledge management.[155]

While maintaining their cultural roots and traditional ways of thinking in social relationships, Indians, like the Japanese, have been willing to adopt and accept Western business practices and institutions including professional organizational and managerial structures and governance standards. This trend has been supported by the growing interest in, and demand for, professional qualifications such as Masters of Business Administration (MBA) and the number of corporations that are seeking listing on public stock exchanges and thus must comply with stringent governance requirements. Even family-controlled enterprises have taken to emphasizing that being a family member is no longer sufficient for a management role, and many have their operations overseen by managers with suitable professional qualifications and training.[156] However, George has cautioned that Western assumptions regarding motivational strategies for workers often are not applicable in India — for example, it is not necessarily true that Indian workers

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[152] S. Chatterjee, "Human resource management in India: 'Where from' and 'where to?'", Research and Practice in Human Resource Management, 15(2) (2007), 92-103; M. Mendonca and R. Kanungo, "Performance management in developing countries", in R. Kanungo and A. Jaeger (Eds.), Management in Developing Countries (1990), 223-251; Y. Baruch and P. Budhwar, "A comparative study for career practices for management staff in India and Britain", International Business Review, 15(1) (2008), 84–101; A. Rao, "Effectiveness of performance management systems: An empirical study in Indian companies", The International Journal of Human Resource Management, 18(10) (2007), 1812-1840.
[153] R. Nigam and Z. Su, "Management in Emerging versus Developed Countries: A Comparative Study from an Indian Perspective", Journal of CENTRUM Cathedra, 4(1) (2011), 121-133, 128 (citing Z. Aycan, R. Kanungo, M. Mendonca, K. Yu, J. Deller and G. Stahl, "Impact of culture on HRM practices: A 10 country comparison", Applied Psychology: An International Review, 4(1) (2000), 192-221.
[154] M. Kumar and S. Sankaran, "Indian culture and the culture for TQM: A comparison", The TQM Magazine, 19(2) (2007), 176-188.
[155] R. Nigam and Z. Su, "Management in Emerging versus Developed Countries: A Comparative Study from an Indian Perspective", Journal of CENTRUM Cathedra, 4(1) (2011), 121-133, 129) (citing R. Pillania, "State of organisational culture for knowledge management in Indian industry", Global Business Review, 7(1) (2006) 119-135).
[156] R. Grainger and S. Chatterjee, "Chinese and Indian Systems: Divergent in the midst of Global Trends", in University of Sydney (Eds), Asia-Pacific Economic and Business History Conference (Sydney, Australia: University of Sydney, 2007), 1-45.

will be motivated by more autonomy, responsibility and control over their work, nor is it to be assumed that Indian workers will lose their motivation if they are placed in a highly structured, bureaucratic and controlled environment.[157]

§1:8 Finance

Since 2000, there has been tremendous growth in overall investment levels in India, from less than 25% of GDP in 2000 to over 35% by 2006, and a significant part of this investment drive has come from the corporate sector. Given the links between a country's investment levels and its overall economic growth, financing, especially corporate financing, and investment have been crucial components of India's growth.[158] Foreign financing of Indian corporations has increased over the past few years including external commercial borrowings, foreign direct investment and credit from foreign banks and foreign institutional investors have also participated in domestic equity markets. The global financial crisis, unfortunately, hit several sources of financing in India. As foreign investors were hit by the crisis, they pulled back from the Indian market and turned risk averse. Small- and medium-sized enterprises ("SMEs") were most at risk from the financing slowdown, given their lack of significant retained earnings and corporate savings. External financing is not just supplementary capital used to fund growth and expansion plans, but rather essential funds that SMEs use to refinance existing debt and to sustain day-to-day operations.

The Indian financial system was thoroughly reformed after 1991 and has been characterized as highly developed and deep.[159] In the banking sector profits have been increasing, capital adequacy ratios have attained satisfactory levels and non-performing loans have been falling. As is the case in many developing and emerging countries, state banks remain dominant; however, this can be tracked to overall industrial development plans which call for bank resources to be set aside for, and targeted toward, specific priority sectors and borrowers. As for Indian stock markets, they have become more efficient, well-developed and buoyant; however, it is generally acknowledged that more work needs to be done in developing a market for corporate debt and establishing viable capital and credit sources for SMEs.

The Reserve Bank of India ("RBI"), which was established on April 1, 1935 in accordance with the Reserve Bank of India Act 1934, is the central banking institution of India and fully owned by the government. The RBI has general superintendence and direction of banks in India and performs this function under the guidance of the Board for Financial Supervision ("BFS"). The primary objective of BFS is to undertake consolidated supervision of the financial sector comprising commercial banks, financial institutions and non-banking finance companies. In addition, through its Audit Sub-Committee BFS aims at upgrading the quality of the statutory audit and internal audit

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[157] J. George, "Social Capital and Educational Achievement: The Case of India", Canadian and International Education, 29(2) (December 2000), 47.
[158] R. Saxena, Trends in India's Corporate Financing (2009).
[159] The discussion in this paragraph is adapted from Bertelsmann Stiftung, BTI 2012—India Country Report (2012).

functions in banks and financial institutions. The RBI directs banks to meet Bureau of Indian Standards guidelines. Indian banks must also adhere to the prudential norms laid down by the Basel Group.[160] The Indian government is closely involved in banking operations and domestic banks are mandated to extend a minimum percentage of their loans to "priority" borrowers (i.e., agriculturists, exporters, and small businesses). In addition to imposing the aforementioned "sector lending requirements", the Government's control position with respect to the public sector banks allows it to exert a significant amount of influence over individual lending decisions made by those banks. Controls are imposed on external commercial borrowings, which are loans from lenders outside of India that Indian companies may wish to pursue when funds are not available from domestic sources, including restrictions on the amount of such loans, minimum maturity requirements and limitations on the use of loan proceeds.[161]

The RBI also supervises and administers Indian exchange control regulations in consultation with the government, and administers the government's monetary policy. India's foreign exchange control regime is governed by the Foreign Exchange Management Act, enacted with the objective of facilitating external trade and payments and for promoting the orderly development and maintenance of foreign exchange market in India, and to give effect to the liberalization announced in the economic policies.

India has an extensive banking network, in both urban and rural areas. The banking system has three tiers: scheduled commercial banks, both Indian and foreign; regional rural banks, which operate in rural areas which are not covered by the scheduled banks; and cooperative and special purpose rural banks (including land development banks and a number of primary agricultural credit societies).[162] As mentioned above, large Indian banks and most Indian financial institutions are still in the public sector, and state-owned banks account for a significant percentage of the country's deposits and loans; however, numerous private and foreign banks exist and the government is continuously working to restructure ownership of public sector banks to reduce its ownership. Practices of domestic banks in India are obviously impacted by requirements imposed on domestic banks to extend at least 40% of their loans to priority borrowers (i.e., agriculturists, exporters, and small businesses). In addition to imposing sector lending requirements, the government's control position with respect to the public sector banks allows it to exert a significant amount of influence over individual lending decisions made by those banks. Controls are imposed on external commercial borrowings, which are loans from lenders outside of India to Indian companies seeking funds not available from domestic sources. These include restrictions on the amount of such loans, minimum maturity requirements and limitations on the use of loan proceeds.[163]

As opposed to other developing countries, such as China, India has a sophisticated legal system underlying its capital markets, including application of the rule of law and

[160] US Commercial Service, Country Commercial Guides: India (2012).
[161] Doing Business in India: 2010 Country Commercial Guide for U.S. Companies (Washington, DC: US & Foreign Commercial Service, 2010).
[162] US Commercial Service, Country Commercial Guides: India (2012).
[163] Id.

guaranteed property rights. Indian capital markets, including public securities exchanges such as the National Stock Exchange of India Limited and the Bombay Stock Exchange Limited, have grown rapidly in recent years — they are now the world's fourth and fifth largest stock exchanges, respectively, in terms of volume of transactions although much smaller in terms of market capitalization when compared to other large exchanges around the world and have become one of the most popular global venues for initial public offerings; however, critics still complain about a lack of broad liquidity.

The Indian securities regulator—the Securities and Exchange Board of India—has attempted to enforce corporate governance by imposing a rigorous regulatory regime to ensure fairness, transparency and good practice. Foreign institutional investors generally agree that corporate governance is better in India than in many other emerging markets, even though many companies have been slow to comply and improvements could still be made in certain areas such as financial disclosures. Transaction costs and systematic risks, as well as market manipulation, have all gone down in India and this has boosted the confidence of retail investors.[164] One of the most important effects of the economic liberalization program was the ability of Indian firms to reach beyond the traditional domestic public and private sources of financing to tap into global capital markets. As a result, enterprises such as the Tata Group were able to find the financial support needed to fuel aggressive acquisition projects that allowed it to establish a foothold in new markets around the world.[165]

Given the rapid growth and size of India it is not surprising that a number of studies have been undertaken regarding various aspects of Indian corporate finance over the last few years. For example, with respect to reliance on internal financing the RBI has estimated that approximately 40% of financing for public and private limited companies comes from internal sources. For large firms involved in manufacturing and service industries, internal resources account for 67% and 47% of all funds respectively. However, the picture changes significantly for SMEs. These firms often do not have significant savings and internal sources average only 10% of total funds.[166] Apart from internal financing, most companies also rely on external financing from bank credit arrangements. The RBI found, for example, that in public limited companies bank borrowings accounted for 32% of external financing and 20% of total financing. In private limited companies, bank borrowings accounted for 28% of external financing and 17% of total company financing. Some of the constraints on greater bank lending are regulatory hurdles, such as high statutory liquidity requirements (which force banks to keep deposits in government securities) and the priority sector lending requirements which have been described above.[167] As mentioned above, the Indian corporate bond market is relatively underdeveloped in comparison to the equity market and the blame has been placed on illiquidity, lack of transparency, onerous regulatory requirements and the high cost of issuing bonds.

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[164] Id.
[165] R. Grainger and S. Chatterjee, Chinese and Indian Systems: Divergent in the Midst of Global Trends (2007) 1, 32-33.
[166] F. Allen, R. Chakrabarti, S. De, J. Qian and M. Qian, Financing Firms in India (2007).
[167] Reserve Bank of India, Master Circular, Lending to the Priority Sector (July 2009).

In addition to capital provided through domestic sources, Indian firms have benefitted from a significant increase in foreign direct investment ("FDI") as the government streamlined and clarified regulations and gradually increased FDI ceilings in various sectors such as mining, petroleum and civil aviation.[168] Commercial loans from non-resident lenders, so-called "external commercial borrowings" ("ECBs"), have been an important and growing source of financing for Indian corporations beyond the capital markets, as companies have taken advantage of lower interest rates abroad and often received loans with longer maturities. As larger amounts of foreign capital for ECBs have become available the government has provided support through gradual relaxing of regulations and sectorial restrictions and increasing ceilings for ECB debt levels.

A variety of international firms, from global private equity players to investment banks to sovereign investment funds, have entered the Indian private equity ("PE") market in recent years and provided financing. Since Indian PE was initially driven by foreign capital it was typically analyzed as part of the country's overall FDI strategy; however, it is clear that there will be a significant and growing number of domestic PE investors in the coming years and that PE is more properly viewed as a separate and distinct category of financing in India. As the government has renewed its commitment to infrastructure development, called for a greater number of public-private partnerships, and raised FDI caps, the PE industry has grown tremendously. According to industry estimates, there were over 350 PE firms currently operating in India as of 2009, with many focusing on a specific sector such as infrastructure.[169] Global PE funds accounted for 56% of value and 38% of volume in India during 2008 while Indian PE funds accounted for 28% and 49% respectively during that same period.[170]

Thakur noted that the lack of universal access to institutional credit and other financial services is a critical problem for Indian entrepreneurship and explained that one of the main problems is that Indian banks place an unrealistic emphasis on personal guarantees from entrepreneurs backed by personal property not used in the business.[171] While this financial model provides protection to the banks, it significantly increases the perceived risk of obtaining bank financing for entrepreneurs since failure means that they will likely lose all of their personal assets. Thakur explained that some effort had been made to establish government programs that focused specifically on financing micro, small and medium-sized enterprises in India; however, his view was that initiatives had failed to provide support and information to entrepreneurs and small business owners lacked strong advocacy/industry associations that could look after their interests.

[168] Reserve Bank of India, International Investment Position of India at the End of March 2009 (2009).
[169] Venture Intelligence, Estimates (2009).
[170] KPMG, The Indian M&A Landscape—A Perspective (2009). For further discussion of private equity, venture capital and "angel investor" funding in India see Section 5.2 in S. Mani, The Growth of Knowledge-intensive Entrepreneurship in India, 1991-2007 (2009).
[171] A. Thakur, Skill Development in India: Big Promises, Tall Failures, Governance Now (February 17, 2014), http://governancenow.com/views/columns/skill-development-india-big-promises-tall-failures (accessed May 30, 2014).

Yu and Tandon conducted a survey of Indian entrepreneurship for Gallup and found that the founders and senior managers of Indian startups were regularly challenged by difficulties in accessing initial stage funding.[172] They took notice of the fact that India's bustling economy and large domestic market had attracted the interest of global investors and that venture capital funds, both domestic and international, were active in India; however, they found that these larger and more institutional investors tended to focus their activities on export-oriented IT or mobile solutions and ignore Indian startups that were developing and offering high-demand products and services in India's large domestic energy and healthcare markets. Yu and Tandon argued that foreign investors often had trouble connecting with Indian entrepreneurs and failed to understand that India had its own unique market demands, talent supply and business culture that needed to be taken into account when structuring investments. Yu and Tandon also noted that Indian venture capitalists preferred to get involved at the later stages of development of their portfolio companies, typically funding expansion of existing businesses with proven products or services, and that Indian startups suffered from the lack of a formalized and mature angel investment ecosystem that could provide both funding and, just as importantly, mentoring and managerial know-how to new business owners.

According to Mane et al., venture capital funds in India can be classified into five categories: funds promoted by the developmental finance institutions controlled by the central government (e.g., ICICI Venture Funds Ltd., IFCI Venture Capital Funds Ltd (IVCF) and SIDBI Venture Capital Ltd (SVCL); developmental finance institutions controlled by state governments (e.g., Punjab Infotech Venture Fund, Gujarat Venture Finance Ltd (GVFL) and Kerala Venture Capital Fund Pvt Ltd.); funds promoted by public banks, such as Canbank Venture Capital Fund and SBI Capital Market Ltd; funds promoted by India's own private sector, such as IL&FS Trust Company Ltd. and Infinity Venture India Fund; and overseas venture capital funds.[173] Mane et al. explained that venture capital activity in India is subject to regulation by the Securities and Exchange Board of India ("SEBI"), which reviews applications for registration as a venture capital fund from companies or trusts. Once a fund receives a certificate of registration from SEBI it may raise money from any investor, domestic or foreign, and is permitted to invest in equity or equity-related instruments of unlisted companies and also in financially weak and sick industries whose shares are listed or unlisted.

Mane et al. argued that venture capital activity has been growing in India for several reasons including high technology, human resource capital, scientific and technical research and government initiatives. The most popular market segment for venture capital investment in India has been information technology ("IT") and information technology enabled services ("ITES") and other popular sectors include energy, manufacturing, media and entertainment and banking, financial services and insurance.

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[172] D. Yu and Y. Tandon, India's Big Problem: Nurturing Entrepreneurs, Gallup Business Journal (August 1, 2012), http://businessjournal.gallup.com/content/156143/india-big-problem-nurturing-entrepreneurs.aspx#1 (accessed May 27, 2014).

[173] S. Mane, A. Waghmare and N. Rupali, Welcome to Venture Capital Presentation, http://www.slideshare.net/SandeepMane22/what-is-venture-capital-venture-capital-in-india (accessed June 3, 2014). The Indian Private Equity and Venture Capital Association is an excellent source of data and other information on private equity and venture capital activities in India.

Sectors of interest to venture capitalists vary from city-to-city around India with Mumbai being best known for investment opportunities in software services, BPO, media, computer graphics, animation, finance and banking; Bangalore for investment opportunities in IT and ITES and biotechnology; and Delhi for investment opportunities in software services, ITES and telecommunications.

Annamalai and Deshmukh analyzed data relating to activities in the Indian venture capital and private equity ("VCPE") industry during 2004-2008 and noted that this was a period in which India experienced the fastest rate of industry growth in the world and rose to third among all the countries in the world with respect to the number of VCPE investments.[174] In terms of the actual amounts invested by Indian VCPE funds during that period, the figure rose dramatically from US$1.8 billion to 2004 to US$22 billion in 2007 and then leveled off to US$8.1 billion in 2008. They found that most of the investments that were made during the period were in later stage financing and that portfolio companies generally received funding many years after they were first incorporated and organized. In general, the investments that were made were short-term.

Annamalai and Deshmukh noted that the concept of venture capital and private equity ("VCPE") investment began to take shape in India as long ago as the 1960s but that the industry did not begin to take off and grow until the country's economic reforms were announced and launched in 1991.[175] Before the beginning of the 1990s, public sector financial institutions were the main providers of VCPE funding and India and the amount of capital provided was generally quite low. During the 1990s, however, India's VCPE funds raised just under US$1 billion for domestic investments, which meant that the country ranked 25th out of 64 countries in a survey conducted by Venture Economics, and in the 2000s India jumped to 13th out of 90 countries with respect to fund raising as Indian VCPE firms raised US$16.682.5 million.

82% of the total VCPE investments were first round, meaning that they represented the first time that VCPE funding had been provided to the portfolio company. Only 18% of the deals investments were "follow on" investments to provide additional financing support to existing portfolio companies and the researchers surmised that these results could be attributed to the fact that VCPE investments were typically made at later stages of the firm lifecycle of the portfolio companies when they presumably were more mature and did not need much in the way of additional and sustained financing before identifying an exit strategy, such as an IPO or a sale to an outside party. The researchers also suggested that the relatively small proportion of follow on investment could be attributed to poor performance of the portfolio companies or the desire of investors to find a quick exit rather than settling in for a long-term commitment with the companies that might requires one or more additional rounds of financing.

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[174] T. Annamalai and A. Deshmukh, "Venture Capital and Private Equity in India: An Analysis of Investments and Exits", Journal of Indian Business Research, 3(1) (2011), 6. The authors also provided an extensive set of references to other studies of the India VCPE industry and industry practices as well as various multi-country studies that had included India.
[175] Id.

The researchers argued that the data from their survey confirmed that Indian VCPE investors have a strong aversion to investing in young companies and noted that a majority of the growth stage investments occurred when portfolio companies were between five and eight years out from their original date of incorporation and that a large number of companies were not financing by VCPE investors until they had been in business for over fifteen years. Annamalai and Deshmukh suggested that the delays in outside financing could be attributed to a lack of readiness among potential portfolio companies or the preference of the owners of those companies to obtain funding from other sources, such as friends and family and/or commercial banks, before engaging with professional investors. They pointed out that Indian VCPE investors seemed to have a strong preference for companies that had already established a long track record and operating history and reached sufficient size and commented that the overall pattern of investment in the country tilted more toward private equity investments as opposed to venture capital investment and its traditional focus on early stage financing.

Annamalai and Deshmukh found that the most commonly used methods for exiting VCPE investments in India were IPOs and trade sales through mergers and acquisitions ("M&As"), with an M&A exit being twice as more likely as liquidity via an IPO on an across the board basis but with variations between different industries (i.e., companies in industries that were more capital- and asset-intensive were more likely to gain liquidity through IPOs while companies operating in the computer hardware, IT & ITES and healthcare sectors generally became M&A targets). The researchers noted that the timing of an exit, and the amount of time that passed between the investment and the exit event, were both heavily influenced by the overall stage of Indian capital markets.

Annamalai and Deshmukh found that in India the duration of VCPE investments (i.e., the period beginning on the date of investment and ending on the date exit via IPO or acquisition) was much shorter than would normally be expected, with the average investment duration being just 17 months in an industry in which the worldwide norm ranges from between three to five years and investors in the US typically waited around five years for either an IPO or acquisition. While this finding would be influenced by the preference of Indian investors for later stage deals, 75% of the investments made during the growth stage of the portfolio company had duration of less than two years. The researchers noted that the results provided support for concerns often raised by Indian entrepreneurs that their VCPE investors were more interested in quick exits as opposed to making longer term commitments to their portfolio companies and providing their management teams with advice, expertise and other value-adding support. They suggested that great long-term commitments from investors might be created by expanding the pool of domestic VCPE funds in India.

Finally, the data collected by Annamalai and Deshmukh indicated that the intervals between successive rounds of financing among the companies surveyed was relatively short and the researchers expressed concern that this approach to financing caused top management to be continuously distracted from business operations and overly focused on capital raising activities. They argued that entrepreneurs and investors should settle on investment terms that provide sufficient capital to allow the portfolio companies to operate and execute their business models for at least two years before the issue of additional financing once again becomes important. They noted that while some entrepreneurs might be reluctant to raise larger rounds of financing because they might be deprived of the benefits of valuation increases that might occur when capital is raised in multiple rounds, they would realize savings in transaction costs and it would also be possible to address valuation increases by including incentive structures in the agreements with the investors. For their part, investor support for larger rounds might be enhanced by broader acceptance and use of syndications in which several VCPE investors pool their funds, expertise and connections to support a portfolio company.

§1:9 Human resources management

India's population was 1,205,073,612 as of July 2012, making it the second largest in the world, and some projections estimate that by 2050 India will have 1.5 billion people while China will shrink to less than 1 billion.[176] India is one of the youngest countries in the world: as of 2006 70% of the population was under the age of 35 and India has more persons in the 15 to 21 year old age group than any other country.[177] As of 2012, India's labor force was 498.4 million, which ranked as the second largest in the world, and a key driver behind India's future economic growth will be the rapid growth of its working-age population, which will be one of the fastest growing groups between 2010 and 2050.[178]

Like China, the foundation of India's rise to economic promise has been its human resources; however, Grainger and Chatterjee point out that the crucial difference between the countries is that India's human resources advantage at the moment is based on its "intellectual capital", including the impressive annual output of engineers, physicians and business school graduates.[179] Drucker commented on the contrast between India and China as follows: ". . . The greatest weakness of China is its incredibly small proportion of educated people . . . and there is the enormous manufacturing potential. In China, however the likelihood of the absorption of rural workers into the cities without upheaval seems very dubious. You don't have the problem in India because they have already done an amazing job of absorbing excess rural population into the cities . . . ".[180] In light of the celebrated "education advantage", it is not surprising that India's accession has been fueled by its success in the information technology sector; however, critics argue that while the credentialing figures for India are impressive the quality of the services and

[176] India, The World FactBook, US Central Intelligence Agency, https://www.cia.gov/library/publications/the-world-factbook/geos/in.html.
[177] R. Grainger and S. Chatterjee, "Chinese and Indian Systems: Divergent in the Midst of Global Trends", in University of Sydney (Eds.), Asia-Pacific Economic and Business History Conference (2007), 1.
[178] P. Coy, If Demography Is Destiny, Then India Has the Edge: Research from HSBC and Standard Chartered shows the US and other industrialized nations slipping while some surprising leaders emerge, http://www.businessweek.com/print/magazine/content/11_04/b4212009727572.htm.
[179] R. Grainger and S. Chatterjee, "Chinese and Indian Systems: Divergent in the midst of Global Trends", in University of Sydney (Eds), Asia-Pacific Economic and Business History Conference (Sydney, Australia: University of Sydney, 2007), 1-45.
[180] P. Drucker, "Peter Drucker on the Future of India", The Institute for the Future Interview for Fortune Magazine, January 7, 2004 (as quoted in R. Grainger and S. Chatterjee, "Chinese and Indian Systems: Divergent in the midst of Global Trends", in University of Sydney (Eds), Asia-Pacific Economic and Business History Conference (Sydney, Australia: University of Sydney, 2007), 1-45.

the communications skills of the workers are often quite poor and only a small percentage of the output provided by Indian firms meets or exceeds "world class" standards.[181]

Given its emergence as a global services leader it is obvious that India has a significant need for a continuous flow of highly trained professionals. India has attained remarkable levels with respect to its annual output of graduates in engineering, medicine and business; however, for many years a number of best graduates left the country to pursue opportunities in the US, Europe and elsewhere. This trend, often referred to as the "Indian diaspora", appears to be reversing somewhat and Chatterjee has noted that a growing number of Indians are returning to their homeland and bringing with them their knowledge, experience, international connections and capital.[182] Bucknall and Ontaki had the following observation on the struggles that Indian firms face in satisfying their demand for highly trained workers: "People are something India has plenty of. But ask any business leader what the biggest problem is today and the chances are that he or she will say it is finding the right people and getting them to work productively. That may sound paradoxical. But the fact is that due to its late start on the road to development and strong history of union activity, India has traditionally lagged in the systematic development of high productive talent."[183] Grainger and Chatterjee also noted that "[a]lthough [the Indian] diaspora has contributed expertise, skills shortages remain".[184]

Although a large number of Indian professionals have left the country and remained away, they have nonetheless retained strong ties with their homeland and the global network among Indians remains strong. Among other things, this had led to a significant volume of remittances by non-resident Indians back to India--$23 billion from 20 million Indians living outside of the country in 2004—and the World Bank has noted that India generally stands at the top of the list of developing countries with respect to the cash inflows received from global family networks.[185] In fact, a description of the "global Indian network" compiled in 2006 included Malaysia's Indian ethnic community, the largest around the world with an estimated 1.8 million people in 2000, as well as an estimated 40,000 Indians living and working in Russia. It was estimated that 78% of the Indians in the US in 2000 had university qualifications, which made them the most highly educated ethnic group in the US. In addition, female Indian migrants have been

[181] R. Grainger and S. Chatterjee, "Chinese and Indian Systems: Divergent in the midst of Global Trends", in University of Sydney (Eds), Asia-Pacific Economic and Business History Conference (Sydney, Australia: University of Sydney, 2007), 1-45 (also noting comments in "Can India Fly?", The Economist—Special Report on Indian Business (June 3-9, 2006), 3-17, that the Indian tertiary education system produces graduates who are good at cheating on examination and poor with respect to communications skills).
[182] S. Chatterjee, "Perspectives of Human Resource Management in the Asia Pacific", in A. Nankervis, S. Chatterjee and J. Coffey (Eds), Human Resource Management in the Asia Pacific (Sydney: Pearson Education, 2006).
[183] As cited in S. Chatterjee, "Bridging the gap between potential and performance: The challenges of Indian Management", in S. Chatterjee and A. Nankervis (Eds.), Asian Management in Transition: Emerging Themes (London: Palgrave Macmillan, 2007), 83.
[184] R. Grainger and S. Chatterjee, "Chinese and Indian Systems: Divergent in the midst of Global Trends", in University of Sydney (Eds), Asia-Pacific Economic and Business History Conference (Sydney, Australia: University of Sydney, 2007), 1-45, 39.
[185] Id.

described as being among the best educated minority groups in many countries around the world.[186]

The relative youth of the country, coupled with a relatively high level of basic literacy skills (the literacy rate in India — defined as people aged 15 and over who can read and write — is 61% and school life expectancy (primary to tertiary education) is 10 years), contributes to an open mindset and relatively broad acceptance of entrepreneurial values. This is reflected in survey results showing that as of 2005 about half the population was self-employed and could be characterized as "micro-entrepreneurs".[187] Unfortunately, GDP growth in India has not always been accompanied by effective deployment of the workforce, and, in fact, the number of unemployed Indians rose by one million between 2005-06 and 2007-2008 and by 2008 the national unemployment rate was estimated to be around 9.2% with unemployment particularly problematic among younger workers.

One of the most important challenges facing the Indian government is creating and implementing successful strategies for increasingly educating its current and future workforce. For example, 2006 figures indicated that India invested just 3.2% of GDP in education, which placed it 142nd in the world.[188] In rural areas, public schools are often staffed by teachers who are poorly trained and often miss work, with the result of dismal learning levels and high dropout rates. Even private schools are not at the standards necessary to produce graduates with the skills needed to survive and thrive in the modern economic environment. Vocational training is rare and poorly done, and functional illiteracy remains quite high among those aged 15 to 35. With regard to the skills of those Indians who are currently employed, the Indian public sector remains large and, as a result, the government still exerts a significant amount of influence in the development of the country's human capital through employment, education and training.[189] India does have a large number of public, private and accredited universities, independent institutes and colleges that collectively offer a wide range of degree and diploma programs.[190]

Membership in labor unions in India is relatively small and the seven million unionized workers as of 2010 represented less than one-seventh of the workers in the organized sector and less than 2% of the total workforce in the country. Unions are found primarily in state-owned enterprises and most are linked to political parties.[191] While commentators have suggested that trade unions can and should play a more important role in India in fending off the demands of large employers aggressively looking to

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[186] B. Lal, The Encyclopedia of the Indian Diaspora (University of Singapore Press, 2006).
[187] H. Davis, S./ Chatterjee and M. Heuer (Eds.), Management in India: Trends and Transitions (2005).
[188] India, The World FactBook, US Central Intelligence Agency, https://www.cia.gov/library/publications/the-world-factbook/geos/in.html.
[189] R. Grainger and S. Chatterjee, "Chinese and Indian Systems: Divergent in the Midst of Global Trends", in University of Sydney (Eds.), Asia-Pacific Economic and Business History Conference (2007), 1, 39.
[190] India, Country Studies, Library of Congress, http://lcweb2.loc.gov/frd/cs/intoc.html. The Indian government has established and sponsored a number of institutes of "national importance", such as the Indian Institute of Technology and the Indian Institute of Management.
[191] India, Country Commercial Guides, US Commercial Service, http://export.gov/india/doingbusinessinindia/index.asp.

expand their workforces quickly and taking advantage of an excess supply of labor it has been difficult for union organizers to gain any traction. One problem has been the difficulty in identifying the exact size of trade union membership and union members are dispersed among several groups, a situation that makes coordination more difficult. Nonetheless, there appear to be indications that permanent and contract workers are seeking ways to cooperate in negotiating with employers and scandalous disclosures regarding working conditions throughout India have contributed to international pressure on Indian firms to address the collective concerns of their workers.

India's central and state legislatures have enacted more than 45 labor laws that regulate various aspects of employment, including industrial relations, service conditions, remuneration and social security benefits. The labor legislation depends primarily on the geographical location of the employer or establishment, number of employees, nature of the work carried out by employees and industry in which the employer is engaged. India has a number of laws that regulate wages, retrenchment, closure and layoffs. Businesses employing 100 or more workers must seek and obtain government approval before proceeding with layoffs or business closures, and the evidence is that approvals are not easily obtained.[192]

Culture plays a significant role in the interactions between managers and employees in the workplace and must be taken into account when selecting and implementing HRM practices in India. India is a high power distance society due to a variety of factors such as the traditional Indian caste system and British rule and this leads to the use of hierarchical organizational structures with numerous levels of authority between the top and bottom of the organization. Employees are reluctant to disagree with, or question, those higher than them in the hierarchy. Indian culture is also very collectivist with tight social frameworks consisting of group based on the same caste, religion or family and recruiting, hiring and promoting employees from one's own caste is quite common. Social customs in India rely heavily on rituals, a practice which is thought to be based on a culturally driven desire to avoid uncertainty. Gender egalitarianism is low in India and it is common for women to encounter difficulties with respect to advancement in business settings. Grainger and Chatterjee emphasized the cultural influence of the Hindu tradition in India and argued that it has contributed to the popularity of Guna dynamics as a framework for employee training, team building and performance evaluation in the workplace. Among other things, several of the Guna dynamics, which are personality attributes that guide individual, group or organizational behavior, serve as motivators for workers to pursue higher values, actions and solutions while providing strength for them to fend off negative influences such as ignorance, corruption and lack of values.[193]

Singh commented on the dearth of studies relating to linkages between HRM practices and organizational culture in India and set about to conduct research and analysis on the

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[192] Id.
[193] R. Grainger and S. Chatterjee, "Chinese and Indian Systems: Divergent in the Midst of Global Trends", in University of Sydney (Eds.), Asia-Pacific Economic and Business History Conference (2007), 1, 31. See also S. Chatterjee, "Human Resource Management in India: 'Where From' and 'Where To?'", Research and Practice in Human Resource Management, 15(2) (2007), 92.

relationship between variables of HRM practices and organizational culture using a sample of 95 respondents from two private sector organizations.[194] After collecting and analyzing the data, Singh found evidence to support a significantly positive correlation between various HRM practices (i.e., planning, recruitment, selection, training and development, performance evaluation, career management and rewards) and organizational culture as measured by self-realization, status enhancement, inventive values and socio-economic support. The findings were particularly interesting in the context of Indian society and culture. For example, Sinha and Sinha found self-realization and inventive values as the highest form of work values in Indian culture[195] and the results of the survey conducted by Singh confirmed that organizations appreciate corporate core values of self-realization and inventive values as they encourage and recognize innovation, creativity and achievement. In addition, status enhancement and socio-economic support are important in an Indian environment that has historically been "ridden with insecurities and lack of resources" and in which "people generally have a history of failures".[196]

A descriptive collection of common HR practices and policies in India compiled by Rao included the following[197]:

- Resumes are closely examined to identify successful work experiences, career stability and, most importantly, continuous academic achievements such as enrollment in relevant graduate classes, certification and the like. Employers consider academic achievements to be significant indicators of the potential learning capability of an applicant.
- Employee referrals and succession planning are predominant in the Indian work environment, especially for middle and upper-level jobs. As noted above, India is a collectivist culture and thus there is an understandable preference for hiring and promoting employees who are known and it is believed that such staffing practices promote loyalty and retention.
- Employment testing is common for entry-level positions as employers use rigorous math, analytical and communications tests to identify high-potential learners and collect information necessary for ensuring reliability of the hiring process.
- The demands of online recruiting in India are staggering as new job postings inevitably attract huge numbers of resumes and rapidly expanding firms advertise large numbers of new positions annually. As a result, Indian HR departments are continuously struggling with screening resumes for authenticity and relevance.
- Branding is important in the recruitment process since Indian employees are quite status conscious and prefer to work for companies that have established themselves as well-recognized in employment and social circles.

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[194] A. Singh, A Study of HRM Practices and Organizational Culture in Selected Private Sector Organizations in India (2009).
[195] J. Sinha and D. Sinha, "Role of Social Values in Indian Organizations", in H. Kao, D. Sinha and Ng Sek-Hong (Eds)., Effective Organizations and Social Values (1994).
[196] A. Singh, A Study of HRM Practices and Organizational Culture in Selected Private Sector Organizations in India (2009), 64, 70-71 (citing J. Sinha, Work Culture in the Indian Context (1990)).
[197] P. Rao, Society for Human Resource Management: Human Resource Practices in India (2007), www.shrm.org.../rao%20india%20hr%20practices%20to%20post.ppt.

- Personal questions (i.e., questions regarding marital status, caste and/or family background) are often asked during the hiring process on forms and while interviews are being conducted. This often results in discrimination in the hiring process as employees select candidates based on caste and shy away from hiring candidates who indicate that they intend to start a family.
- Indian companies invest substantial amounts of capital and time in training, which is considered to be an extension of the academic learning that is highly valued in India. Training programs in India are extensive and longer in duration and are thought of as a means of creating loyalty among employees to their companies. Training begins at the entry levels with a focus on practice and soft skills not often taught in university and college programs such as effective communications, team dynamics and also relevant product-based and technical knowledge.
- Performance management is challenging in India due to the collectivist culture that encourages close relationships between superiors and subordinates that can complicate attempts to impose formal appraisal processes. Personal relationships often cause superiors to inflate the work performance of their subordinates. In addition, organizational loyalty is often given preference over performance and efficiency and promotions are frequently based on tenure rather than the quality of work. However, many Indian companies are trying to implement more progressive methods for performance management (e.g., a 360-degree approach or management by objectives (MBO)).
- A base salary, usually amount to 40% to 50% of an employee's compensation package, is provided with several other allowances that are typical to Indian employers including support for housing and medical expenses and cost-of-living adjustments to take into account variations in living expenses in different locations around the country. In addition, consistent with the collectivist notion of employees being members of an organizational family companies provide assistance in the form of short- and long-term loans and food subsidies.
- The importance of status in Indian culture explains the popularity of special perquisites for executives and other senior managers as a means for increasing their social status and wealth as a reward for work achievement and/or longevity.

§1:10 Entrepreneurship development and training

Indeffurth and Khambatta argued in 2011 that India had two distinct advantages in terms of creating new entrepreneurs and startups: an explosion in its working age population at a time when many other parts of the world, particularly some of the developed countries, were grappling with aging citizenries, and the ability to leverage technology to accelerate economic growth.[198] However, in order to use these potential advantages successfully, India needed to invest in providing its young people with the education and training necessary for them to launch and manage entrepreneurial ventures.

Yu and Tandon described the results of a Gallup survey of Indian entrepreneurs conducted in 2012 that found they lagged far behind their counterparts in other Asian

[198] K. Inderfurth and P. Khambatta, Entrepreneurship in India: The Next Wave, 1(9) Center for Strategic and International Studies: US-India Insight (December 14, 2011).

countries with respect to access to formal and informal training on starting a new business.[199] Yu and Tandon noted that while India did have some high-profile entrepreneurs who could serve as role models for startup founders, details of their success stories were not widely circulated. In addition, the Gallup survey found that India's angel investor community had not developed to the point where it consistently offered mentorship and training in managerial know-how to the country's entrepreneurs. Yu and Tandon reported that India had begun taking steps to promote and improve entrepreneurial education including establishing a list of national institutions to provide special training to entrepreneurs; however, Yu and Tandon point out that entrepreneurship programs fell far short of meeting nationwide demand and that opportunities for training were particularly scarce in rural areas. Related problems with respect to entrepreneurship training in India paralleled those found in India's general education system such as a shortage of qualified teachers and a lack of appropriate and high-quality content for entrepreneurship classes.

Thakur described the efforts of the Indian government to enhance skill development as of 2014, noting that while Indian universities and professional institutions have been doing a good job of turning out impressive numbers of graduates in technical areas such as engineering most of them find limited employment opportunities because they lack practical skills needed within India's emerging manufacturing and services sectors and would need additional rigorous training before they were ready to contribute to employers.[200] Thakur reported that the government had set ambitious goals for creating 500 million skilled workers by 2022 using an array of tools and programs; however, he pointed to a number of challenges that will need to be addressed and overcome: the governmental monopoly on skill development, which Thakur argued needed to be broken in favor of more public-private partnerships and greater input from individual employees and industry associations on skill creation activities; the lower percentage of the total workforce employed in the organized or formal sector and the limited capacity of that sector to absorb a large number of additional workers, which calls for steps to be taken to extend the social safety nets previously reserved for the formal sector to the self-employed and small businesses that have previously operated in the shadows; and elaborate governmental programs for sustainable livelihoods that have failed to reduce poverty and established corruption at the lower levels of bureaucracy. Thakur referred to several skill development programs launched by various government ministries that had not produced the desired results and explained that the failures could be attributed to strategic and implementation models of skills development that were not aligned with competitive global requirements of skilling. Another problem that must be overcome in order for skills development in India to succeed is that stunningly high levels of illiteracy in the Indian workforce and Thakur cited a report prepared and published by the Boston

[199] D. Yu and Y. Tandon, India's Big Problem: Nurturing Entrepreneurs, Gallup Business Journal (August 1, 2012), http://businessjournal.gallup.com/content/156143/india-big-problem-nurturing-entrepreneurs.aspx#1 (accessed May 27, 2014).
[200] A. Thakur, Skill Development in India: Big Promises, Tall Failures, Governance Now (February 17, 2014), http://governancenow.com/views/columns/skill-development-india-big-promises-tall-failures (accessed May 30, 2014).

Consulting Group and the Confederation of Indian Industries that showed that only 10% India's workforce in 2006-2007 had completed formal schooling.

All in all, consultants agree that India will likely have a significant shortfall with respect to the numbers of qualified workers that will be needed in projected high growth sectors in India. The solution lies not only in reforming governmental programs that have not proven to be successful but also in encouraging more engagement by the private sector in skills development, including increased use of apprenticeships. Maheshwari and Agarwal also bemoaned the lack of skilled workers in India and urged the government to increase investment in developing the requisite entrepreneurial skills and mindset.[201]

Indeffurth and Khambatta noted that India had launched several initiatives during the 2000s to increase the interest of college-level students in pursuing entrepreneurship and starting their own businesses including entrepreneurship training through the National Entrepreneurship Network ("NEN"), which was co-founded by the Wadhwani Foundation and several of the country's leading universities, and the TATA First Dot, which was powered by NEN and established to become the country's first platform for young entrepreneurs to compete, secure funding for their startups and generally develop the skills needed to launch new businesses.[202] According to Indeffurth and Khambatta, over ten years NEN had grown from 30 to 1,200 faculty members and the number of students in the NEN had exploded to 70,000 by 2011 from just 200 in 2001. The government also established three national-level Entrepreneurship Development Institutes ("EDIs")—the National Institute for Micro, Small and Medium Enterprises, Hyderabad; the Indian Institute of Entrepreneurship, Guwahati and the National Institute for Entrepreneurship and Small Business Development., Noida—and implemented schemes for assisting in strengthen the training infrastructure of the EDIs with the overall objective of promoting entrepreneurship for creating self-employment through enterprise creation, facilitating creation of training infrastructure and supporting research on entrepreneurship-related issues.[203]

There have also been limited efforts in the private sector to support fledgling entrepreneurs in India. For example, Tham described the "Spark the Rise" program and website launched by the Mahindra Group, one of the large private conglomerates in India, which originally provided a platform of entrepreneurs with new ideas to engage in crowd funding campaigns to raise small sums of money to help establish their businesses and was subsequently expanded to include tools for sharing advice and information about upcoming entrepreneurship conferences and events.[204]

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[201] S. Maheshwari and S. Agarwal, Entrepreneurial Environment in India (April 6, 2013), http://techaloo.com/entrepreneurial-environment-in-india/ (accessed May 30, 2014).
[202] K. Inderfurth and P. Khambatta, "Entrepreneurship in India: The Next Wave", Center for Strategic and International Studies: US-India Insight, 1(9) (December 14, 2011).
[203] Ministry of Micro, Small and Medium Enterprises, 2007-2008 Annual Report: Chapter VII—Training and Entrepreneurship Development.
[204] R. Tham, Resolving India's Entrepreneurial Paradox: Key To Starting Up The Economy?, Economic Watch (December 13, 2012), http://rise.mahindra.com/resolving-indias-entrepreneurial-paradox-key-to-starting-up-the-economy/ (accessed May 30, 2014).

§1:11 Legal, regulatory and contracting systems

The British influence on Indian economic relations can be found in the codified legal framework that India inherited from the British occupation and India is strikingly different from China with respect to the degree to which laws and regulations are integrated with commercial activities. However, the Western style legal system is sometimes at odds with the remnants of the rigid hierarchical social system that dominated Indian communal and business relationships for so long. Moreover, even through India has retained the British system of commercial law, the US Commercial Service has noted that “[f]oreign investors frequently complain about a lack of ‘sanctity of contracts’” and Indian courts are generally hopelessly behind in resolving disputed cases and parties may wait years, if not decades, for the final resolution of liquidation proceedings for a bankrupt firm.[205]

The liberalization activities included easing performance requirements on foreign investors and creation of various incentives for foreign investors to launch and expand operations in India. For example, local sourcing requirements were generally eliminated; investors were given freedom to select locations for their projects subject to governmental approvals in certain instances when pollution control and other environmental issues are involved; requirements that Indian nationals be employed were eliminated along with prior restrictions on employing foreign technicians and managers; and various tax holidays and duty reductions were adopted that can be used by foreign investors to reduce their costs of entry.[206] However, certain restrictions continue to apply in key sectors such as telecommunications where there is a requirement that the majority directors on the boards of companies including the Chairman, Managing Director and Chief Executive Officer, should be resident Indians and that the Chief Technical Officer and the Chief Finance Officer should also be resident Indian citizens.[207]

While the rights to private ownership of business entities by domestic and foreign investors have been expanded, actual establishment and operation of new businesses is still subject to a wide range of governmental approvals and controls. For example, the US Commercial Services has reported: “To establish a business, various approvals and clearances are required such as incorporation of the company; registration and allotment of land; permission for land use in case of industry located outside an industrial area; environmental site approval; sanction of power and finance; approval for construction activity and building plan; registration under State Sales Tax Act and Central and State Excise Acts; and consent under Water and Air Pollution Control Acts. Industries such as petrochemicals complexes, petroleum refineries, cement thermal power plants, bulk drugs, fertilizers, dyes, and paper (among others) need to obtain environment clearance from the Ministry of Environment and Forest.”[208]

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[205] Doing Business in India: 2010 Country Commercial Guide for U.S. Companies (Washington, DC, US & Foreign Commercial Service, 2010).
[206] Id.
[207] Id. In addition, the chief officer in charge of the technical network operations and the chief security officer for all telecom companies have to be resident Indian citizens.
[208] Id.

In spite of the formal legal system that has been in place in India for a number of years, property rights in practice are often problematic and the US Commercial Service has noted that "[t]he legal system puts a number of restrictions and imposes a stamp tax on the transfer of land, making titles unclear, often making buying and selling transactions difficult . . . [and] there is no reliable system for recording secured interest in property, making it difficult to use property as collateral or to foreclose against such property".[209] Indian intellectual property rights, once roundly criticized by industrial countries such as the US, are slowly improving as India becomes more engaged in international trade organizations. In fact, knowledge-based entrepreneurial firms in India have begun to take advantage of the patent systems in India and foreign markets to protect, and increase the value of, their innovations and figure show that both public enterprises/organizations and private firms in India have been filing a large number of patent applications although Mani has noted that the activity appears to be "concentrated in certain specific industries (such as the pharmaceutical ones) and within it in certain specific firms which are entrepreneurial in nature)".[210]

The US Commercial Service has summed up the situation as follows: "Even though India has made much progress on economic reform since 1991, the economy is still constrained by excessive rules and a powerful bureaucracy with broad discretionary powers. Moreover, India has a decentralized federal system of government in which the state governments possess broad regulatory powers. Regulatory decisions governing important issues such as zoning, land-use and environment can vary from one state to another. Opposition from labor unions and political constituencies has slowed reform in such areas as exit policy, bankruptcy, and labor law reform."[211]

§1:12 Product development and commercialization

Since liberalization of the Indian economy in 1991, there has been increased interest in product development in a wide range of Indian companies driven, at least in part, by an awareness that India must offer more than services in order to fully participate in the global economy.[212] A variety of factors would appear to nicely position India as a country that would have a formidable competitive advantage with respect to product development: economic size and growth; a multilingual, pluralist and tolerant society; and a heavy emphasis on education.[213] However, the development of the Indian software

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[209] Id.

[210] S. Mani, The Growth of Knowledge-intensive Entrepreneurship in India, 1991-2007 (Maastricht, The Netherlands: United Nations University-MERIT Working Paper Series No. 2009-051, 2009), 10-11. One of the most important public enterprises in this area is the government supported Council of Scientific Industrial Research. In the private sector, the leaders in filing patent applications in 2005-07 were Ranbaxy Laboratories and Dr. Reddy's Laboratories. Id.

[211] Doing Business in India: 2010 Country Commercial Guide for U.S. Companies (Washington, DC, US & Foreign Commercial Service, 2010).

[212] N. Forbes, "Technology and the Indian Industry: What is Liberalisation Changing?", Technovation, 19 (1999), 403-412; R. Krishnan and G. Prabhu, "Creating Successful New Products: Challenges for Indian Industry", Economic & Political Weekly, 34(31) (July 31-August 6, 1999), M114-M120.

[213] A. Chakrabarti (Ed.), The Future of Product Development in India (2007), 691.

industry provides evidence of a reluctance to maximize potential advantages. For example, Arora has observed that Indian software companies took a very different path from their counterparts in the US and chose to focus on services rather than the development of new programs.[214] While India has clearly reaped benefits from this strategy—many companies from outside of India now outsource their entire data center operations to Indian firms resulting in larger revenues for those firms and impressive enlargement of the local labor pool—Indian software companies have gradually and consistently abandoned formerly ambitious targets for new product revenues.[215]

There are several reasons why Indian firms have limited their development of products.[216] For one thing, India has become well established as a source of software services and large firms draw away investment funds from other sectors and then serve as role model which newer, smaller firms seek to emulate.[217] Focusing on software services has enabled Indian companies to be highly profitable with relatively low risks and ensure regular immediate cash flows, in contrast to betting on product development projects that involve large initial investments and future, uncertain cash flows. The major software services firms have high valuations and generate high expectations from investors and analysts who expect these firms to "de-risk" their ventures. As a result, the software industry has been characterized by low physical capital intensity and high human capital intensity.[218] The steady supply of qualified software professionals who can generate revenue immediately through services has probably added to the inertia of success among software service firms as their business model is not seriously threatened. All of this has made services the dominant logic among Indian software firms.

In addition, software industry insiders attribute the lack of a product orientation to factors in the larger innovation system outside the software companies and argue that innovation is not a feature of Indian society. Desai believes that "innovation can flourish only in an ecosystem that has the elements of market, money, university, cluster of companies, attitudes, culture and the appropriate regulatory and legal environment",[219] while Mehta emphasizes that software product development requires "an R&D culture, market intelligence, skills to develop user friendly software and documentation, availability of funds and special marketing skills.[220]

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[214] J. Dann, "Duke Prof Reveals India's Technology Management Secrets", CBS News, December 16, 2009, http://www.cbsnews.com/8301-505125_162-31041610/duke-prof-reveals-indias-technology-management-secrets/.

[215] R. Krishnan and G. Prabhu, Software Product Development in India: Lessons from Six Cases, http://www.iimb.ernet.in/~rishi/softwareproducts1Jan2003.pdf.

[216] R. Krishnan and G. Prabhu, Software Product Development in India: Lessons from Six Cases, http://www.iimb.ernet.in/~rishi/softwareproducts1Jan2003.pdf [Accessed September 15, 2012].

[217] S. Karampuri, Why No Product Companies in India, Mechanical Engineering Technology (March 3, 2007), http://www.sramanamitra.com/2007/03/03/why-no-product-companies-in-india/ [Accessed September 15, 2012].

[218] D. Mowery, "The Computer Software Industry", in D. Mowery and R. Nelson (Eds.), Sources of Industrial Leadership: Studies of Seven Industries (1999), 156.

[219] A. Desai, Presentation at the Workshop on "The Context of Innovation in India: The Case of the Information Technology Industry", New Delhi (July 24, 1998).

[220] D. Mehta, "A Time for Consolidation", Information Systems Computer World, 3(17) (1998), 44.

Various commentators have noted that a lack of product innovation can be found across all sectors of the Indian economy, not just software, and argue that these problems can be traced to the legacy of a protected economy where innovation was unnecessary and, in fact, was often thwarted by government policy.[221] For example, government requirements regarding the content of technology licensing agreements effectively restricted the ability of Indian manufacturers to make even the most modest physical modifications or improvements and import restrictions made it difficult for Indian companies to source particular components or skills and capabilities they lacked in order to engage in product development initiatives. Other constraints to product development in India that have been identified include a scarcity of design skills and experience, lack of qualified vendors and appropriate engineering resources, lack of a strong market orientation, centralized control by business family heads, poor awareness of and regard for intellectual property rights and pressures to change on a number of fronts as the competitive environment in India has been transformed by liberalization.[222]

Krishnan and Prabhu began their discussion of the challenges associated with product development in India by noting that until 1991 the country operated as a highly protected and tightly regulated economy in which competition was restricted by a complex licensing system that generally caused management to focus on obtaining licenses and preventing others from doing rather than on developing new products.[223] Krishnan and Prabhu explained that since competition was low Indian companies did not feel any pressure to engage in product innovation and even if they did the risks associated with developing new products were simply too high given that capital in India was so scarce and difficult to obtain. They also argued, as mentioned above, that import restrictions made it difficult for Indian companies to source components and knowledge from foreign sources, each of which would presumably be important ingredients for any new product development effort. However, the liberalization that began in the early 1990s and continued steadily, albeit with some bumps, since then thrust Indian firms into a new environment of global competition that required the development of new skills to manage growth, achieve cost-competitiveness and harness knowledge and innovation in order to develop and maintain dynamic product portfolios. According to Krishnan and Prabhu, some of the unique challenges that arose in India included the following[224]:

- Indian companies suffered from a lack of strong vendor support and the vendor relationships that did exist were generally limited to what Krishnan and Prabhu described as the "ancillary approach" under which the role of the vendor was limited to manufacturing sub-assemblies and components conforming to designs and specifications supplied by the purchaser. While good manufacturing capabilities are

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[221] N. Forbes, "Technology and the Indian Industry: What is Liberalisation Changing?" Technovation, 19 (1999), 403; B. Bowonder and P. K. Richardson, "Liberalisation and the Growth of Business Lead R&D: The Case of India", R&D Management, 30(4) (2000), 279.
[222] R. T. Krishnan and G.N. Prabhu, "Creating Successful New Products: Challenges for Indian Industry", Economic & Political Weekly, 34(31) (July 31-August 6, 1999), M114.
[223] Id.
[224] The discussion below, including quotes, is adapted from R. T. Krishnan and G.N. Prabhu, "Creating Successful New Products: Challenges for Indian Industry", Economic & Political Weekly, 34(31) (July 31-August 6, 1999), M114.

important, the ancillary approach failed to incorporate the interactive design and development collaboration necessary for improving the performance and reliability of products and/or lowering costs of production. As a result Indian companies were forced, according to Krishman and Prabhu, "to either develop products almost completely on their own or work with foreign design houses and suppliers", each of which had a negative impact on the cost of development and the time required to bring a new product to market.

- Access to appropriate manpower has been a significant problem with respect to new product development in India. The Indian software industry has been discussed extensively above and one of the issues for other parts of the economy has been that many of the best engineers are attracted to work for software firms that are able to offer attractive locations and compensation packages. This left non-software enterprises scrambling to compete for a limited pool of talent. Other human resources issues more directly related to new product development have included inadequate training in key skills such as design theory and practice by Indian engineering institutions and difficulties in identifying employees with both the technical and managerial skills that are needed in order for them to act as project managers for new product development projects.
- Krishnan and Prabhu noted that many Indian companies struggled to overcome "functional chimneys" that retarded the cross-functional communication and integration that is generally thought to be necessary for efficient and successful new product development. In addition, Indian firms have also often been disadvantaged by a lack of depth in the expertise of each functional area which meant that functional departments "[took] longer than they should to solve problems and that they sometimes [did] not resolve problems completely, thereby necessitating rework at a subsequent stage". Lack of functional expertise also inhibited the ability of Indian firms to absorb new technologies sourced from outside the company and Krishnan and Prabhu advised Indian companies "to consider using focused training programs to improve functional expertise".
- While the size of the domestic market in India appears to be quite large when measured in terms of raw numbers the reality is that actual market for many new products is much smaller due to limited purchasing power and high price sensitivity. Krishnan and Prabhu argued that this made investing in molds and dies a risk proposition and also inhibited Indian companies from purchasing costly computer-based design tools out of fear that they would be unable to recover the cost of such equipment. According to Krishnan and Prabhu: "There was earlier a tendency to make do with less sophisticated design and production methods with lower investments. However that is now proving to be a major stumbling block."
- Krishnan and Prabhu argued that the need to make the large investments associated with new product development required a substantial change in the mindset of top management and that top managers needed to become proactive and get heavily involved in the planning for a new product at the early stages of development. At the same time, top management needs to be able to defer to the expertise of front-line managers who probably understand the market and the relevant technology better; however, deference of this type is new and different for both the top manager and the subordinate who are used to a hierarchical relationship based on decisions being made

at the top of the pyramid. The situation is complicated further by the general lack of project management skills among Indian managers mentioned above.

- In addition to the challenges of managing individual new product development projects Indian companies have struggled with managing the entire R&D and new product development process. Krishnan and Prabhu noted Indian companies had traditionally been low investors in R&D, particularly with respect to internal R&D, but that the situation has changed as Indian companies have been forced to expand their in-house capabilities and aggressively seek, acquire and absorb new technologies from outside. In order to cope with these changes Indian companies have needed to identify and hire people who can actually manage an R&D function and help select the appropriate technologies to develop and acquire and conduct sophisticated technological forecasting. This process has proven to be difficult since persons with the necessary skills are hard to find in India. Moreover, while there has been growing recognition of the importance of R&D the reality has been that R&D has long lacked status within Indian organizations and Indian companies have been slow to grant board-level recognition to the R&D function.

While India has been slow to develop products suitable for foreign markets, it is clear that globalization has played a major role in its export-led growth, leading to the enlargement of the job market in India.[225] As noted above, outsourced information technology and business process outsourcing in general, and the software services industry in particular, have been major sources of globalization for India and more and more domestic and foreign companies have employed skilled professionals in India to service their customers all around the world. The advantages of using human resources from India are well documented: reduced labor costs coupled with the advantages of having an educated English-speaking workforce. Improvements in global communications technologies have also been instrumental in the development of India’s services sector. At the same time, the rise of a new middle class in India due to wealth created by participating in the services sector has attracted international consumer products companies to set up shop in India to take advantage of a promising domestic market. Assessing the impact of globalization on India, Nayar noted that Indian companies were gaining more confidence and beginning to expand their operations outside India and that globalization seemed to be having a positive impact in India and delivering India from global stagnation and recurring economic crises, while reducing poverty.[226]

§1:13 Organizational design

Nigam and Su have observed that the management system in India “is based upon centuries of rules and regulations from various dominating empires; different religions; a very influential caste system that, knowingly or unknowingly, intentionally or unintentionally, influences the organizational system of Indian enterprises; the British Raj

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[225] Globalization in India, The Economist Magazine (October 14, 2010), http://www.economywatch.com/economy-articles/globalization-in-india.html [Accessed September 15, 2012].

[226] B. Nayar, “India’s Globalization: Evaluating the Economic Consequences”, Policy Studies, 22 (2006), 78-82.

who ruled India for about 200 years; and more recently, the globalization of world economies and its influence on the Indian management system".[227] Chatterjee has argued that the sources for the emerging management style in India are "strong national pride in the tradition and history of the country; existing bureaucratic institutional infrastructure and regulatory framework; commitment and vision to achieve a global identify by becoming engaged in the region and beyond; and new levels of confidence in innovation, enterprise and knowledge networks".[228] In addition, Grainger and Chatterjee have noted that "[m]anagers in India retain a strong orientation towards the cultural legacy of an ancient but continuously living and evolving civilization. However, in recent years this legal has been impacted by the changing economic and managerial contexts… The contemporary managerial elite in India are more pragmatically than ideologically driven than in the past."[229]

According to Nigam and Su societal culture in India has traditionally been described as collectivist, high power distance, high masculinity and high uncertainty avoidance.[230] The large power distance score for India is consistent with the long-standing tradition of recognizing and enforcing caste systems. Large power distance also correlates with Hinduism, which is practiced by about 80% of the population of India — the only country with over 50% of its population embracing the Hindu religion. Large power distance provides the underpinnings for a strong respect for hierarchy that necessarily influences organizational structure within Indian firms. Researchers such as Kumar and Shankaran have observed that a "hierarchical mindset" permeates all aspects of Indian life including people, relations and ideas.[231] As a result, it is not surprising that researchers have found evidence of a preference for, and acceptance of, centralized "top down" decision making in Indian business organizations.[232]

In the past, most Indian companies were run by family members and thus the organizational structures for these firms have predictably resembled the "family" (or "tribe") model developed by various researchers including Hofstede, Schneider and Barsoux and Wursten and characterized by the following features: hierarchical and centralized with respect to how and by whom decisions are made and formalized with respect to relationships among persons within the hierarchy (high power distance) but not overly formalized as to the rulemaking on how the day-to-day workflow is conducted

[227] R. Nigam and Z. Su, Management in Emerging versus Developed Countries: A Comparative Study from an Indian Perspective, 4(1) Journal of CENTRUM Cathedra 121, 122 (2011). The authors based their research on an extensive review of relevant journals, particularly "articles with a special focus on management, Asian management, and Indian management". Id.

[228] S. Chatterjee, Bridging the Gap between Potential and Performance: The Challenges of Indian Management, in S. Chatterjee and A. Nankervis (Eds.), Asian Management in Transition: Emerging Themes 83 (2007).

[229] R. Grainger and S. Chatterjee, Chinese and Indian Systems: Divergent in the Midst of Global Trends, 1 (2007).

[230] R. Nigam and Z. Su, Management in Emerging versus Developed Countries: A Comparative Study from an Indian Perspective, 4(1) Journal of CENTRUM Cathedra 121, 124 (2011).

[231] M. Kumar and S. Sankaran, Indian Culture and the Culture for TQM: A Comparison, 19(2) The TQM Magazine 176 (2007).

[232] R. Nigam and Z. Su, Management in Emerging versus Developed Countries: A Comparative Study from an Indian Perspective, 4(1) Journal of CENTRUM Cathedra 121, 126 (2011).

(low uncertainty avoidance); paternalistic leadership style; strong role of "generalists"; strong social versus task roles; importance of loyalty and personal relationships; powerful "in-groups"; and social control.[233] Chatterjee described the behavior of Indian managers as a combination of collectivism on the outside and individualism on the inside.[234] Nigam and Su explained this to mean that "power is considered important in the Indian culture, and obtaining more power is a strong motivational factor".[235]

Several commentators have discussed various factors in the competitive environment confronting larger Indian firms that are likely to lead to changes in organizational design and structure. Both Ghoshal et al and Ahmad and Chopra confirmed much of what was mentioned above with respect to the characteristics of the organizational structure of Indian companies during the transition period following independence of the country in 1947: high levels of centralization and command and control styles of management and concentration of power and decision-making authority at the top of the organizational hierarchy with either senior executives and/or members of the family that owned the business.[236] However, they noted that the pressures associated with internationalization and competing in a global market place have triggered a shift, at least among the more innovative firms in India, toward delayering and relying on a more lateral organizational structure with fewer intermediate levels, greater reliance on cross-unit and cross-functional task forces and swifter communications and information flows.[237] Oswal studied a larger number of Indian companies and found evidence confirming that the greater strategic emphasis on internationalization among those companies has been accompanied by a movement toward greater decision-making decentralization over the last few years, especially in important customer contract-focused areas such as marketing and communications.[238] Oswal also reported a trend toward increased interest in India on recruiting professional managers with business school training. Finally, Oswal suggested that the operational complexity associated with international operations will likely push

[233] G. Hofstede, Motivation, Leadership and Organization: Do American Theories Apply Abroad", 9 Organization Dynamics 42, 60 (1980); S. Schneider and J.-L. Barsoux, Managing Across Cultures (2nd Ed.) (2002); and H. Wursten, Culture and Change Management, ITIM Culture and Management Consultancy, http://www.itim.org/articleonchangemanagement.pdf.

[234] S. Chatterjee, Human Resource Management in India: 'Where From' and 'Where To?', 15(2) Research and Practice in Human Resource Management 92 (2007); M. Kumar and S. Sankaran, Indian Culture and the Culture for TQM: A Comparison, 19(2) The TQM Magazine 176 (2007).

[235] R. Nigam and Z. Su, Management in Emerging versus Developed Countries: A Comparative Study from an Indian Perspective, 4(1) Journal of CENTRUM Cathedra 121, 126 (2011). In the same vein, Morris et al. found that the value of power was rated much more highly by managers in China, India and the Philippines than by managers in the US. M. Morris, K. Williams, K. Leung, R. Larrick, M. Mendoza, D. Bhatnager, et al., Conflict Management Style: Accounting for Cross-National Differences, 29(4) Journal of International Business Studies 729 (1998).

[236] See S. Ghoshal, G. Piramal and C. Bartlett, Managing Radical Change: What Indian Companies Must Do to Become World-Class (2000); and A. Ahmad and O. Chopra, Passion to Win: How Winning Companies Develop and Sustain Competitive Edge (2004).

[237] A. Ahmad and O. Chopra, Passion to Win: How Winning Companies Develop and Sustain Competitive Edge 186-187 (2004) (as cited and described in P. Oswal, The Internationalization of Indian Firms: Strategic Issues, Organizational Transformation and Performance 53-61 (2010)).

[238] P. Oswal, The Internationalization of Indian Firms: Strategic Issues, Organizational Transformation and Performance 53-61 (2010).

Indian firms away from the rigid structural characteristics relied upon for solely domestic activities toward flexible processes such as cross-functional teams.

§1:14 Organizational culture

The British occupation had a strong and last influence on organization culture in India, particularly among governmental agencies that were established and operated using organizational structure, administrative procedures and work methods imported from Britain. As industrial activities grew in India Western managerial practices and values inevitably followed and many Indian organizations still can be characterized as bureaucratic, impersonal and operating under the ethos of a welfare organization. Expansion of work opportunities to include employees from a broader spectrum of Indian society has led to greater influence of indigenous social habits and cultural values, particularly the emphasis on harmony and equitable distribution of wealth that is such an important part of Indian societal culture. One sees greater consideration for human values and attempts to create the more open work culture thought to be necessary in order to motivate employees and to provide the effort necessary for Indian firms to be successful in competitive global markets. In knowledge-based industries companies have experimented with performance-based compensation and promotion systems, a nod toward more individualistic influences on organizational culture in certain sectors and recognition that many knowledge-based workers are adopting Western norms of personal growth and striving for achievement. In general, the internal work culture in private enterprises in India places a greater emphasis on internal locus of control, future orientation in planning, participation in decision-making and obligation towards others in the work context than in public Indian enterprises.[239]

India's success in entering and building a strong presence in the information technology and business process outsourcing markets has often been attributed to the fact that a majority of India's educated workers speak English. This has been characterized as a unique advantage of the Indian economy relative to other low-cost areas in Asia, South America and Eastern Europe. However, language is one of just many factors that shape the corporate culture within a country. According to Jain, the English language legacy that the British left in India was only a dormant competitive advantage, and did not become relevant until the 1990s when technologies emerged to enable Indian employees to serve customers anywhere in the world.[240] In addition to adopting English, India's corporate culture also appears to adopt other Anglo-American global corporate cultural practices in the areas of entrepreneurship, professionalism and governance. For example, Jain referred to a strong culture of entrepreneurialism throughout India fueled by the employee mobility, the influence of Indian businesspeople returning from school and work in foreign countries and the diverse and fragmented nature of India's domestic market that creates numerous niche opportunities for products and services with relatively low barriers to entry. In addition, Indian business organizations, long controlled and managed as familial fiefdoms, are now increasingly led by professional

[239] P. Mathur, Z. Aycan and R. Kanungo, Work Cultures in Indian Organisations: A Comparison Between Public and Private Sector, 8(2) Psychology Developing Societies 199 (September 1996).
[240] V. Jain, India's Corporate Culture: A Potential Source of Competitive Advantage (April 6, 2004).

managers knowledgeable about world-class strategies and techniques and focused on advancing the interests of all the stakeholders in their companies. Professionalism among top management has been accompanied by dramatic changes in human resource management practices that have impacted employee recruiting, development and training, promotion and rewards. Finally, advances in governance practices are occurring as firms seek the best management talent and to attract the most knowledgeable employees who suddenly have a number of opportunities from which to choose. Also, to the extent that governance reforms have been in the form of strengthened accounting standards the impact has been to improve information processing within organizations.

Organizational culture has attracted the interest of several important Indian researchers, who often refer to the topic as "work culture". Singh and Paul, for example, defined work culture as "the prevalent and common patterns of feeling and behavior in an organization".[241] According to Sinha, work culture is "the totality of the various levels of interacting forces around the focal concern of work".[242] Another conception of work culture adopted for use in studying Indian organizations includes work related activities in the framework of norms and values regarding work.[243] Singh argued what business organizations in India are not self-contained and are often conceived of as instrument of nation building and thus more susceptible to, and influenced by, societal forces and economic and political conditions.[244] One byproduct of all this in light of India's economic development and continuously increasing engagement with the global economy is that pressure builds for greater productivity from workers, a goal which is unlikely to be achieved unless and until the work culture is positively aligned with the personal values and attitudes of employees regarding work.

Preliminary research indicates that Indian firms face significant challenges with respect to organizational culture. In many cases indigeneous and universal work values co-exist within Indian organizations and the rush of modern technology does not allow organizational leaders to forget or minimize the unique characteristics of traditional Indian societal culture.[245] Singh analyzed the relationship between work values and corporate culture in the dynamic and fast-growing Indian automobile industry by collecting data from respondents in five different automobile companies.[246] Singh found that the relationship between various types of work values—individual, instrumental and participatory—and dimension of work culture were generally either negative or insignificant and counseled that personal work values may have a detrimental impact on corporate culture, and overall company performance, and that it was therefore necessary

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241 N. Singh and O. Paul, Corporate Soul: Dynamics of Effective Management (1985).
242 J.B.P. Sinha, Work Culture in Indian Context (1990).
243 K. Singh, Work Values and Work Culture in Indian Organizations: Evidence from the Automobile Industry, 2(2) Delhi Business Review (July – December 2001).
244 Id.
245 See S. Chakraborty, Management by Values (1991); and S. Chakraborty, Values for Indian Managers: What and Where to Seek, in R. Prasad, S. Shukla and A. Kumar (Eds.), Indian Management-Emerging Responses (1995).
246 K. Singh, Work Values and Work Culture in Indian Organizations: Evidence from the Automobile Industry, 2(2) Delhi Business Review (July – December 2001).

for organizations in the Indian automobile industry to take steps to socialize their employees and develop congruence between the persons and their jobs.

Singh commented that Indian organizations, not surprisingly, are embedded in their local culture and reported that Sinha and Sinha had found self-realization and inventive values as the highest form of work values in Indian culture.[247] Singh went on to explain that "self-realization" consisted of values such as achievement, ability utilization, advancement, aesthetics, personal development, and peace of mind, and that "inventive values" consisted of values of autonomy, creativity, lifestyles, risk-taking and variety. Singh noted that very little in the way of empirical systematic research had been conducted with respect to the relationship between human resource management (HRM) practices (i.e., planning, recruitment, selection, training and development, performance evaluation, career management and rewards) and organizational culture in India and attempted to improve the situation by collecting and analyzing information regarding HRM practices and organizational culture from two private sector organizations in India. Singh found that there was indeed a positive significant relationship between HRM practices and variables of organizational culture operationalized in terms of not only self-realization and inventive values, but also two other extrinsic values required in the Indian environment: status enhancement and socio economic support.[248]

If organizational culture is "an organization's shared beliefs, values, assumptions, and rituals",[249] one cultural measurement method, Cronbach's scale shown below, [250] supports the notion that the Indian industry and business culture is highly bureaucratic.

Table 2.1: Organizational Culture in India

Organizational Culture	Scores
Consensual	.62
Entrepreneurial	.74
Bureaucratic	.75
Competitive	.45
Innovativeness	.53
Organizational Climate	.60

As shown in the chart, while Indian culture maintains a substantial organizational climate of consensus and groupthink, it also supports innovation and entrepreneurship.

[247] A. Singh, A Study of HRM Practices and Organizational Culture in Selected Private Sector Organizations in India (2009) (citing J. Sinha and D. Sinha, Role of Social Values in Indian Organizations, in H. Kao, D. Sinha and S-H Ng (Eds.), Effective Organizations and Social Values (1994)).
[248] Singh described "status enhancement" as consisting of values of altruism, authority, physical activity and prestige, and "socio-economic support" as consisting of work values of social relationship and interaction, comforts, dependency, good working condition and economic gains. For additional discussion see J. Sinha, Work Culture in the Indian Context (1990).
[249] J. Sullivan, Exploring International Business Environments 338 (1999).
[250] R. Deshpande and J.U. Farley, Executive insights: Corporate culture and market orientation: Comparing Indian and Japanese firms, 7 Journal of International Marketing 117 (1999).

In a comparison of US and Indian companies, several organizational cultural differences were identified by Tenopir.[251] First, in Indian firms, founders are highly regarded and employees tend to be very knowledgeable about their stories. This is quite different from US firms where heroes could include inventors and products rather than focusing on corporate founders. Second, diversity exists in both cultures, but is measured in different ways. In the US it is by race and gender, while in India it is more likely to be by linguistic and religious traditions. Third, there is a more supportive culture in Indian companies as indicated by the architecture, design and layout of offices. In the US on the other hand, US firms' architecture demonstrated more variety in culture type, suggesting it was dictated by the firm and not the national culture.

Sinha commented that the initial wave of industrial growth in India following independence, driven by imported Western technology and management practices, was predicted by many to be the catalyst for transformation of traditional values, work habits and lifestyles of Indians that would influence and change all levels of Indian society.[252] In reality, however, traditional socio-cultural forces in India often proved hard to overcome and the situation among many industrial organizations in India seemed to confirm the views of various Western scholars who had expressed skepticism about "whether Hindu religion was conductive to economic activities"[253], opined that "the habits and social systems which employees brought to their organizations [in India] were contrary to the requirements of industrial organizations"[254] and argued that "Indians performed work as a favor to others: work was believed to exhaust a person by draining his energy and was, therefore, to be expended only for someone who could return the favor".[255]

Opinions and research among Indian scholars were mixed. On the one hand, some Indian scholars agreed with the views of their Western counterparts. For example, Sinha reminded that in an earlier work he had observed that "work was intrinsically not valued in India because of the culture of *aram* (i.e. preference for rest and relaxation not preceded by hard work)" and that "Indian organizations have assumed *social* rather than *work* identities, and that work behavior is determined socially rather than technologically".[256] Sinha also cited the following observations of Kanungo: "Indian workers … manifest a family-centred ethic … There is an emphasis on idle leisure pursuits that satisfy security and affiliative needs, rather than creative leisure pursuits that achieve work objectives; on maintaining status positions rather than task goal accomplishment; on performing socially approved duties in inter-personal contexts rather

[251] Carol Tenopir, The Eagle and the Elephant: Comparing Organization Culture in the United States and India (November 2008), http://works.bepress.com/cgi/viewcontent.cgi?article=1137&context=carol_tenopir.
[252] J. Sinha, Work Culture in a Developing Country: The Case of India, Chapter 16 in IUPsyS Global Resource (2009).
[253] Id. (citing M. Weber, The Religion of India: The Sociology of Hinduism and Buddhism (1958)).
[254] Id. (citing C. Myers, Industrial Relations in India (1960); D. Lambert, Workers, Factories and Social Change in India (1963); and G. Myrdal, Asian Drama (1968)).
[255] Id. (citing D. McClelland, Power: The Inner Experience (1975)).
[256] Id. (citing J. Sinha, Psychic Relevance of Work in Indian Culture, 18 Dynamic Psychiatry 134 (1985) and I. Parikh, Role Orientation and Role Performance of Indian Managers (1979)).

than in the job contexts."[257] On the other hand, however, other Indian researchers had found evidence that "Indian managers had values similar to their Western counterparts, and they cultivated a strong work ethic".[258] Indian organizations across many major categories—public and large private sectors, family owned and multinationals—had adopted, to some extent, Western systems of management, but it was often necessary to bypass the formal systems and structures and draw on local customs and cultural values in order to keep operations flowing smoothly and efficiently.[259] Not surprisingly, evidence was found of sectorial differences in organizational culture and practices: local subsidiaries of foreign multinationals were best able to "enforce" their own corporate cultures; public sector enterprises were typically bureaucratic; large private sector enterprises also tended toward bureaucracy but also accepted the need for profit orientation; and family-owned enterprises were generally "personalized, flexible and susceptible to local imperatives".[260]

In the mid-1980s Sinha and his colleagues were interested in mapping the work culture in different types of Indian enterprises and relating it to certain basic organizational factors. They studied two steel plants (one in the public sector and one in the private sector), two fertilizer companies (one in the public and one in the cooperative sector) and two nationalized banks (one having rural thrust and the other having more commercial interests).[261] Sinha explained the key elements of their inquiry as follows: "Work culture was conceptualized as the meaning and importance attached to work in terms of: (1) centrality of work rather than of the family, in the life space of managers; (2) extent to which managers worked hard; (3) hours they spent at work; (4) clarity of their roles; (5) job affect (i.e. feeling about their job); and (6) satisfaction with their job outcomes. These variables were related to six organizational factors including: (1) physical condition of work; (2) superior–subordinate relationships; (3) work pressure; (4) work norms; (5) upkeep and age of technology; and (6) performance-based rewards. In addition, items were developed to ascertain the extent to which the managers: (1) glossed over their job requirements in order to meet their socio-personal obligations to their friends and family members; and (2) yielded to such influences on their work-behavior as caste, religion, language groups, region, and political affiliations."[262]

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[257] Id. (citing R. Kanungo, Culture and Work Alienation: Western Models and Eastern Realities, 25 International Journal of Psychology 795, 803 (1990)).

[258] Id. (citing P. Singh, Occupational Values and Styles of Indian Managers (1979); R. Soares, G. Valecha and R. Venkataraman, Values of Indian Managers: The Basis of Progress, 20 Indian Management 32 (1981); D. Sinha and M. Sinha, Dissonance in Work Culture in India, in A. Moddie (Ed.), The Concept of Work in Indian Society (1990); R. Tripathi, Interplay of Values in the Functioning of Indian Organizations, 25 International Journal of Psychology 715 (1990); and B. Virmani and S. Guptan, Indian Management (1991)).

[259] B. Virmani and S. Guptan, Indian Management (1991) (arguing that Indian organizations often incorporated traditional Indian cultural characteristics such as familism, patronage, personalized relationships and obedience to authority into their work cultures).

[260] J. Sinha, Work Culture in a Developing Country: The Case of India, Chapter 16 in IUPsyS Global Resource (2009) (citing P. Khandwalla, Organizational Effectiveness, in J. Pandey (Ed.), Psychology in India: The State-of-the-Art (Volume 3) 97 (1988)).

[261] J. Sinha, Work Culture in the Indian Context (1990).

[262] J. Sinha, Work Culture in a Developing Country: The Case of India, Chapter 16 in IUPsyS Global Resource (2009).

When the results were collected and analyzed Sinha and his colleagues identified two distinct extremes in the way that work was viewed and valued within the organizations that they studied. At one extreme were four organizations (i.e., the two banks, the public steel plant and the public fertilizer company) with a "soft work culture" in which "work received a lower priority than social-personal obligations . . . [n]on-work interests and activities displaced works from its central place in the life space of managers . . . [and] . . . [t]hey neither worked hard, nor felt positive affect for their jobs, nor derived any satisfaction from their work".[263] The remaining two organizations (i.e., the cooperative fertilizer company and the private steel plant) were at the other extreme and illustrated what was referred to as a "synergetic work culture" in which "managers . . . perceived that their organization rewarded hard work, recognized merit, established clear norms of performance, and gave the employees adequate work load" and "superiors demanded hard work from their subordinates, provided them with close supervision and direction, and differentially rewarded those who worked harder".[264]

Noting that each of the organizations in the above-described study operated in the same socio-cultural milieu and thus had to cope with similar socio-cultural values such as personalized relationships, patronage, hierarchy, and in-group orientation, Singh argued that the critical difference between the organizations was their top leadership and the way that leaders used the dominant socio-cultural values in India in establishing the terms of engagement with their employees in the workplace. The senior managers of those organizations that embraced a synergetic work culture had found ways to motivate their employees by developing an organizational culture that was "highly purposive, task-oriented and humane".[265] In contrast, the leaders of the organizations with soft work cultures had become uncomfortable with asserting what Singh characterized as "their legitimate role" and thus allowed the organization to drift and enable employees to avoid any sensitive of strong personal obligation to their work activities.[266]

Singh argued that the success of many of the larger Indian organizations, particularly in the private sector, can be traced to their embrace of organizational practices consistent with the synergetic work culture; however, other factors certainly played an important role including adoption of new techniques to increase productivity and quality (e.g., quality circles, computerization and ISO certification) and increased use of specific managerial styles (i.e., participative, altruistic, professional and organic) that made significant improvements to organizational culture.[267] As for smaller enterprises Singh noted that while they "have the potential to respond quickly to the business environment, play the ancillary role to the larger businesses, and provide quality products and services to people" they have also been neglected, are vulnerable to societal forces and challenged by their inability to access capital and technology.[268] Interested in the work culture

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[263] Id.
[264] Id.
[265] Id.
[266] Id.
[267] Id. (citing P. Khandwalla, Management Styles (1995)).
[268] Id.

among smaller enterprises, Singh investigated 28 medium-sized organizations in the state of Bihar, located in the eastern part of India, representing a wide range of manufacturing activities.[269] Singh found that within the study group four public sector organizations had a soft work culture, two public enterprises had a synergetic work culture and the remaining 22 enterprises, all private, had what was described as an "exploitative work culture" in which "the management tended to extract maximum work from workers without caring to provide adequate facilities, safety measures, appropriate physical conditions of work, or sufficient training to the employees . . . [p]ay and perks were disproportionately asymmetrical . . . and because of their smaller number, workers were not unionized, and therefore, felt dependent on the management for their wages, benefits, and favors".[270] Singh speculated that differences among the organizations in the study group with respect to work culture could be traced primarily to size and ownership and argued that because of the interdependence between larger and smaller enterprises in India steps need to be taken to assist smaller enterprises "to renovate their technology, manage and develop their human resources, and above all, create a synergetic work culture".[271]

§1:15 Strategic planning

Several researchers have commented extensively on the evolutionary challenges confronting Indian organizations with respect to corporate strategy and planning. Writing in 2004, for example, Karki argued that Indian companies need to adapt their corporate strategies over the next ten years to address various issues in both an evolutionary and an emerging context.[272] With respect to the evolutionary context he counseled that Indian firms needed to correct and change their traditional mindset of dependency on the Indian government, which had long dictated what Indian firms could and could not do through an elaborate system of licenses and controls designed to execute India's "nationally planned self-reliance"; move beyond rationalization of their businesses (i.e., balancing portfolios created under the licensing regime) to create product and process innovation capabilities; establish tight linkages between corporate and business strategies with operations; venture into new areas and, finally, build on their initial successes in competing against multinational corporations entering India by either entering overseas markets themselves or moving into new markets in India that may have the presence of multinational corporations currently or in the future. With respect to the emerging context Karki noted that Indian companies needed to be prepared to cope with a large, growing and internationalizing domestic economy; globally integrated capital markets; information and communication technologies; the need to develop appropriate corporate governance standards and orientations and the need to identify and attract management resources and capabilities. With respect to setting their corporate strategies Karki suggested that Indian companies needed to focus on "being honest" and "being world-

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[269] J. Sinha, Work Culture in Medium-Size Organizations (1997).
[270] J. Sinha, Work Culture in a Developing Country: The Case of India, Chapter 16 in IUPsyS Global Resource (2009).
[271] Id.
[272] R. Karki, "Corporate Strategy of Indian Organizations: The "Root- Branch" Framework", Vikalpa, 29(3) (July-September 2004).

class" and then decide on one of three paths for the direction of their strategic and operational efforts: "India focused", "India diversified" or "global focused".[273]

Kazmi recorded the progress of education, training, research and consulting relating to strategic management in India. A survey that he conducted in the early 1990s among Indian management institutions and university management departments indicated that education and training was being conducted in business policy and strategic management with the focus being on integration of functional areas and providing students and managers with a better understanding of strategic management models popularized and used in the US that included topics such as the mission, objectives, top management functions, environmental and internal analyses, strategy formulation, strategy implementation and strategic evaluation.[274] Kazmi noted that research in strategic management was largely neglected in India at that time, presumably because emphasis was being placed on teaching; however, there was some research going on in areas such as industry analysis, business growth and diversification, public enterprise, leadership, managers and decision-making, finance, technology transfer, turnaround strategies and transnational investment.

Kazmi described the evolution of strategic management and some of the more important factors that influenced the time and resources shifted toward strategic planning.[275] As mentioned above, during the pre-liberalization period planning among Indian companies focused, not surprisingly, on meeting the objectives set by the government in its continuous national economic planning program and little or no attention was paid to enterprise-specific objectives. During the 1990s there was what Kazmi referred to as "a period of transitional euphoria followed by a reality check" as Indian firms emerged from being mere pawns in a large planned economy and stepped into a rapidly changing domestic marketplace and the onslaught of global competition. Kazmi reported that Indian firms became more focused on rationalization and operations improvements and implementing strategies of growth through acquisitions, internationalization and product market expansion. These initiatives were driven by events such as the emergence of a middle class in India with steadily increasing purchasing power and the integration of India into the World Trade Organization which was expected to increase competition, drive Indian companies to consolidate activities into core competence areas and prepare to graduate to global leadership, increase expenses in research and development, shake out minor players and trigger mergers and acquisitions to gain global scale and create pressures for improvement in infrastructure to negate structural disadvantages.[276] Kazmi also predicted that the first decade of the 2000s would be occupied with efforts to synergize entrepreneurial flair with professional skills in strategic management, promote the development of technology capabilities, decentralization and development of institutionalized control mechanisms.

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[273] See also R. Karki, Indian Companies in a Globalising Arena (2001).
[274] A. Kazmi, Business Policy and Strategic Management (2nd Ed) (2002), 7 (citing A. Kazmi, Survey of Status of Teaching and Research in Business Policy/Strategic Management (1996)).
[275] A. Kazmi, Business Policy and Strategic Management (2nd Ed) (2002), 9 (citing R. Karki and R. Krishman, Strategic Management in Indian Companies: Evolution and an Agenda for 2000-2010 (1999)).
[276] A. Kazmi, Business Policy and Strategic Management (2nd Ed) (2002), 117.

Rao and Suryanarayana observed that there have been few academic studies of corporate planning practices in Indian firms and argued that "[c]orporate planning had its genesis in India in the 1960s when a number of subsidiaries of multinational companies introduced the process in compliance with their parent companies' directives" and then went on to note that a number of Indian companies have since introduced formal planning processes for a variety of reasons including orders from governmental bodies, the belief among top managers that planning would be useful in achieving their long term objectives and the simple desire not to be left behind others firms that had previously embraced planning.[277] Rao and Suryanarayana predicted that strategic or corporate planning would become increasingly important in a number of industrial sectors in India as the government's liberalization policies, which have been operating for decades, reduce the protections that Indian firms enjoyed from competition and force those firms to develop a planning and budgeting orientation. Rao and Suryanarayana explained that management education had become quite popular in India, with Indian universities and institutes of management typically structuring their curriculum based on the format popularized by the leading American business schools and that increasing attention was being paid to strategic management concepts, techniques and case studies. At the same time executive development programs around India have offered shorter programs on corporate planning using, in most case, materials that were first developed in the US.

§1:16 Governance

The Committee on Corporate Governance of the Securities and Exchange Board of India has defined corporate governance as the "acceptance by management of the inalienable rights of shareholders as the true owners of the corporation and of their own role as trustees on behalf of the shareholders. It is about commitment to values, about ethical business conduct and about making a distinction between personal & corporate funds in the management of a company."[278] It has been suggested that the Indian approach to corporate governance is drawn from the Gandhian principle of trusteeship and the Directive Principles of the Indian Constitution, but this conceptualization of corporate objectives is also prevalent in Anglo-American and most other jurisdictions.

Large scale enterprises in India have traditionally been owned and controlled by a small group of families and these families exerted a substantial amount of control over the Indian economy for at least a century up until India achieved independence in 1947. For the first forty years after independence the government exercised a substantial amount of control in various sectors and this included nationalization of large core industries such as insurance and the banks; however, a number of large family conglomerates continued to operate and expand and it is generally agreed that they currently dominate the Indian economy and exercise significant commercial power as well as exerting their influence

[277] P. Rao and N.V.S. Suryanarayana, Strategic Planning in India, Articlesbase, http://www.articlesbase.com/business-ideas-articles/strategic-planning-in-india-3187141.html.
[278] SEBI Committee on Corporate Governance, Report of the SEBI Committee on Corporate Governance, February 2003, http://www.sebi.gov.in/commreport/corpgov.pdf. [Accessed September 14, 2012].

into Indian political affairs.[279] Leading family-controlled business groups include the house of Tata and the Birla, Ambani and Modi families. Notice should be taken, however, of the emergence of new and powerful entrepreneurs—Murthy of Infosys and Premji of Wipro, for example—as India began its ascendency in the informational technology and knowledge sectors.[280] The government continues to exert substantial control in India due to its ownership and management of large state owned enterprises operating in a number of key infrastructure sectors including airlines, shipping, railways, postal services, major steel plants, machine tools, mineral exploration, power and oil and gas. In fact, most of workers in the infrastructure sectors are Government employees, including 200 million employees working for just one government-owned enterprise: Indian Railways.[281]

Even as family-owned businesses continue to play a significant role in the Indian economy the emergence of national and multinational companies in India has caused a migration toward a two-tier corporate hierarchy that is similar to those in most market-based economies. On the first tier is the board of governors and directors; the second tier is upper management hired by the board of governors. Elected by the shareholders, the role of the first tier board, as in developed economies, is to monitor managers of the corporation and act as an advocate for stockholders. In essence, the board of directors tries to make sure that shareholders' interests are well served. As in developed economies, board members can be divided into three categories:

- Chair: technically the leader of the corporation, the chair of the board is responsible for running the board smoothly and effectively. His or her duties typically include maintaining strong communication with the chief executive officer and high-level executives, formulating the company's business strategy, representing management and the board to the general public and shareholders, and maintaining corporate integrity. A chair is elected from the board of governors.
- Inside directors: these directors are responsible for approving high-level budgets prepared by upper management, implementing and monitoring business strategy, and approving core corporate initiatives and projects. Inside directors are either shareholders or high-level managers from within the company. Inside directors help

[279] R. Grainger and S. Chatterjee, "Chinese and Indian Systems: Divergent in the midst of Global Trends", in University of Sydney (Eds), Asia-Pacific Economic and Business History Conference (Sydney, Australia: University of Sydney, 2007), 1-45. See also T. Kahanna and K. Palepu, The Evolution of Concentrated Ownership in India: Broad Patterns and a History of the Indian Software Industry (Working Paper 10613, National Bureau of Economic Research, Massachusetts, 2004) (". . . while the economy was governed by these significantly different regimes over time, family business groups continue to dominate the Indian corporate landscape").

[280] R. Grainger and S. Chatterjee, "Chinese and Indian Systems: Divergent in the midst of Global Trends", in University of Sydney (Eds), Asia-Pacific Economic and Business History Conference (Sydney, Australia: University of Sydney, 2007), 1-45.

[281] R. Grainger and S. Chatterjee, "Chinese and Indian Systems: Divergent in the midst of Global Trends", in University of Sydney (Eds), Asia-Pacific Economic and Business History Conference (Sydney, Australia: University of Sydney, 2007), 1-45 (citing T. Kahanna and K. Palepu, The Evolution of Concentrated Ownership in India: Broad Patterns and a History of the Indian Software Industry (Working Paper 10613, National Bureau of Economic Research, Massachusetts, 2004)).

provide internal perspectives for other board members. These individuals are also referred to as executive directors if they are part of company's management team.

- Outside directors: while having the same responsibilities as inside directors in determining strategic direction and corporate policy, outside directors are different in that they are not directly part of the management team. The purpose of having outside directors is to provide unbiased and impartial perspectives on issues brought to the board.

As to the other tier of the company, the management team is directly responsible for the day-to-day operations (and profitability) of the company. Its key members are similar to those in market-based companies.

- Chief executive officer (CEO): as the top manager, the CEO is typically responsible for the entire operations of the corporation and reports directly to the chair and board of directors. It is the CEO's responsibility to implement board decisions and initiatives and to maintain the smooth operation of the firm with the assistance of senior management. Often, the CEO will also be designated as the company's president and one of the inside directors on the board (if not the chair).
- Chief operations officer (COO): responsible for the corporation's operations, the COO looks after issues related to marketing, sales, production and personnel. More hands-on than the CEO, the COO looks after day-to-day activities while providing feedback to the CEO. The COO is often a senior vice president.
- Chief finance officer (CFO): reporting directly to the CEO, the CFO is responsible for analyzing and reviewing financial data, reporting financial performance, preparing budgets and monitoring expenditures and costs. The CFO is required to present this information to the board of directors at regular intervals and provide this information to shareholders and regulatory bodies. Also, usually referred to as a senior vice president, the CFO routinely checks the corporation's financial health and integrity.

As with companies based in developed economies, both tiers attempt to maximize shareholder value. In theory, management looks after the day-to-day operations, and the board ensures that shareholders are adequately represented. But, the reality, as in developed markets, is that many boards are made up of management.

Chakrabarti et al. observed that much of India's extensive small- and medium-sized enterprise (SME) sector displayed relationship-based informal control and governance mechanisms, which had the effect of inhibiting financing and keeping the cost of capital at levels higher than necessary even though India ranks high with respect to the ease of getting credit and has a well-functioning banking sector with one of the lowest proportions of non-performing assets.[282] They also found that ownership among SMEs in India remained concentrated and that family business groups continued to be the dominant business model. With regard to governance practices among larger companies with publicly traded shares, Chakrabarti et al. noted that the securities regulation regime in India was "rigorous . . . to ensure fairness, transparency and good practice" and that

[282] R. Chakrabarti, W. Megginson and P. Yadav, Corporate Governance in India, CFR Working Paper, No. 08-02, http://hdl.handle.net/10419/41393.

"the corporate governance landscape in the country has been changing fast over the past decade, particularly with the enactment of Sarbanes-Oxley type measures and legal changes to improve the enforceability of creditor's rights".[283]

Mukherjee and Mallik described the corporate governance structures seen in India as being "somewhat in between" the market- and bank-based models discussed elsewhere in this chapter and elaborated as follows: "The corporate legal structure is Anglo-Saxon although share ownership is far more concentrated and financial institutions play a significant role in financing corporate activity as in bank-based models of Germany and Japan. On the other hand, unlike the bank-based models, in India, the DFIs have remained passive despite substantial holdings; this has result in the promoter acting as dominant shareholder . . ."[284] Mukherjee and Mallik commented that resolution of conflicts between management and owners is not necessarily the dominant issue of corporate governance in India and that the real problems lie with conflicts between dominant and minority shareholders and in figuring out the best way to improve unsophisticated equity markets and reduce what are universally recognized as high levels of corruption. As with other developing and emerging markets, enforcement of laws and regulations is a real issue in India and while the form of the Indian legal system, as measured by codification, has been praised India has often fared poorly in international measures of the rule of law and the degree to which laws protect the rights of investors in actual day-to-day practice.[285]

Mukherjee and Mallik undertook an extensive survey of corporate governance practices among three broad categories of Indian companies: public sector units (i.e., companies in which the government is the dominant shareholder and the public holds a minority stake); multinational companies (i.e., companies in which a foreign parent is the dominant, and usually majority, shareholder); and Indian "business groups" (i.e., companies in which "promoters" and their friends and relatives are the dominant shareholders with large minority stakes and the remaining equity is passively held by government-owned financial institutions and/or the general public).[286] Based on this survey they arrived at a number of conclusions and posited certain recommendations for reforms in the Indian corporate governance system. It is noteworthy that they concluded "all sectors of the corporate economy in India support an Anglo-American model of corporate governance".[287] However, in order for this ambition to become a meaningful reality more work needed to be done on strengthening board independence and ensuring that board members pay sufficient attention to "agency" issues and their conformance roles of overseeing management and making sure that management is responsive to the needs and concerns of shareholders. Mukherjee and Mallik pointed out that there appears to be conflict among those who believe that CEOs and managing directors are the most important actors in promoting responsible corporate governance and can be relied upon to

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[283] Id.
[284] D. Mukherjee and R. Mallik, Corporate Governance in India: Issues and Strategies, in F. Lopez-Iturriaga (Ed.), Codes of Good Governance Around the World (2009), 437.
[285] Id. at 440.
[286] Id. at, 442.
[287] Id. at, 476.

do so without excessive external interference and others who "[prefer] to strengthen other disciplinary tools (e.g., financial markets, company law) in order to protect the interests of shareholders, stakeholders, and society as a whole".[288]

§1:17 Technology management

Over the last several decades much of India's economic growth has been driven by the services sector, particularly information technology; however, there has also been a long-standing recognition of the need for diversifying the country's technological base that has led to initiatives such as support for a large network of technological institutes such as the Indian Institute of Technology and increased funding from national and state governments as well as internal donor agencies for specialized skills-based training.[289] Technology management has also become increasingly important for private companies in India forced to cope with international competition and has led them to take steps to shed their traditional aversion to risk and research to take on a broader range of commercial R&D and product development projects, particularly since much of the public investment in R&D in India remains narrowly confined to defense and space applications.[290] Gar and Sumit noted that, in particular, Indian companies have placed greater emphasis on several key elements of technology management practice such as change management in their organizational cultures, use of technology and staff and strategic planning.[291]

The Indian Government, ambitiously seeking to launch a "decade of innovation" and create and protect a "new knowledge economy", has announced plans to develop a National Intellectual Property Rights strategy.[292] The intellectual property laws and regulations in India cover every significant aspect of intellectual property protection recognized in international standards; however, while the regulatory regime is extensive there are substantial concerns regarding enforcement. For example, in a 2013 study conducted by the US Chamber of Commerce, India was ranked at the bottom of the list with respect to patent protection and treaty participation and second-to-last, behind China and ahead of only Russia, with respect to copyright protection. Developments in the Indian pharmaceutical sector have been particularly provocative with the initial decision

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[288] Id. at 477. For further discussion of risk and governance in India, see P. Manerkar, Corporate Governance is Growing Modestly in India, in S. Borodina and O. Shvyrkov, Investing in BRIC Countries: Evaluating Risk and Governance in Brazil, Russia, India and China 49 (2010); and S. Dahiya, Corporate Governance Developments in India, in C. Mallin (Ed.), Handbook on International Corporate Governance 232 (2006).

[289] Bertelsmann Stiftung, BTI 2012—India Country Report (2012).

[290] N. Forbes, "Technology and the Indian Industry: What is Liberalisation Changing?", Technovation, 19 (1999), 403; R. Krishnan and G. Prabhu, "Creating Successful New Products: Challenges for Indian Industry", Economic & Political Weekly, 34(31) (July 31-August 6, 1999), M114.

[291] R. Gar and Jain Sumit, "Managing Change: A Case of Indian Engineering Industry", Global Journal of Flexible Systems Management, 8(1 and 2) (2007), 65.

[292] P. Kerpen, India's Intellectual Property Failures Demand Obama's Attention (August 17, 2013), http://townhall.com/columnists/philkerpen/2013/08/17/indias-intellectual-property-failures-demand-obamas-attention-n1666509; R. Hollyman, An IPR Strategy to Keep India's Innovative Economy Moving Forward (November 2, 2012), http://techpost.bsa.org/2012/11/02/an-ipr-strategy-to-keep-indias-innovative-economy-moving-forward/

of local regulators to begin issuing compulsory licenses for patented drugs developed outside of India to facilitate local manufacturing, a condition many argue is illegal under international trade law, and the subsequent decision to revoke patents recognized in a large number of other countries.[293] The International Intellectual Property Alliance, noting that India could be one of the world's leading legitimate markets for the creative industries, has continuously slammed Indian regulators for failing to aggressively address widespread physical, online and mobile piracy in the Indian film, music and software markets.[294] The United State Trade Representative maintained India's position on its Priority Watch List for 2013 citing India's limited progress in improving its weak intellectual rights legal infrastructure and enforcement system and serious questions regarding the future condition of the innovation climate in India.[295]

§1:18 Globalization

India has a long history of involvement in trading activities and globalization through export activities and acceptance of foreign investment and presence is hardly a new concept or challenge for the country. In the years following independence India followed a path of protectionism that included a number of tariff and non-tariff barriers to trade and substantial restrictions on foreign investments and inbound technology transfers. In the early 1990s, however, India began taking steps to liberalize its economy and implement the terms and conditions of multilateral agreements relating to trade in general as well as services, intellectual property, communications and environmental and social conditions. Globalization has played a major role in India's recent economic progress and its export-led growth has contributed to the enlargement of the domestic job market in India. *The Economist*, among others, has noted the important roles of outsourced information technology (IT) and business process outsourcing (BPO) in general, and the software services industry in particular, in the globalization of the Indian economy. The IT and BPO sectors have contributed to an increase in the number of skilled professionals working in India for both domestic and foreign companies and the emergence of a rising new Indian middle class with wealth that has attracted the interest of international companies putting down roots in India to sell their products and services.[296] At the same time, Indian companies have grown more confident in their ability to compete globally and have gradually begun expanding their operations outside of India.[297]

India has famously enjoyed strong economic growth throughout the 2000s using a variety of measures including GDP growth rate, exports, the contribution of services to GDP and levels of inbound foreign direct investment. At the same time there has been growing

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[293] P. Kerpen, India's Intellectual Property Failures Demand Obama's Attention (August 17, 2013), http://townhall.com/columnists/philkerpen/2013/08/17/indias-intellectual-property-failures-demand-obamas-attention-n1666509

[294] International Intellectual Property Alliance, 2013 Special 301 Report on Copyright Protection and Enforcement: India (2013).

[295] Office of the United States Trade Representative, 2013 Special 301 Report (2013), 38.

[296] Globalization in India, The Economist Magazine (October 14, 2010), http://www.economywatch.com/economy-articles/globalization-in-india.html.

[297] B. Nayar, "India's Globalization: Evaluating the Economic Consequences", Policy Studies, 22 (2006), 78.

recognition of the potential of India's consumer base and India offers large markets for telecommunications services, automobiles, entertainment and retailing. However, in spite of the overall improvements in wealth and lifestyle enjoyed by those associated with the IT and BPO sectors in India globalization has highlighted several acute problems that must be addressed including an increasing gap between the wealth and the poor, a lack of progress in improving living conditions for the large numbers of people still living in rural areas, diminished ethical responsibility of businesses, high levels of unemployment, diversion of large numbers of young people away from college-level studies to relatively low-skilled work in call centers that offer easy money, political conflicts and corruption and inflationary pressures on prices of daily usable commodities.[298]

Oswal relied on case studies of three large Indian companies that had achieved notable success in their efforts to internationalize—ICI Bank, a large international financial institution; Infosys, a major global player in information technology; and Suzlon, one of the world's largest wind energy companies—and information collected from surveys of a group of larger Indian firms drawn from a pool of the 1,000 largest internationalizing companies in the country (as evidenced by the amount of their foreign income).[299] The responses that Oswal received provided an interesting picture of the how Indian companies had approached the internationalization process in terms of organizational design and their overall strategic goals and objectives in getting involved with international markets. Specific findings included the following[300]:

- The respondents had increased their international presence significantly over the five years prior to the survey in terms of both the absolute level of foreign sales and the proportion of foreign sales to total sales and clearly and emphatically believed that international markets were very important to their future success.
- With respect to the competitive drivers thought to be keys to achieving internationalization success the respondents cited superior "world class" product and service quality and organizational skills (i.e., technological and operational competence) as more important than any advantages they might have with respect to lower costs of production.
- Respondents generally believed that the "Made in India" label was an asset rather than a liability in facilitating the international market entry of Indian companies.
- Respondents had ambitious plans for internationalization over the next five years: the mean value of the responses was an aspired foreign-to-total sales ratio of 55.79% against a ratio of 37.70% at the time of the survey.
- The most popular method for organizing international operations, used by 37.31% of the surveyed companies, was the international division. Other organizational strategies included global geographic structure (16.41%), global product structure (16.42%) and mixed structures (29.85%). Respondents noted the importance of "efficient organization" to success with internationalization.

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[298] S. Chatterjee, Globalization in India: Effects and Consequences, http://www.daldrup.org/University/International%20Management/Globalization%20in%20India.pdf
[299] P. Oswal, The Internationalization of Indian Firms: Strategic Issues, Organizational Transformation and Performance (2010).
[300] Id. at 176-178.

- Exporting was the most favored mode of internationalization followed by joint venturing. Interestingly, licensing and foreign direct investment were not terribly popular among the surveyed companies as international market entry strategies.
- Asia was ranked as the most important area of current market focus for the Indian companies followed by Europe, North America and Australia.
- Two-thirds of the respondents felt that their organizational transformation toward greater internationalization had been primarily planned and implemented by their headquarters while the remaining respondents believed that changes had been initiated at decentralized levels based on local responses to internationalization needs. Many respondents confirmed the importance of "vision and stretch-goals provided by top leadership to drive international operations".

All in all, Oswal concluded that there had been a significant organizational transformation among the respondents in the five years leading up to the survey and that the transformation had occurred simultaneously in a wide range of organizational variables with the overall focus being on identifying and implementing more efficient forms of organization for internationalization activities.[301] Transformation in "process" and "human resources" variables were found to have the greatest impact on organizational performance and the most significant changes in these areas were the increased use of information technology system to integrate international activities and share information worldwide and increased training of employees in international management skills. Transformation in "structure" and "culture" variable were actually found to have weakly negative consequences on performance and the most common actions in these areas included increased use of cross-functional/divisional/geographical teams and collaboration and increased confidence of employees in being able to compete successfully with the best in the world. Oswal noted that the successful Indian firms had been able to shed bureaucratic practices and improve the skills and level of international experience among their top management teams and boards of directors to the point where they more closely resembled their counterparts from the developed world.

While India has been slow to develop products suitable for foreign markets, it is clear that globalization has played a major role in its export-led growth, leading to the enlargement of the job market in India.[302] Outsourced information technology and business process outsourcing in general, and the software services industry in particular, have been major sources of globalization for India and more and more domestic and foreign companies have employed skilled professionals in India to service their customers all around the world. The advantages of using human resources from India are well documented: reduced labor costs coupled with the advantages of having an educated English-speaking workforce. Improvements in global communications technologies have also been instrumental in the development of India's services sector. At the same time, the rise of a new middle class in India due to wealth created by participating in the services sector has attracted international consumer products companies to set up shop in India to take

[301] Id. at 179-181.
[302] Globalization in India, The Economist Magazine (October 14, 2010), http://www.economywatch.com/economy-articles/globalization-in-india.html [Accessed September 15, 2012].

advantage of a promising domestic market. Assessing the impact of globalization on India, Nayar noted that Indian companies were gaining more confidence and beginning to expand their operations outside India and that globalization seemed to be having a positive impact in India and delivering India from global stagnation and recurring economic crises, while reducing poverty.[303]

[303] B. Nayar, "India's Globalization: Evaluating the Economic Consequences", Policy Studies, 22 (2006), 78-82.