The previous chapter dealt with the lifecycle of business ventures in ICT industry starting from the conceptualization of a business idea till the maturity of those ventures when they reach the growth stage. The attempt was to understand the development of business ventures by examining the role played by entrepreneurs in developing and executing a business idea. However, the success of an entrepreneur in executing a business idea also depends on the environment within which the business operates. The importance of wider environment has been discussed to some extent in the section on crisis management in the last chapter. Such crises emerge because business depends on multiple relationships of interdependence. Hence, it is important to discuss the various forms of symbiosis of which entrepreneurs are a part.

These forms of interdependence in business are discussed under ‘ecosystem’ of business, an umbrella term popularly used by many entrepreneurs. ‘Business ecosystem’, in this chapter, would include various aspects like financial investment, physical infrastructure, human resource, partnership, and relationship with government. Family, an important component of business ecosystem, would not be discussed here, as it has already been discussed under Chapter Three titled ‘The Entrepreneurs’. Like the last chapter, here also emphasis will be laid on understanding the role of social capital in every aspect of business ecosystem.

6.1 Financial Investments

Execution of any business idea depends to a large extent on the availability of necessary financial resources. Traditionally, the founder of a business venture was responsible for arranging the necessary financial capital by investing her/his personal resources or resources borrowed from other individuals or financial institutions. That is how the word capitalist came to be used as synonymous to founder of an organization oriented towards making profit. Later, in the development of capitalism,
particularly with the creation of joint stock companies, various alternative models of financial investment evolved, where people other than the founder started investing financial resources in an organization. The traditional way of securing external finance through loan required the founder to submit some property as collateral to the creditor in order to negate the risk of loss for the creditor. That continues even today (for example, Amit Sharma founded Sindh Infotech Pvt. Ltd. with a bank loan received against collateral). However, the limitation of this model is that only those people, who possess sufficient property to submit as collateral can secure loan for giving shape to their business idea. Whereas, the alternative models of finance, which became popular only recently, do not have any such requirement.

Given the fact that the alternative models do not look for collateral, they naturally carry considerable risk for the financier. An investor would be ready to bear high risk only when there is a potential for high return. Popularity of these models of financing started increasing as the opportunity for securing high return began to gain momentum. Emerging wave of high-technology-based business initiatives has been one of the major developments to create this momentum in the recent decades.

Two models of financing start-up companies have gained popularity: venture capital financing and angel financing. Venture capital is money provided by professionals who invest alongside management in young, rapidly growing companies that have the potential to develop into significant economic contributors. Professionally managed venture capital firms generally are private partnerships or closely held corporations funded by private and public pension funds, endowment funds, foundations, corporations, wealthy individuals, foreign investors, and the venture capitalists themselves (Html 2).

Business angels, on the other hand, are important links in the entire process of venture capital funding. This is because they support a fledging enterprise at a very early stage – sometimes even before commercialization of the product or service offering. Typically, an angel is an experienced industry-bred individual with high net worth. Angels provide funding by “first round” financing for risky investments – risky because they are a young/start-up company or because their financial track record is unstable. Angel financing is typically used to prepare the company for “second round” financing in the form of an initial public offering (IPO). Angels are people with less money orientation, but who play an active role in making an early-stage company work. They are people with enough hands-on experience and are
experts in their fields. They understand the field from an operational perspective. An entrepreneur needs this kind of expertise. He also needs money to make things happen. Angels bring both to the table of an entrepreneur (Html 3).

Leaving aside the financial support that investors bring along, presence of a well-established individual/firm as financier also helps the entrepreneur in convincing people to become customers for her/his business offering. According to S. Ram, founder of Integrated Software Solutions, “apart from any financial help the investor also brings in other value like business contacts and greater visibility. So mere money might not be the thing. But investor also brings in certain reputation.” Although in recent years securing finance for the high technology industry has become easier with the entry of large number of venture capitalist firms and angel investors into the financial market, it is surely not a cakewalk. Convincing individuals/firms to part with their money is always a challenging task. Rejection rate is very high: about 10 in 100 get beyond pre-evaluation stage, and 1 in 100 gets funded (Html 4). Therefore, it requires substantial strategizing on behalf of the entrepreneurs desirous of securing finance. A large number of entrepreneurs even today find no other option but to build up their ventures with their own finance, either coming through bootstrapping or from family. It is in this context that the present section would look into the dynamics of financial investment in business ecosystem. For analytical convenience, financing could be categorized into five apparently watertight categories, namely, bootstrapping, family funding, angel investment, venture capital investment, and loan. To be sure, empirically, these are not completely watertight. While considering various financing models, specific emphasis would be given to understanding the role of social capital.

6.1.1 Bootstrapping

In the absence of availability of financial support from family or investors, many first-generation entrepreneurs find bootstrapping to be the only viable option for financing their business venture. However, given that bootstrapping is time consuming, it is workable when the entrepreneur has time to wait for the finance to be generated. This model is applicable more in software service than in software product industry, as product requires quicker investment. This argument is testified by the following statement of Rajat Apte, founder of Magnatech Inc.:

Typically [software] consulting businesses we bootstrap, meaning start with a small amount of your own money. It could be as small as thousand dollars that you start with, and then you
build a business. You sell, you get a project, you hire then. Then use the reminder profit to sell more, then you hire more. Its more of a self-funded cash-flow dependent business. That’s consulting. When you build a product you need some upfront investments, because investments are significantly large enough. You know consulting will start with 1000 dollars. In a product you need about, you know, anyway from a million to 5 million dollars to essentially get the product to the stage where it can be commercial, you can actually build a viable business around it.

Raj Modi, founder of Softech and Raj Software and Communications, also bootstrapped to generate fund for executing his first business idea, that is, development of an accounting software. He supported his software development work by taking up certain data entry job. Akhtar Hussain, founder of Communication Networks, who runs a business in hardware service sector, also developed his business in the same way. He said,

… I was very fortunate because see I started in the service sector. In the services sector usually you get money in advance. So that’s not a big problem. And then the expenses are later on, for example, in services you take some contract for maintenance. You get the money either quarterly in advance or one year in advance. So that’s not much of a problem. And as and when then later on there is a failure [in hardware supplied] then you have to service that part or you have to replace that part. So money comes first. And I was not operating from our office. I was operating from my residence. So there was no cost factor as such involved. And the customer, initially with whom I was working, is very close to me. So even when there were new products to be [purchased] … they used to give me advance. So that was not much of a problem. I didn’t have any financial capital initially to begin with. It was always taking money from the customer. The customer also used to realize that I have started new and they used to pay money.

Being in the service industry Anil Despande, founder of Tech Writers Inc., also could develop his business by bootstrapping. He said,

I always thought that I needed at least fifty thousand rupees and I barely had about four thousand rupees … I got my letterheads printed. I got my business cards printed. I did not have a phone at that time and I used to give my in-laws phone as a care-of phone number. And I did not have a computer. Computers those days were a bit expensive than today. So I couldn’t afford to buy a computer. And then I would actually do the writing on blank paper myself, foolscap papers and I will get it printed at some of the DTP shops…. So … I don’t think it was more than five thousand rupees investment. Not even five thousand, was less than that. But as I went on earning money I thought that it was good to have a set-up. So first I got a phone. Then I got a fax machine, which I am still using. Then I got a computer. And then I got the necessary software and so on and so forth. So that’s how we subsequently ramped up.
Same was the experience of James John, founder of Spaceage.com, Kunal Raman, founder of Sharp Technologies Pvt. Ltd., O.P. Nayar, founder of Accent Tech Solutions [in the initial phase], Kirti Harlalka, founder of Knowhow, and Sudha Sharma, founder of Design Lab. Leaving aside Kunal Raman, all these entrepreneurs were involved in the service sector. Kunal Raman was involved in software product segment. He had bootstrapped the money for developing this software product from the software services business of which he was a part previously.

6.1.2 Family Funding: Reliance on Strong Ties

Family funding is accessible mostly to entrepreneurs who are from business families, which have resources to invest. One more criteria for family funding is that family members need to be ready to bear certain risk by investing their family resources in business being initiated by their family members. It is primarily because of this reason that many well-to-do families lacking business background are not often interested in investing such resources in business. One more constraint for families (including business families) to invest is non-comprehension of revenue models of new business areas. For business families, investment is primarily governed by reliance on strong ties (Granovetter, 1973). Ajay Aggarwal, founder of Netware Pvt. Ltd., and Dinesh Marwari, founder of Ryze Softech Pvt. Ltd., who comes from business families, started their organization with family funding.

This is not to say that all entrepreneurs coming from business families build their business with resources invested by their family members. For example, Naresh Ponnaiah, founder of Sunshine Technologies Ltd. (developing a software product), and Kirti Harlalka, founder of Knowhow (offering business research services) did not begin their resources with family funding. Their family members, who were primarily involved in traditional businesses like trading or building construction, had little or no idea about the area of their business operation. However, father of Ajay Aggarwal, founder of Netware Pvt. Ltd., who is an entrepreneur in import-export trading, was strongly involved in Ajay Aggarwal’s entry into ICT industry. Initially, his father was not familiar with ICT industry, but he used his own contacts to find out opportunities in this area. Therefore, while starting Netware Pvt. Ltd., the entire funding came from the family. Anil Despande while founding Tech Writers Inc. also received some token funding from his family members, his in-laws. Of late, according to him, some of his friends have started showing interest in investing in his organization. Arjun Desai, in
addition to investing his own savings, also accepted funds from his wife’s family while founding his first company Win Infotech Ltd.

6.1.3 Angel Investment: Role of relationships

Considering the difficulty of securing venture finance, impossibility of family funding and time consuming nature of bootstrapping, angel investment often emerges as a practical option for many individuals who decide to become entrepreneurs after a career as a professional. While talking about the difficulty of securing venture capital funding K. Padmakumar, founder of Frontech Ltd., said,

See fundamentally what happens is if your demands are higher like you want 25 million Dollars then people are willing to go through the scientific process and do everything, analysis and business projection and all that. But when you are looking at one million, two million nobody is interested in giving. Because they don’t see one million going into hundred million. So the growth of that is not very attractive. So when you want a not too high figure you only have to connect through networks and friends like that. Actually, [in] the US [a] guy who has made money in selling his company, he said I will risk one million Dollar because I like your face! And you, I know, you have long enough [been] in the industry, you won’t run away!

Angels, as it has already been mentioned, are individuals who are experienced professionals in the industry of an entrepreneur’s interest. Their interest in funding a business venture primarily develops out of their understanding of the potential of a business idea by virtue of their experience in that field, and their familiarity with the potential of the entrepreneur executing that business idea. Both these aspects were visible from recollection of Rajat Apte, founder of Magnatech Inc.:

I had little bit of track record in the market, having started my consulting business, having delivered good results through consulting contracts in this space, when I wanted to raise money I took a step back and said raising money is also a strategy; what strategy do I want to employ to raise money? I said to myself the best people to raise the money from are the people who understand your business. Its hard enough to ask somebody to part with their money. Its even harder if you have to explain to somebody what your business is and ask them to part with their money. So my earliest investors were a couple of individuals from [my target] industry, from the pharma and life science industry. In fact they were couple of … [senior employees of well established companies from this industry] who looked at on an individual capacity, who looked at the concept I had put together and said this makes tremendous sense and agreed to invest some personal money and come in as angel investors…. These people were my customers … I developed [a personal relationship with them]

Personal relationship also helped Raj Modi, founder of Softech and Raj Software and Communications, to secure financial support for developing his business idea. In the initial phase he had bootstrapped to generate resources for
developing his accounting software, but later on he managed to secure some angel financing. It came from the company for which he was working previously. His ex-employer had requirement for an accounting software; he had asked Raj Modi to develop it. For developing that software, there was need for substantial finance. Raj Modi’s ex-employer proposed to invest in his company in the form of shareholding. According to Raj Modi, this happened mainly because his ex-employer was familiar with him.

Like Rajat Apte, founder of Magnatech Inc., Arjun Desai, founder of Win Infotech Ltd., and Ranjan Raghavan, founder of Bangalore Technologies, also got angel investment from their customers. Arjun Desai said,

We have been funded twice now, all our business plans … For growing this, Now we have office in the US, and we have operations in Europe, North America and Australasia … [Among the funders] there are two different organizations … [We] by chance bumped into them and one of them was our customer actually. At that point of time, in 1999-2000 everyone wanted to get into the IT industry … So there were many manufacturing organizations who were our customers who showed interests in, wanting to invest on us, because we were performing consistently to get a lot of credibility. At that point of time we must have been a seventeen year old organization. So we were always there with them. So they made some investments … [What impressed them] is delivery capability. They knew we could deliver. Next thing is, of course, good relationships.

Relationship with clients also turned out to be useful for Vishnu Krishnaswamy, founder of Techvision. He got an angel investor through one of his clients in the USA. He said,

… we have an angel investor, who came in two years back, you know, take a small equity … he was referred by one of our clients. One of our clients, one gentleman of Texas in the United States and that happens to be an Indian gentleman … So now that gentleman was saying hey there’s one other gentleman I know, one of his friends known since 20 years and he is coming down to India. He is a local guy from Karnataka and he is retiring back to India after about 30 years/35 years and he is interested in talking to companies, you know, wants to keep himself busy and he was running successfully a company in the United States. And he was retiring back. So selling off his stake there and coming back to India. Being an Indian for variety of fair reasons he wanted to settle down in Bangalore. So hey why don’t you talk to that guy. He is a great guy, he is a business guy and I met him in the November/December 2003. And then … within six months he said, you guys are great, great products, variety of clients. We take a small stake and be your business advisor. And money was only one aspect. I wanted some broad-based management. Earlier me and my wife were managing … I wanted somebody to come in, you know, broadbased, you know, am I doing things right and advice, perspectives, views, ideas. So he came in and he took small stake.
Like customers, ex-superiors can also become an angel investor for an entrepreneur. This was the experience of Naresh Ponnaiah, founder of Sunshine Technologies Ltd. He said,

… you need somebody to put some money on this. So again I went back to my ex-boss … I [had] some relationship with him … hence we went back to him and went back to another person who was in the US who is another ex-boss of mine. So using them as angel investors … we started the company. So that’s how the company was formed … So because see ultimately it’s a matter of trust. Trust in terms of two things, one is capability, another one is I think I would rather say its something like this. When people decide to give you control they expect two things. One is … they need to believe that you have the capability to do it. The second thing is they really trust you as an individual and hence they give you control. Because once you leave control essentially you need to overcome these two problems. One is a skill issue, other one is a trust issue.

Whereas, the relationships that previously-mentioned entrepreneurs utilized for getting their angel investors was built up as a part of their professional/entrepreneurial career, an entrepreneur may use their family relationships as well for this purpose. Such was the case for Alok Dutta, founder of Silicon Networks Pvt. Ltd. He used his father’s relationship for getting an angel investor. He said,

… my Dad was able to introduce me to another gentleman of his generation … So both of them didn’t understand semiconductor business or even software probably. So they just looked at it as something called IT. But the other gentleman had a group … who had the funding. They asked me how much I need and so that’s how we started … I would say it was very low level of seed investment, no venture [capital] then.

While looking for more angel investors, Rajat Apte’s association with The Indus Entrepreneurs (TiE)\(^1\) turned out quite useful. Association with TiE helped him in developing the reputation. It also gave him access to people, approaching whom otherwise would have been difficult. He said,

How I approached additional investors is actually quite interesting. Two things I will mention, approach and solution. One was TiE. TiE was being found right around that time. That was in [19]95-96. TiE ah there was only one chapter at that point. It was the TiE Silicon Valley. I made a presentation at the TiE Silicon Valley chapter. They had just started this concept of bringing in entrepreneurs and having them present to the TiE community. Presenting on the business plan basically. I presented to a gathering of about 150 people. It was like a sit down dinner at TiE, Silicon Valley and I presented my company to them. After the presentation, there were two or three individuals, I was thrilled quite a bit, there were two or three individuals who stepped up and came and said, we want to talk to you. We are we are from

\(^1\) For details about TiE see Chapter Two.
this industry, we are part of TiE and this makes a lot of sense. So I followed up with them. They eventually became investors and then that’s the way I started making a network of angel investors put together over a three to four month period, put together a team of several angel investors and then they completed the initial round of financing.

One last component which helped Rajat Apte, founder of Magnatech Inc., in developing a reputation is his aptitude in playing a musical instrument, namely, *Tabla*. This helped him in developing an informal relationship with many people who willingly vouched for him as they knew him as a person. He said,

One was TiE and the second thing which come in surprise to many has nothing to do with business, has a lot to do with my, I would say with my second career or my second passion which is music. I have been a professional musician for many years. And through music particularly in the United States I build up a tremendous network of pretty well-placed people, because I used to play quite a lot with artists who came from India. I play the Tabla. So I played with many well-known artists and musicians in India as well as in the US. So even before I got into business I was reasonably well-known in the Indian community as an engineer and as a good Table player. So my personal contacts before I built contacts in my business I had significant personal contacts. Even some of the TiE members knew me first as a good Tabla player, as a musician and then knew me as a businessperson. And I leveraged that as much as I could. And through that they got to know me as a person. They were comfortable enough to say yes I will help you I will vouch for you; all of that and that helped me tremendously.

6.1.4 Venture Capital: Reference as Lubricant

Venture capitalists (VCs), as it has already been mentioned, are extremely fastidious in making a decision to fund a business venture. They give considerable value to references about an entrepreneur. It would not be possible for entrepreneurs to secure references unless the referees are intimately familiar with them professionally and personally. According to Rajat Apte, founder of Magnatech Inc.,

… once you get going, once you have some customers so on and so forth then approaching the venture [capitalist] community becomes a bit easier … you can talk to them. Even so when I got my initial sort of venture meetings they were always through somebody. I didn’t meet a single VC, I think it goes back to the strategy of how you raise money; I chose not to go to a single VC directly. Either I approached them because somebody had given me a reference. I said so and so person that they knew recommended that I talk to you because he felt you would be interested in looking at my business. Or had the same people who were my well wishers talk to the VC and tell them have you looked at this company? You should look at this company. Because, they are doing something pretty nice. So you get call from them saying, hey we want to talk to you.
Rupa Datta, founder of Infonet Pvt. Ltd., also had similar experience while getting connected to a venture capitalist. When asked how she got in touch with the venture capitalist firm, she said,

There’s somebody, a family friend, who recommended. So we just had gone to this person, a friend’s father to ask for advice, and he said, I have somebody who might be interested in your project. So why don’t you put a project plan together…. I was told to go and approach Aavishkaar … luckily for me, my idea, or what I said, hit home with Aavishkaar on my first meeting.

So far, we have discussed the role that relationship plays for an entrepreneur in building the initial connection with VCs. Relationship continues to play an important role in securing finance from VCs even after the initial introduction is over. Rajat Apte, founder of Magnatech Inc., said,

… to raise money is to build competition. Competition among investors. Investment is a herd mentality. Its either feast or family. Meaning either everybody wants to invest in you or nobody wants to invest in you. Its very clear. I mean, think about this situation if I come to you and say I would like you to invest, I have this great idea, but then said to you I have talked to six others, they are not interested in investing but you should. Your first reaction would be if they are not interested in investing in that why should I do it, is your idea really that good, so on and so forth. It creates doubt. That’s family. And if you can’t get somebody to invest in you or interested in investing in you nobody is interested in investing in you. The minute you get people interested and sniffing around then I come to you and say I am raising this money. By the way, I have four or five others who have looked at this and are pretty close to making their investment decision. Are you interested? The company might be the same, the opportunity might be the same, your whole approach suddenly changes. So you have to create a feast scenario. That, this is a feast, this is not a family. Now there’s only so much you can create. The fundamentals of business need to be attractive enough for it to look like a feast to people. If the business in itself looks like a family you can not create feast. But you still have to employ a strategy to make it look as much a feast as you can so that you can attract lot of investors. That’s how you create competition. So you have to, you know, work with multiple investors, different types of investors. You are talking to angels, you can also talk to VCs. VCs don’t want angels to invest once they decide to invest. They make the angels understand once the VCs come in they wont have an opportunity any more. That’s the way you create the sense of confidence … To bring the confidence you need to also have enough investors in the pipeline where they need to understand, say you are raising one million dollar, can you say you want to have 250,000 per person if you are doing the angel rounds. And you are talking to eight people. They need to understand that only four people are going to get in. If this is something that’s really interesting a deal that can be done only four of the eight that I am going to talk to are going to get in on the deal. So you don’t want to be the last one. Investors don’t want to be the first one. The biggest trick in raising money is everybody is saying yes I
want to do it but nobody wants to be the first one to write their cheque. So in fact you have to sort of herd them in along the same time and in a matter of few days. So that’s the strategy … **They [the prospective investors] talk to each other.** Before they invest, after they invest. **The investment community is a very close-knit community.** So you have to be consistent in your message. When you say that there are four others interested they better be interested. So everything I am saying it shouldn’t come up as you are creating this. You are not creating. It should be a true picture, but the true picture has to be managed in a strategic way to maximize the closure of the deal.

It is clear from Rajat Apte’s experience that relationship needs to be built up not only between the entrepreneur and the VC, but also among the VCs who are considering investment in the same organization. A VC’s decision to invest is based on her/his assessment of the worth of the business idea, and it is supported by her/his knowledge about the personality and aptitude of the entrepreneur, knowledge about which essentially comes through relationships.

Experience of Mangalam Srinivas, founder of Global Technologies Pvt. Ltd., shows that the basis of a VC’s decision to invest varies depending on the maturity of an organization. Whereas, during the initial phase of development of a company, investors are interested in knowing about the earlier professional performance of the founder, in the later phase of a company, investors are interested in knowing about the performance of that company. Interestingly, relationship plays an important role in identifying a prospective investor at any stage of business. While narrating his experience, Mangalam Srinivas said,

… we have raised two rounds of venture capital. One within three months of starting the company. The second after four years. The **factors that were important in raising the capital in the first round compared to the second round were different.** In the first round the factor was primarily based on the track record of the individual or the individuals. Because there is no concept of a company yet. You can not review a lot of company performance. Right? So it was based on **individual data, individual track record and trust.** … At that time, we had about three or four people with whom we were talking to. And **all these three four companies were just based on personal contacts … So basically they knew and they were having comfort level to talk to me and discuss about what the company is going to do.** So we could present to them our vision, we could present to them the management team. And **they knew … other management team members as well.** So they could look at the roadmap, but they were all not available in physical form, but they were planned, right. Products were all planned. But they could build a confidence based on what they saw. **So heavily dependent upon personal contacts.** But if you switch forward to four years from that time when we raised the second round it was obviously based on **not only the initial factors, but how well has the company**
done in the first four years. They could look at data like number of products that have been created and number of patents that have been filed, number of customers that have been licensed to, how is the revenue so far even though its in the early stages and how does the revenue projection look for the future and the quality of the people, full team and this so many such factors they could look into. So it became I would say more of a data driven decision where as the first one was more contact-driven decision … In the second stage the way we identified the financiers or the, say, venture capitalists, the investors was through our network again. We had some good contacts initially to start the company. But in over the four years we have built a lot of contacts. One thing is that when the company does well in terms of say product announcement, customer announcement and so on that attract investors to come and talk to you, even though it is not for an immediate funding, but to keep in touch. By the fourth year, infact as a company we had even announced that we had turned profitable. We had made that announcement, in addition to many other announcements related to products and customers and strategic partnerships and so on. So over a period of the first three four years, we would have probably been in touch with fifteen investors and not for an immediate decision to invest but keeping in touch. So when we decided to finally go for the second round, kind of hard decision was made we gave a something like a six month window, six to nine month window because these processes take time to close. There are lot of factors involved. So we gave some time and then contacted about four of five of the people whom we were most comfortable with based on the earlier interactions. So it was like short-listing. So we short-listed about three or four companies from the US, I mean, venture investors from the US, then one from the Asian region and one from Europe. Started talking to them and then finally arrived at the second round of investment.

With larger number of entrepreneurs approaching VCs, these days professionals or organizations have emerged which specialize in connecting the entrepreneurs with suitable VCs. Such mediations in some way professionalize the information network. Jayant Srinivas, founder of Ahead Technologies Pvt. Ltd., found his investor through one such professional. Ullas Gowda, founder of Knowledge Solutions Pvt. Ltd., also approached such a professional. However, unlike Jayant Srinivas, he was not successful in finding a financier through such mediation. When asked about the role played by those professionals, Jayant Srinivas said,

You have to do it yourself. I mean, that person is just introducing you. Those kind of people are everywhere. And you retain this organization because you need them to do the search among all the people there. You can do it yourself but it will take you forever…. So they specialize in finding companies. They tell you that for your kind of company there are these. Out of this four hundred venture capitalist firm’s list twenty odd people suit you. Out of this twenty … ten of them. You can do it yourself which is more time-consuming … again its all of relationships. So they have relationship with these firms. Because, they would have got
other deals to them … The relationship is transformed into our paying this guy to do the job …

Detailing how he secured investment, Jayant Srinivas said,

So we had two people, two institutional investors. One of them is the state government agency which is state government venture capitalist fund … we do lot of state government work. It seemed like an obvious thing for them to invest. Second is a larger venture capitalist firm. It’s an international venture capitalist firm, which itself has lot of high interest working with the government. So that seems like an obvious reason … what we did was we hired a company that basically does this business of putting deals together. They went ahead and introduced us to about 15 or 20 venture capitalist companies. So we prepared what is called a presentation that we need for them and also information memorandum for the company, which we circulate to this people. Then we go and meet, personal meetings and all, present our case. Then lot of people come actually with more question … once that is done, then we had lot of interest from lot of people, primarily [about the] kind of the work we are doing, very interesting work. But then the next part becomes the question of valuation, which you discuss. How do they value you, how do you value yourselves. It is always like we both are always far apart. So we found some venture capitalists … basically met us halfway. We are happy with them and they are happy with us.

While attempting to secure funding from external sources start-up companies often receive offers for buy out. However, not everyone is ready to sell their company. Anil Despande, founder of Tech Writers Inc., said,

There were three attempts to buy my company. I did not agree to any one of them. At that point of time I did not see a point in giving away that company to somebody who has no understanding of this business, who looks at it as an investment more than a passion, who has no emotional attachments and who might actually sell it away to somebody else if he gets a better price within six months. Then what happens to me, my people, the team that I have developed as on. I always believe that one can have money. But to have a team is very difficult. And if you have the right kind of team money will follow.

6.1.5 Loan

The way in which organizations/individuals think about generating finance for their business ventures has changed considerably in the recent years with the hype over stock investments by angel investors and venture capitalists. However, loans from banks or other traditional financial institutions still remain an important source of finance for entrepreneurs. Business loan situation has now become relatively more favourable for the debtor, with banks considering the possibility of offering loan with less or no collateral. With banks willing to take risk, the dependence on social capital in the form of assessing trustworthiness and creditworthiness of an organization or an
entrepreneur is increasing as a way of reducing risk. This was clear from the experience of Ullas Gowda, founder of Knowledge Solutions Pvt. Ltd. He said,

See the managers keep changing. Sometimes I don’t even know that the new manager has come. What happens though is there are records. Six years doing banking. Six and a half years. Records are there to some extent and lot of floating staff there…. These guys know us for long time. They introduce [us] every time [the manager] change…. So typically, this public sector bank what these people do is if I go to apply … for example, yesterday I applied for a different loan in the bank for expansion and all those things. So … the senior bank manager, he doesn’t know me well. So they start asking what do you think about this guy?.... What you think about this company? And then they get that feel of us and then they make a judgement…. So it helps. For example, yesterday they were ready to give me about 25 lakh loan without collateral under SSI scheme. So its nice.

Trustworthiness remains an important requirement in dealing with bank or for that matter, any financial institution. Ullas Gowda continued,

Reputation helps in bad times also…. even the banker will stand by you, the bank manager. … [Sometimes] you don’t have enough cash. But you have to make the payment. What can happen, either cheque bounces or you have to put your personal money or some other way – beg, borrow and put that money in the bank. I don’t do that. I don’t do that at all. I may fall short of 15000/- or 20000/- or 50000/- for a day or two. Because other cheque is in the receivables, are in the pipeline. Just call the bank manager. So, oh no big deal. Yeah, so he pass the cheque. So he won’t do that if I had a bad track record. I don’t have a bad track record at all. And this kind of benefits with the bank manager I might have taken in the last six and a half years about three or four times. That’s it. If you keep doing it everyday [he won’t give]

S. Sivakumar, founder of Datainformatics Pvt. Ltd., recalled the experience with one manager of a nationalized bank: “he came to our office. This normally never happens … he just sanctioned Rs. 25,000/- without any security. I told him that we don’t have any security … Because he had the authority … I believe there is a scheme called technocrat scheme. There was a possibility …”

Despite all these developments, it would be worth mentioning that a good number of entrepreneurs including Pankaj Sen, founder of Advanced Software Systems Pvt. Ltd., Vishnu Krishnaswamy, founder of Techvision, and Chandan Sivaram, founder of Soft Solutions Pvt. Ltd. were critical of banks as well as governmental financial institutions for being averse to giving loans without security. Chandan Sivaram said,

Today IT is a big thing…. in mid-[19]90s the government started giving a lot … to the IT industry through the banking and things like that. So lot of talk about everybody wanting to give a boost to the IT industry. But you approach them personally saying that I am having so
and so project, not big money, I want 10 lakhs/15 lakhs investment for this. They would start turning around saying that without security no money … They would go behind Infosys of the world and try to give them the money who don’t want … not give … to the company which badly needs it.

Another way of raising finance, which became particularly popular among a large number of companies in the ICT industry prior to ‘dotcom burst’, was launching the Initial Public Offering (IPO) in the share market. K. Padmakumar, founder of Frontech Ltd., was the only entrepreneur who raised finance through this channel. This channel of raising finance is possible only after a company has performed for some time in the market.

Thus, for all channels of accessing financial resources social network or interpersonal relationship of various forms often plays a significant role. However, depending upon the type of financier, the role played by relationship varies considerably. Whereas, family funding is relationship intensive, in others, relationship primarily plays the role of facilitation. Relationships function as social capital for securing finance. The basis of such relationships may vary considerably: they may develop out of an entrepreneur’s family, career as a professional, career as an entrepreneur, participation in business associations, and participation in activities outside her/his profession (for example, music).

Various resources that are embedded in these relationships would include financial resource itself as well as reference to secure financiers. An individual’s willingness to provide finance to an entrepreneur or to refer her/him to someone else depends on the trustworthiness of the entrepreneur assessed through relationship. In that way, trust plays an important role in getting finance. Trust can be understood in two ways: trust on capability of an individual, and on the personality. Trust, as it was observed, developed out of certain interpersonal relationship once or now shared by individual actors, for example, superior-subordinate in an organization, supplier-customer, family member, friend/friend’s family members, etc. Once trust develops, it play an important role in strengthening the relationship and thereby facilitating the access to various resources including finance.

6.2 Physical Infrastructure

It is well known that virtual space plays a significant role for many organizations in ICT industry. This, however, does not reduce the importance of
geographical place and physical infrastructure for them. Office location and allied set-
up are important for the establishment and growth of a large number of organizations
in the ICT industry. Quality of such infrastructure not only ensures the worth of the
business offering, but also helps attract and retain customers and appropriate human
resource by creating confidence in their mind. In addition to location of office,
infrastructure may also include office interiors, stationery, and technology. Quality of
such infrastructure depends upon the financial strength of an organization, which is
contingent on the scale of operation of an organization. However, given the fact that
ICT is an industry based on technology it is not possible for any organization to
compromise much on technology. As a result, when it comes to developing cost-
effectiveness, quality of other infrastructural components often gets compromised to
some extent. Leaving aside the organizations, which from the initial phase itself
received strong financial support, most of the organizations, at least in the initial
phase, need to compromise on the quality of other infrastructure in order to remain
cost-effective. At this stage, often entrepreneurs depend upon resources emerging out
of strong ties.

Most of the entrepreneurs started their business at least five years earlier,
when the cost for buying a computer and/or renting an internet connection was much
higher. For the entrepreneurs who started in the 1990s or even earlier the cost was
quite prohibitive. Alok Dutta, founder of Silicon Networks Pvt. Ltd., recalled that,
during the initial phase of his company, in early 1990s, he spent around Rs. 1,40,000/-
for buying one desktop computer. Ajay Aggarwal, founder of Netware Pvt. Ltd.,
recalled that, during the initial phase of his business in mid-1990s, he had spent Rs.
15,000/- for 500 Hrs. of internet connection. These entrepreneurs had no other option
but to spend that money, as their business depended on that. Ranjan Raghavan,
founder of Bangalore Technologies, said,

... we started the business from our house, then we were five people ... but some
infrastructure, computing infrastructure from the beginning has been world class. So when
people get to work on systems they are not working on slow systems or softwares that they
should be needing, but is not there. Low internet bandwidth, access to resources, that’s never
been a problem. So even though we were working from our house each of them actually had
internet access. Each of them had their own email id, which was not very typical eight years
ago. Eight years ago people would not have their own email id even if companies.

Keeping the need for technology in mind, any attempt at making their business cost-
effective by practising austerity had to leave aside technology. However, Ullas
Gowda, while founding Knowledge Solutions Pvt. Ltd., attempted to reduce his expenditure on technology in a different way. He said, “we didn’t start the business with buying all the computers or buying all the furnitures. Everything was rented.”

One component where many entrepreneurs attempted to reduce their cost, at least, till the time their business grows is quality and size of their office accommodation. In the absence of sufficient resources, entrepreneurs often utilized space available through their family relations. Ajay Aggarwal, founder of Netware Pvt. Ltd., said, “we actually started from my garage, you can say. Because we have a row house. So there we have the stilt parking of around 180 sq. feet. We converted that into an office with sitting capacity of 10 people. So that’s where we started our first office.” Other entrepreneurs who started their business operation from home included Anil Despande, founder of Tech Writers Inc., Naveen Jayakumar, founder of Datamagic Pvt. Ltd., Ranjan Raghavan, founder of Bangalore Technologies, Sudha Sharma, founder of Design Lab, and Jayant Srinivas, founder of Ahead Technologies Pvt. Ltd. When the flow of resources increased, Anil Despande decided to shift his office out of home:

I had about three people working for me. And then that working from house was not a good idea. Because I had four people inside my house at all times. And then my family members would get bothered because of me and vice versa. So I said it is high time. Now I have to move out. Then I moved out and went to a office in Shivaji Nagar.

K. Padmakumar, founder of Frontech Ltd., was against mixing office and home from the beginning:

we had set up an office [from the beginning]. *I have a very strict policy, never take the work [to] home.* Even today, I don’t sit and look at my mails from home. Except phone calls I don’t do it because this is a bug that catches you…. Any case we put about 12 hours in the office and to take that also into the house then your balancing life is not that good.

Entrepreneurs who had a business background before starting their company in the ICT industry often utilized their existing resources from other business to set up their ICT business. This included Amit Sharma, founder of Sindh Infotech Pvt. Ltd. and Hitesh Patel, founder of Knowledge Software Pvt. Ltd. Both of them were from business families. This worked out for S. Sivakumar, founder of Datainformatics Pvt. Ltd., as well, though he was not from a business family. However, one of the co-founders of his first company was from a business family whose father wanted to encourage his son and his friends in business and, therefore, supported them by providing some facilities. Rupa Datta, founder of Infonet Pvt. Ltd., also received
strong infrastructural support from her father, who is a Chartered Accountant. She said,

I started at the back of my dad’s office on a single table. I was lucky that initially also he gave me some space, space being the main thing that you need in Bombay [she is located in Bombay]. Then I was lucky that we had an office which was lying around, which was not really being used and I could pay rent and I could start. So I have been lucky in that space that I had family-owned properties that I could move in. And then I was even further luckier when I decided to move to a bigger place my dad said I will buy the property, you give me rent, so. I had just been very lucky from an infrastructure. So again you get it down to family support in my case. For me, infrastructure has come relatively easy.

Some of the other entrepreneurs like Vinay Reddy, founder of Software Consultants Pvt. Ltd., and Gautam Apte, founder of Innovative Web Solutions Pvt. Ltd., started their business operation with minimal office set-up. However, Gautam Apte said, “initial years it is tough … Those were basic offices, where people came and looked at us oh looks like a garage cut out. It was difficult to convince people to join you.”

Seed investors¹ for start-up companies often helped the entrepreneurs with an office space. Ex-employer of Raj Modi made a seed investment when Raj Modi’s founded Softech. In addition to finance this investment also included arranging an office space for the company. The investor had an extra office, which he made available for Raj Modi. Same was true for Alok Dutta while founding Silicon Networks Pvt. Ltd. The investment came through a person whom Alok Dutta met through his father. That person was the minority owner of a company which was part of a group. The group owned a property which was made available to Alok Dutta for setting up his office. Other than office space, the investment also took care of initial advertisement, initial hardware that Silicon Networks purchased and few months of payroll. For Akhtar Hussain, founder of Communication Networks, it was one of his customers who helped him getting an office space. Akhtar Hussain said,

… basically we had to be closer to the customer. That was our core criteria, I can say niche was we were reaching the customer very fast. So we had to be close to the customer. So most of our customers are in this South Bombay locality. So our office had to be in South Bombay. Then offices in South Bombay are very costly. So again that’s a problem. Again the customer helped us. See I realized its always a two-way relationship. The customer also benefits when you are very close to him. So they help you in locating, in finding out an office or probably

¹ Initial/Seed Investor – An investor who provides small amount of capital to an entrepreneur for concept-testing (Html 5)
Entrepreneurs, in order to begin their business operations, need to develop some physical infrastructure from the start-up stage itself. However, the challenge for the entrepreneurs is to find a way to balance that requirement with the limited availability of financial resources. Whereas, in order to find such balance some entrepreneurs try to bring down their cost on infrastructures like office accommodation, others, who have a choice, try to use interpersonal relationships to compensate for their scarcity of resources. Thus, access to physical infrastructure is another resource that is embedded in interpersonal relationships. In this way also interpersonal relationships functioned as social capital. However, unlike financial investment, here it was not necessary for an entrepreneur to come from business family to have access to office space. Often entrepreneurs without business family background started their business operation from their residence. It came out from the discussion that entrepreneurs utilized various kinds of relationships for arranging their office accommodation. Such relationships included those existing between family members, employer-employee and supplier-customer. Here relationships were used to access infrastructure directly rather than being used as reference.

6.3 Human Resource

An entrepreneur’s ability to execute a business idea satisfactorily depends to a large extent on the quality of the human resource available to her/him. Here the concern is not only about an entrepreneur’s ability to attract appropriate kind of human resource, but also her/his ability to retain them. In fact, in the recent years, with the growth of the ICT industry, attracting and retaining human resource has become a challenging issue for the entrepreneurs. While this challenge exists for organizations of all sizes in the ICT industry, smaller players are at the receiving end of an unequal competition when it comes to salary structure. As a result, many start-up companies are compelled to hire freshers only. This came out in discussions with James John, founder of Spaceage.com., Raj Modi, founder of Softech and Raj Software and Communications, Akhtar Hussain, founder of Communication Networks, Naveen Jayakumar, founder of Datamagic Pvt. Ltd., and Chandan Sivaram, founder of Soft Solutions Pvt. Ltd. However, salary, to be sure, is not the sole
determinant of an individual’s choice of employer; nature of work as well as work atmosphere play an important role in this decision-making process. In the absence of access to huge financial resources, start-up companies often attempt to attract and retain employees with the help of various non-monetary rewards of joining the company. Non-monetary rewards are also a component by which larger companies attempt to motivate their employees.

6.3.1 Attracting Human Resources

Attracting an individual to become an employee is relatively easier in an ICT service company in comparison to an ICT product company, as product development involves certain amount of risk in terms of longevity till a customer base develops. While talking about his software consulting firm, Rajat Apte, founder of Magnatech Inc., said,

"It was lot more straight forward [in comparison to software product business]. You take a project and then hire either people as your employees or even you bring in consultants … you come in on a project and then by the time if you are able to build a project pipeline and then you hire employees. If you are not, don’t have a project pipeline then you hire consultants."

Initial recruits for Rajat Apte’s software product company were handpicked. This was similar to word-of-mouth technique which he had applied while recruiting initial employees for his consulting company. However, the relationship that existed between Rajat Apte and his product company employees was different from that of his consulting company. Not only that Rajat Apte picked up those individuals because he trusted their ability, those individuals also joined Rajat Apte’s company because they trusted his vision. Rajat Apte’s recollection is a clear testimony to it:

"With [my software product company] we had a good idea. So I could sell the vision to any prospective employee that I was talking to. What I didn’t have is a whole lot of money. I raised a little bit of money from investors which could last us, you know, for six to twelve months. And then we all knew we had to raise more money in a next round of financing to get us to the next milestone. But my challenge was I needed to fill some key hires for us to get to the next level. So here I had little bit of money where I could hire these people, but didn’t have enough to guarantee them any security. Yet I needed them to get to the next level. So how do you get around this problem? Few things I did. First of all I was a very open and transparent to them. The two or three key hires I did and here’s how pretty much the conversation went. That, you are very important to the business I am trying to build, here’s my vision. We can build something revolutionary in the space that you are in. I have very little money. I can promise you money for six months. You been with a large company for the past eight years. You are at a Vice President level. But you should leave and come join me for, not"
for the security because I can’t give you the security, but for what we can create together. If you believe in that you will be reasonably comfortable with the fact that we have something going that within the next six months we will take the right steps together to get additional money and then just keep reaching newer and newer milestones and eventually build a successful business outcome. It was that faith I would say, it was that vision, that faith that openness that helped me attract these people. Even with that it wasn’t easy. Generally I had to meet their families because it was a big decision for some of these guys to leave a position where they are paid [well] and particularly in the industry [pharmaceutical and biotechnology] where we are, it’s a very stable industry. People don’t change those many jobs and people rise through the ranks and I think it is a fairly stable industry … All of my initial hires were people I knew either through my consulting business because they were customers of mine…. I had several customers in the early stages who looked at our concept and our product and said, either can I invest or can I come work for you? Because, the vision and the concept was powerful enough for them to get interested. But of course the great hurdle was I don’t have the money. Again like I said for somebody to say I will leave my existing job for a new job where I have guarantees for six months and no more. I met, ended up meeting their families, talking to them about what we were trying to do and talking to them about the risks and that six months from now we might run out of money and that would mean your spouse would have to go back and do what they knew best, may be their current employer would take them back, may be not. And it was scary at first. I had many of my key hires tell me when we were going through that phase and on several occasion they said no, I don’t want to take up this job and … particularly one guy said to me each time I said no to you I couldn’t sleep that night. I would say why you couldn’t sleep that night. And he said what if this company clicked and I missed this opportunity!

Given the fact that Rajat Apte’s company was developed during the time when ‘dotcom’ wave was rising, it was always a challenge for him to get the right kind of talent, as a large number of individuals was interested in working for dotcom companies. At the same time, valuation of ‘dotcom’ companies by investors was much higher. However, as Rajat Apte puts it, “fortunately for us there were still enough people around who were saying I don’t want to touch that ‘dotcom’ thing”. In the recent years, attracting experienced people to join smaller companies has become a serious challenge for entrepreneurs. Raj Modi, founder of Softech and Raj Software and Communications, said,

This product is specific to capital market … people who will be my client or who are my prospective clients they know their industry, I mean capital market. The person who has a background of capital market only has to go and explain them. Otherwise, he will turn out a fool. To get those kind of guy in marketing is [quite difficult]. As a person, who will
understand market he will only be interested to sell the software for sure … he is working for something else … I will not be able to offer it.

A large number of companies in the start-up stage used social network to find out prospective employees. Many of the initial employees of Raj Modi, founder of Softech and Raj Software and Communications and Kunal Raman, founder of Sharp Technologies Pvt. Ltd., were their ex-classmates. The same was true for Jayant Srinivas, founder of Ahead Technologies Pvt. Ltd., for the first four/five years. Most of the recruitment that took place at Ahead Technologies during the start-up stage was from the classmates of the founding team through word-of-mouth reference. For Naveen Jayakumar, founder of Datamagic Pvt. Ltd., James John, founder of Spaceage.com, and Chandan Sivaram, founder of Soft Solutions Pvt. Ltd., social network has always been the only mode of identifying prospective employees. When asked about the procedure of recruitment, Naveen Jayakumar said,

Through connections only. Somebody is saying my assistant’s son [is looking for a job]. One of our client’s some known person’s son educated and not getting job. We employed. Another connection from neighbourhood. People saying, coming and saying you are in software business, why don’t you give a job? Most of the things are with neighbourhood. So many people are there. Neighbourhood people are watching and asking for job. We select from that only.

Chandan Sivaram, while explaining the recruitment procedure, said, “Never through advertisement. We being a small company don’t work like that … most of the persons who work under me have all come under some reference or I found somebody comes for interview and find some kind of brightness of the boy. I have taken him and all that”.

Another channel that professionals who later became entrepreneurs adopted in the initial stage was to identify prospective employee from their social network of ex-colleagues. However, later on these entrepreneurs utilize other channels for recruitment as well. Gautam Apte, founder of Innovative Web Solutions Pvt. Ltd., Naresh Ponnaiah, founder of Sunshine Technologies Ltd., O.P. Nayar, founder of Accent Tech Solutions, and Ranjan Raghavan, founder of Bangalore Technologies were such entrepreneurs. Individual social network played an important role for these entrepreneurs. Gautam Apte said,

Primarily [in the initial stage we recruited] people we knew. People who I had worked with in companies, four/five or ten people. Then those ten people could have worked with 20 others. So, just network and identify good people. Because in the initial years it was tough. We didn’t
have offices like this. Those were basic offices, where people came and looked at us oh looks like a garage cut out. It was difficult to convince people to join you. Okay? … **now we hire from the market**. Now I think, the people now look at us differently. Because now we have our own infrastructure, we have our own building. So we are successful … I think now we don’t have that problem. **Now we recruit from the market.** We have a recruiting team that recruits from portals. **We advertise.**

Mangalam Srinivas, while founding Global Technologies Pvt. Ltd., identified the initial team from his ex-colleagues. He said,

if you look go back to it obviously we knew each other. See if you look at the team composition as I said, I was the Managing Director of IC [name changed; originally name of a multinational company], India and four other members who were part of the senior leadership of IC, India were eventually to become part of Global Technologies and then one manager who had worked with me in IC, Asia and IC, Europe before when I worked in IC, Asia was to finally become a member of Global Technologies team. And another manager in the IC, US whom I worked with also became a member of Global Technologies management team. So if you look at all the people, there was a **prior working relationship** through IC. That was very key. And also I would say beyond just working, a relationship that shared the same passion. You can call it a friendly relationship, **but more than friendship it means that we were professionally known to each other and we all shared the same passion** to build a world class product company … So I started building the idea. I could look at the key competencies that you need to build the company and the competencies need to come from multiple disciplines. This is the same philosophy that successful companies have shown in the past that you do want to bring a team that can have cross-functional expertise. Obviously, you need financial expertise. You need expertise in sales, in marketing, and hardcore development of product R&D and also in organization building. So the team members that I chose really cut across this disciplines and that is how they came together. Obviously, another type of team could have been built, but this composition gave us the widest coverage.

After forming the core team, when it came to recruiting engineers, Global Technologies Pvt. Ltd., founded by Mangalam Srinivas, had depended on regular advertisement. However, Naresh Ponnaiah, founder of Sunshine Technologies Ltd., said that his organization still uses **reference for recruitment**: “we continue to do that way … I think we have pretty much hired most of the employees by reference, which means that if I have recruited, our first level employees have joined Sunshine Technologies with a certain kind of understanding. When they go and bring in the second level employees they have the similar understanding and that.”

Like Mangalam Srinivas, Naresh Ponnaiah, founder of Sunshine Technologies Ltd. also emphasized that it is necessary for entrepreneur’s ex-colleagues to become employees of her/his start-up company to share the passion of the entrepreneur.
Naresh Ponnaiah was working for a company which got acquired by an MNC. In that situation of uncertainty Naresh Ponnaiah founded Sunshine Technologies Ltd. for executing a business idea which he was hatching for some time. For executing that idea, he approached a few of his then co-workers, whom he knew to be suitable, to join his organization. In that situation his ex-colleagues had two options, either to join a global brand or join his organization, which, according to him, did not even have a website at that time! The people whom he approached needed to believe that becoming part of his team will create a much more compelling success than going and working for [a global brand]. He said

Unless they are able to get that confidence people are not going to move … I am easily thinking people when they leave Sunshine Technologies and go out to the market they will get twice a salary as [compared to] what we are giving. So which means that what they are foregoing to stay in Sunshine Technologies which essentially means that belief is still strong.

Knowhow, founded by Kirti Harlalka, is dependent on freelancers. Kirti Harlalka used different techniques in identifying such freelancers. She said, “Some of them are people we have worked with before, who have been our colleagues, colleague’s friends and references. We also try to we took some short term access for … database and downloaded a few CVs which we liked.”

However, the strategy of recruiting through use of social network did not work well for Akhtar Hussain, founder of Communication Networks. He said, 

initially, it was with word of mouth. But that did not work out. Then we, I started looking out for some training companies, who are training people, who do courses and, for people … And they also have an issue of placement. So tried contacting them. And the initial pick-up was from there. But that also did not work out in the later stage. Because, the response from them was not so good. So then we went into advertising.

A few entrepreneurs mentioned that advertisement in print media was one of the most useful ways of identifying prospective employees. Such entrepreneurs included Akhtar Hussain, founder of Communication Networks, Amit Sharma, founder of Sindh Infotech Pvt. Ltd., Alok Dutta, founder of Silicon Networks Pvt. Ltd., Mangalam Srinivas, founder of Global Technologies Pvt. Ltd., Gautam Apte, founder of Innovative Web Solutions Pvt. Ltd., and Hitesh Patel, founder of Knowledge Software Pvt. Ltd.

According to Dinesh Marwari, founder of Ryze Softech Pvt. Ltd. majority of recruitments in his organization does not happen through word-of-mouth reference. He felt that social network may play an important role in recruitment when the pool of
professionals from which possible recruits are to be identified is much smaller, so that people know each other fairly well to refer. According to him, that is not the case in ICT industry. The pool of professionals is larger. Besides, he felt that had his organization been involved in software product and not software service, which is the case, reference could have played more important role. He said,

If I was a software product company, lets say, I am working on building a next generation revolutionary software product. I am a software services company. But if I were a product company then the kind of guys I would attract is research, – software researchers, architects – the guys that are what I would call nerds that want to build something new, build something, very deep technical guys. In that kind of a company word of mouth would play a great role because they would tell their classmates … they would be typically Ph.D.s or Masters and from IIT or wherever it is. And they would tell their classmates saying I have got this great job that does some fantastic work. So its the kind of work you are doing. And software product company, I think, word of mouth would play a very strong role. Because it’s the kind of community that will want to attract more and more of this similar type of people researchers, academic-oriented software engineers and those types of things. Whereas, in a software services company the importance of deep technical knowledge is equal to the client management, project management and time and budget management because you are running a software services business and managing the client, meeting his expectations, in terms of time management, budget management it is as important as delivering a good solution. Whereas, when you are building a strong product the most important thing is how good your product is…. research companies can take two years, three years, four years. But the quality of the product is more important than few other factors. And your client is no one specific person. You are building a product for hundreds of people. And you are talking to one or two people that are defining the product. You are building a so it’s a very different industry. So I think word of mouth plays a stronger role in focused industries where you can get similar type of people.

In addition to using reference of his existing employees, Amit Sharma, founder of Sindh Infotech Pvt. Ltd., utilized the service of prominent recruitment companies for identifying employees for his company. Pankaj Sen, founder of Advanced Software Systems Pvt. Ltd. also utilized the service of prominent recruitment companies. Alok Dutta, founder of Silicon Networks Pvt. Ltd. recruited freshers by going to campuses of academic institutions and also used job advertisement. However, he felt that it has become rather difficult in comparison to previous years to get employees with right kind of talent. This was also felt by Pankaj Sen, founder of Advanced Software Systems Pvt. Ltd. Alok Dutta, founder of Silicon Networks Pvt. Ltd., said,
[In the initial period] … advertisements were enough. Semiconductor services, VLSI designs was a big buzz and then through the contact of these employees. So they started joining in. It was more difficult to get software guys than to get VLSI guys … Now its difficult ball game to get the good quality people … Tier A college … can not join us. But we focus on the Tier 1 B colleges, Tier 2 A colleges and try to get the best among them. Tier 1 and Tier 0, Tier 0 being IITs or those kind of colleges tend to go to the multinationals or if not abroad. Tier 1 A again obviously is the domain of multinationals, Tier 1 B, a few good cases, particularly in the Bombay area tend to join with us. And Tier 2 A is the last you can go, because, the quality suffers always.

Campus placement at engineering colleges and computer training institutes is also used as a strategy for recruitment by other entrepreneurs like Arjun Desai, founder of Win Infotech Ltd. and Pankaj Sen, founder of Advanced Software Systems Pvt. Ltd. Arjun Desai also used recruitment portals as well as network of placement agencies. Pankaj Sen, founder of Advanced Software Systems Pvt. Ltd., Rupa Datta, founder of Infonet Pvt. Ltd., and Gautam Apte, founder of Innovative Web Solutions Pvt. Ltd., also used recruitment websites. Rupa Datta said, she also used things like mailing list, discussion boards, etc.

Uniqueness of the business area often plays an important role in attracting employees. Jayant Srinivas’ Ahead Technologies Pvt. Ltd. functions in developing e-governance assignments for government departments. Jayant Srinivas said, “we find lot of people who are interested in this kind of work which primarily brings some social relevance to the work that they are doing. So that definitely attracts people.” Kunal Raman, founder of Sharp Technologies Pvt. Ltd., felt the same way. When asked what attracted the initial employees to his organization, who were then working with much larger organizations, he said,

See … 1996 [that’s when his first company was established] was early days. There were no product companies. So we wanted to be a product company out of India … we had some product ideas, small ideas. So that was the vision, create products. So you sell the vision. Even though you are doing something else you just convince them okay there is an opportunity.

However, Kunal Raman felt that what also helped him in getting his a classmates join his organization is the relationship that he shared with them as ex-classmate. He said, finally it all boils down to whether … they are comfortable with you or not … I know some of these people for five years ten years and whatever … finally it boils down to whether they believe in you … most of my friends trust me for what I say … I try to be open, straightforward and speak my mind. Some people like that quality. So that was one of the reasons my friends joined me, not because there is a big opportunity, but because they seem to like working with me.
Chapter Six  Business Ecosystem: Locating the Role of Social Capital

Mangalam Srinivas’ Global Technologies Pvt. Ltd. is a software product company which primarily works on a technology that is not used by many companies in India. Association with that technology itself has a capacity to attract people to join this company. As a result, according to Mangalam Srinivas, when his company advertised for filling up 20 positions of engineers it received 10,000 applications!

In the absence of the ability to provide a high salary, smaller companies have to identify non-monetary rewards according to their capacity that they can offer to the prospective employees. Vishnu Krishnaswamy, founder of Techvision, a smaller company said,

When we bring them [freshers] in, we say we offer you a lot of freedom, we have internet 24/7 available. You have email available. We don’t block email like large companies. So lot of freedom and you will learn, learn a lot … And we treat them well, where they are not just bodies, there’s quite a bit of personal rapport, if you can say that. I would call favours again, where checking with them when somebody sick … ask them go home please. Go home, get rest. So that personal rapport really people like. You have the one on one. When [you are in] large companies you are like one among ten thousand or twenty thousand. You are just a number there.

6.3.2 Retaining Human Resource

Considering the existence of large companies in ICT industry who offer high salary package, smaller companies with weaker financial strength often accept the fact that they need to be satisfied with freshers. This is because people with experience will get higher paying jobs in this industry. However, this implies that a large number of individuals who join a smaller company in order to gain experience move on to better pay masters as soon as they get some experience. According to Raj Modi, founder of Softech and Raj Software and Communications, this problem with retention in ICT industry began after 1998/99 with the boom in the dotcom business. High attrition rate among ICT industry employees for joining jobs with higher pay is a reason for considerable grievance for founders of many smaller companies. Ajay Aggarwal, founder of Netware Pvt. Ltd., said,

… we are in the middle league … suppose we have a fresher who is trained at our place. Obviously when he is trained he/she is a easy pick for next level company. Because he is already trained. He has gone through that rigour of six months/nine months/one year. So that has always been there. So over the years we had people who have really stuck with us also in good and bad, really been there and there have been people who have just been opportunistic and moved on!
Given the problem that organizations face in their ability to retain employees, entrepreneurs adopt different strategies for retention. Vinay Reddy’s organization, Software Consultants Pvt. Ltd., being a small firm, also faces the problem of retaining employees. Therefore, he has adopted a strategy of recruiting freshers and keeping them attracted to his organization by creating a *learning atmosphere*. According to Vinay Reddy, in a smaller organization, creation of such a learning atmosphere depends a lot on the level of knowledge of the entrepreneur. Ranjan Raghavan, founder of Bangalore Technologies, also supported this argument. While talking about what retains employees in his organization, he said, “very strong senior management team who understands not only numbers and money and business, but understands the work they are doing”. This strategy was also adopted by Akhtar Hussain, founder of Communication Networks. He said,

> We handled it from a different perspective, as we were trying to give them more value in terms of the technical knowledge which I had. For example, I had been working for many years in IT company, where I had gained some amount of knowledge … usually, the new engineers, they are not having so much expertise or exposure. So you are trying to pass on this knowledge. So they were getting certain value out of that. That was the initial strategy. You are mostly taking freshers to begin with. *Experienced people, its difficult to retain them.* So the strategy is take freshers, give them more value-inductions and knowledge in the practical experience.

Chandan Sivaram, founder of Soft Solutions Pvt. Ltd., a relatively small company, also tries to create a *learning atmosphere*, which, according to him, is missing for the juniors in a large organization. He said,

> If a person is working in a bigger company he might be getting fat salary and things like that. But he doesn’t even understand what he is doing. He is not even part of a specific domain or a things like that … to give you an example, almost all the boys who are working here would understand the project that they are working … even though coding may not be part of his job, that particular coding may not be done by him and most of them would have a direct interaction with the customers, the users and things like that. So we try to retain them much more by giving them a lot of status level. By status I don’t mean in terms of financial status, but in terms of their own, you know, happiness that they are contributing daily something.

Anil Despande’s Tech Writers Inc. operates in technical writing space. Retention was a serious problem for him as well. He introduced the concept of *training contract* in order to counter that problem. He said,

> I was not able to retain a lot of these people. The reason being that other companies are not capable of giving them good training. I gave them good training. So before they got trained these companies would not have accepted them. But *after I trained them these companies*
were coming to them with three times the salary. I could not retain them. And that continues to happen even now. One of the solutions that we have found to that is we take any people on a one year training contract. We tell them that we take you in, we provide you training for one year. During this training you undergo classroom training, you undergo hands-on training. There is a series of assignment that we want them to do and so on. And then you work on the real job, live assignments, the real clients. And that gives you real good experience. And for that you pay us some seventy thousand rupees in advance. At any point of time you leave, you won’t get that money. And if you don’t leave, then I am paying you stipend, every month. So by the end of the year you would have got all your money back through your stipend, in fact more. But if you leave half-way, then at least my training cost has come out. So even after that people leave. Because if I give them a stipend of 10,000, somebody is offering him 32,000!

In a similar vein, Rupa Datta, founder of Infonet Pvt. Ltd., introduced a strategy for retention:

The approach that we take is we hire freshers. We train them and we teach them everything … most of the time we assume that they would be with us for about two years. That gives them enough time to learn. Because we are a much smaller organization they get a very wider spread of the work. They are not categorized into a particular project for nine/ten months. So they literally change project every month and a half. They get to use different technologies, they get to do different styles of writing which is what excites them. We have had problem in retaining and getting good talent out of that. Because what happens is when you get a fresher, a fresher does not know what a job environment is. He is yet in college, more often than not, mentally at least. And you have to break and make them professional … So within our office we have a concept of mentor-mentee system. Every mentee has a mentor. So people who have been with us longer functions as connector. Initially, it used be I used to be the mentor for everybody. But since that scale that’s not logical any longer … when you look for freshers, yes you have people drop out, people absconding, you have all of that happening. But then I think that’s a part of the game. So if we have to run a business we all need to be aware. Initially we used to get flustered oh this person didn’t land up. Now we just say, okay, I would recruit the next … we have just evolved so that we have learnt to retain. So we have set up package deals where we say okay work with us for this much and you will get this salary and at the end of six months you will get this much as a bonus … so at least you know they are for six month to get their first bonus. It works! It works beautifully. Because that excitement is always there that there’s one packet that you would like to pick up. So I wouldn’t say a bond works. That doesn’t work. But this works. I guess incentives always leaves something good with the person. So we have learnt that. We have some risks using freshers. So now, lately which started to mix with a certain percentage of fresher and certain percentage of experienced people. So they have somebody to learn from and we don’t always need to teach professionalism. They can learn from peers.

According to Mangalam Srinivas, salary paid at Global Technologies Pvt. Ltd. is quite comparable with the industry. However, being a start-up company, the salary
is not way over market so as to retain a lot of employees. According to Mangalam Srinivas, what instead helps his organization retain the employees is the organizational culture that prevails in the company:

> We did introduce from day one again a people philosophy which is very different that is based on the concept of co-ownership of building the company. So people essentially saw Global Technologies as a kind of a team that was working together on a common goal and everybody who is joining … just join the team, rather than seen as a employer-employee relationship. So the concept of co-ownership and translating it to a very clear policy – you talk about HR policy, where the same policy applies from engineers to the CEO. That was again seen as very different. So we did a few other things like I mentioned overall gave a strong potential for Global Technologies to repute … if you look at IP [Intellectual Property], IP is owned by the company. But lets say the stocks are distributed to everybody in the company, everybody has a co-ownership in terms of company’s stocks. So in turn, that means they also have a stake into the IP ownership of the company. But IP is, … if you look at patents in particular, patents are granted or issued in the name of particular engineers in Global Technologies, but owned by Global Technologies.

Similar argument was also articulated by Naresh Ponnaiah, founder of Sunshine Technologies Ltd.: “Sunshine Technologies is about intellectual neighbourhood. We surround ourselves with people … neighbourhood … with intellectual people and that is their driving force. Anything that they do they feel they are doing something phenomenally different.”

According to Hitesh Patel, founder of Knowledge Software Pvt. Ltd., his organization provides salary and increments which are comparable with the industry standards. Employees in his organization also get opportunity to work with a unique concept. However, still people leave his organization. Ullas Gowda also feels that people prefer to stay back at his organization, Knowledge Solutions Pvt. Ltd., as they find the work exciting. Jayant Srinivas’ Ahead Technologies Pvt. Ltd. facilitates government departments in enabling e-governance. For this, the organization has developed set-ups in semi-urban areas of Karnataka where they recruit local people, who are offered appropriate training. The retention rate among those people is considerably high given that in these semi-urban areas employment opportunity is not as high as in a metropolis like Bangalore. According to Dinesh Marwari, founder of Ryze Softech Pvt. Ltd., in order to retain employees, it is very important for the employees to share the vision of the organization. He said,

> I think the biggest thing in terms of retaining people is your ability to get them to believe that that they are part of something that is interesting, part of something that is going to grow, part
of something that will add value to their careers and as long as they feel that way, they will stay with you. If they feel that this is just another job and this is just another software services company, just like any other, then it boils down to what is the project I am doing, what is the money that I am making and those are the bottom line. When you reach a point where its a bottom line of this is my project, this is the language, I mean, this is the software that I am learning, and I am using and this is the amount of salary I get, that means the … the company have no longer any relevance. So I think that happens more into the junior guys. Because they are not able to understand the vision. So that’s continuous challenge, as you keep on trying to educate them that this is the direction you are heading that this is the path we are trying to take, etc. and this is the role that one has to play and one fits in, in this manner. Its much easier for the management team to understand that and the role and the value that they are adding to the organization. But its much more difficult for the junior developer in the organization to understand that. So its easy for them to go straight to the bottom line. I am earning this much. My company down the road gives me twenty five percent more money or I am working on C, C++ and there is a guy outside the door that does Java programming. I am interested in Java. So these are all bottom line things and so you see lot more attrition in those areas because its more difficult for them to understand … the role that they can play in creating an organization.

The experience of Kirti Harlalka, founder of Knowhow, is quite unique, as her organization does not have any employee. Rather it has a team of around thirty-five freelancers. The issues with freelancers are quite different:

… see we are not very good paymasters. Okay, we can be excellent pay masters, but because we do not give continuous employment it may not work out as a good long term or a sole source of income as one would say … .the nature of the people we work with is transitory. They basically do not like to work with one organization. They basically do not like to do the same kind of work again and again. That is the reason that they are freelancers. Again they may not be available full time. So these things create obstructions, because the work is regular. It demands eight hours a day from x kind of people and so matching the people to the business is difficult. To find people who are willing to stay on even when there are lows in the business, when there are drops in the in the volume of business [is difficult]. To get people who will maintain confidentiality with data [is tough], for instance, client confidentiality, although we sign legal agreements with them, its really a matter of trust (Kirti Harlalka).

Arjun Desai, founder of Win Infotech Ltd. and Vinay Reddy, founder of Software Consultants Pvt. Ltd., feel that their organizations have been successful in retaining at least the core team members, who are quite critical for the operation of their organization. Arjun Desai, like Vinay Reddy, felt that ability of his company to perform well has been one reason for the employees to stay back. According to Arjun Desai,
A company is impaired by the attrition in the core team level. So at the periphery level if you have all the front runners or the people who are trainees or developers with a few years experience, data entry operators or those kind of people … if you loose them you can get a replacement, but not the core team. But fortunately for us the attrition level at the core team was very low. That’s because these people who are still there with us basically started from scratch, as young people. They are there with us for the last eight to ten years. They have grown in the company. And we have shown some kind of growth in their overall career growth and they have seen a major challenge and the way the company handled it well. So they are confident that even if there’s any kind of a major problem that comes up, company can overcome that. So one of the things is one on one relationship that the top management has built with this core team, the delivery people or the good marketing guys, sales guys … the personal touch is there. So normally the core team they don’t leave. Almost 70 per cent of your problem is solved … [During the initial years of the Company] since it was growing company at that point of time, the very fact that the content of the job was so challenging that they didn’t even think of changing. They didn’t think of salary. They were so excited about the jobs. But subsequently, it was too many dynamics that came into the market. So we did loose some good people. And in 2000 having that problem of attrition as well as we were laying off people at that point of time [to cope up with the problem of dotcom burst] yes we did have some challenges. Of course, we found some replacements also.

Whereas, a large number of entrepreneurs complained about high attrition rate in their organizations, entrepreneurs like Gautam Apte, founder of Innovative Web Solutions Pvt. Ltd., claimed that the retention rate for his employees is exceptionally high. He said,

I think that [retention] helped and that has been a big success factor, because all our clients … a lot of CEOs tell … the problem that IT companies in India have today is retaining people. Whereas, [for] our clients, we have teams that haven’t changed in the past four years/five years. We are six/seven years since inception of our company. We have clients who said, how do you guys retain your people…. we are no longer a very small company. But still having one to one contact with our people helps, paid them well, giving them challenging work, showing them opportunities for future, making sure they grow in the organization. These are all factors, I think, that help retain our people. And retention has been the biggest success factor.

It appeared that when entrepreneurs talked about retention they mainly talked about retention of key employees, who were critical to the operation of their organizations. This came out in discussion with S. Ram of Integrated Software Solutions as well. Attrition among rest of the employees, even if problematic, was considered normal.

A few entrepreneurs, including Arjun Desai, founder of Win Infotech Ltd., Gautam Apte, founder of Innovative Web Solutions Pvt. Ltd., Vishnu Krishnaswamy,
founder of Techvision, and Vinay Reddy, founder of Software Consultants Pvt. Ltd., highlighted the role maintaining a personal relationship between entrepreneur and employees in retaining an employee. Chandan Sivaram, founder of Soft Solutions Pvt. Ltd. said, “Major efforts that we put in as an organization in retaining them is trying to give each and every boy an identity of his own.” When asked about what retains their employees, S. Ram of Integrated Software Solutions said, “It’s a personal trust and the care, I presume, relationship we have with the people and that transparency and so on and … [we have] definitely given them a lot of leeway to operate. That’s very important. IT industry itself is a kind of leveling kind of thing … one should definitely listen to what they are saying which I personally I feel it’s a good thing.” However, Vinay Reddy also mentioned that relationship alone can not be sufficient for retaining an employee.

However, not every entrepreneur thinks that it is possible to retain capable employees by adopting different strategies. For example, Alok Dutta, founder of Silicon Networks Pvt. Ltd., felt that attempts to retain people are a losing proposition:

We are not going to get to retain people. So you prepare for that scenario. And you will have some people some of the time, most people will definitely change. So you prepare yourself for the rotation … First of all, attracting itself is difficult. Then whatever you attract very difficult to retain. So it's going to rotate. So you prepare your business model in that kind of a scenario. Not only that, you keep your customers informed that we don’t have any core technologies which is resident on one person. Never do that. Because that one person’s value goes skyrocketing and … he rules. Anyway you loose it. So never do that.

K. Padmakumar, founder of Frontech Ltd., also accepted that attrition is a regular process, particularly among the middle management. He said, … it is futile to think we can build in idealistic values and keep them motivated … So the best way is to make the raw talent to deliver what we want. There is enough raw talent in the country … Actually we welcome such things because fundamentally for me managing youngsters is much easier than managing middle [management] people. And secondly, the energy level which they give is phenomenally high … they are more mature they can solve more problem they can do quickly.

Attrition, as it came out, is a regular feature of ICT industry in general. Organizations attempt to retain their employees, as performance of an organization is often dependent on the retention of key employees. Organizations adopt different strategies for retaining employees. Most of these strategies involve creating an attractive remuneration package, promotion policy, job profile, and organization
culture. However, according to entrepreneurs, there are other non-material components of an employment which attracts and retains an employee in an organization. It is here that interpersonal relationships come to play an important role with reference to human resources. Relationship functions as social capital in attracting human resource through word-of-mouth reference. It was observed that entrepreneur’s interpersonal relationship with classmates and ex-colleagues was useful in identifying and attracting human resource. Interpersonal relationship facilitated formation of trust in the mind of an individual about another individual’s ability and personality. However, as it appeared, interpersonal relationship was often more important in identifying prospective employees during the initial stage of the organization. In comparison, when it came to retention of employees, ‘personal touch’ was important in all stages. Entrepreneurs mentioned that maintaining a one-to-one relationship between entrepreneur and employees and treating the employees with trust and care helps an organization in retaining its employees. Interpersonal relationships function as social capital in this manner.

**6.4 Collaboration**

About a century ago, the French sociologist Emile Durkheim (1984), attempting to understand the basis of social solidarity and social transformation, associated the rise of modernity with the growth of industrial societies integrated by organic division of labour. Such ‘organic solidarity’, according to Durkheim, is an outcome of collaborative interdependence existing among individuals and/or collectivities who are unique in their own way. The importance of collaboration, which has always been emphasized in every context, is enhanced considerably in a globalized world. In the context of business, collaboration in the form of a symbiotic relationship among different economic functionaries has become important in order to integrate business processes and thereby enhance effectiveness and efficiency. It is in this context that collaboration is going to be discussed here.

Collaboration, as a concept, has multiple facets, of which two will be highlighted here: First collaboration among founders for forming an organization, and collaboration for growing a business. Such collaboration may develop between both individuals and/or organizations, but in this section mostly collaboration among individuals would be discussed, as that is what has been observed more among the
entrepreneurs studied. In business, collaboration is often institutionalized in the form of a business contract. Even so, the strength of the collaboration often depends upon the nature of interpersonal relationship shared by the collaborators. Trust invariably plays an important role in the formation and maintenance of such collaborations. Experience of the entrepreneurs is a clear testimony to this.

6.4.1 Collaboration for Founding an Organization

Some of the well-established companies in ICT industry were founded by teams of professionals (Neergaard, 2005). Infosys or Mindtree Consulting are standing examples of such companies (Ramachandran and Ray, 2006). This is not to hypothesize that a company founded by a team of entrepreneurs would essentially perform better than a company founded by a single entrepreneur. To disprove such a hypothesis, one can easily point out a large number of well-established companies founded by single entrepreneurs. Nevertheless, there is no gainsaying that most entrepreneurs recognize the benefits of having a symbiotic team with members having expertise in diverse complementary areas. Such team members need not necessarily be founders; they may be inducted later in the company as board members (shareholder or not) or even as employees. Having co-founders with similar mindset would surely help the entrepreneurs in facing the challenges from the initial stage of company operation. However, developing and maintaining such collaborative relationships require the entrepreneurs to share a relationship based on trust. The question remains how people build and strengthen such relationship (Forbes, Borchert, Zellmer-Bruhn and Sapienza, 2006).

Few entrepreneurs, who start their business without investment or other form of strong participation from family members, may be in a position to have outsiders (individuals who are not family members) as co-founders. The reason for this may be traced to the difficulty of extending the circle of trust beyond the family, at least in the initial stage. Amit Sharma founded Sindh Infotech Pvt. Ltd. with partial financial support from his family, whereas Anil Despande founded Tech Writers Inc. with partial financial support and considerable moral support from his in-laws. None of these entrepreneurs has any external member in their company board. Other entrepreneurs who started their business venture by receiving support of family members included Arjun Desai, founder of Win Infotech Ltd. (wife and brother-in-law as co-founder), Vinay Reddy, founder of Software Consultants Pvt. Ltd. (wife as co-founder), Vishnu Krishnaswamy, founder of Techvision (wife as co-founder) and
Rupa Datta, founder of Infonet Pvt. Ltd. (mother as co-founder). However, in some cases family members may be involved in extending the boundary of trust for the entrepreneur by helping her/him establish connection with prospective outside collaborators. This was the case with Alok Dutta, founder of Silicon Networks Pvt. Ltd. Alok Dutta’s father introduced him to a minority owner of a company who later provided a seed fund for starting his company.

*Ex-colleagues* were part of the founding team for Naveen Jayakumar, founder of Datamagic Pvt. Ltd., Dinesh Marwari, founder of Ryze Softech Pvt. Ltd., and Kirti Harlalka, founder of Knowhow. Raj Modi, while founding Softech also had one co-founder, whom he met as colleague at his last work place. However, when founding his second company Raj Software and Communications, co-founder for Raj Modi’s first company had left, as that person had to look after his family business located elsewhere. A new person came in as co-founder. This person was introduced to Raj Modi by a Chartered Accountant friend of his father. Raj Modi said,

> He also was developing some software and all that … He is a science graduate … He had may be five years more experience than me. He was basically a developer. See … I am a marketing guy. I can’t write a code. If I am to write a code it will take me probably two days. [For him it is much easy] … It is a technical and marketing [synergy].

Second collaboration developed by Raj Modi for founding his second company was based on the *symbiotic relationship* that existed among the founders in terms of area of expertise. The same was true for Naveen Jayakumar while founding Datamagic Pvt. Ltd., and for Vinay Reddy while founding his first company. For Vinay Reddy, it was a *mix of relationship within and outside family*. He said,

> … there was another relative of mine who was already working in IT industry. So we went together, brought another local partner as a finance partner and started our first IT company in [19]86 … the idea was to identify the three core areas for an IT company. That was technical, admin and finance. So … he [that is his relative, who was already working in the IT industry] became the technical guy. I took over the admin. There was another guy who took over the finance functions. My friend [the third person].

Here he could extend the boundary of trust beyond family relations, as involvement of family members in his business was not that dense.

Ullas Gowda teamed up with two other people, both his friend, while founding Knowledge Solutions Pvt. Ltd., primarily for the purpose of generating finance. He came to know them initially while working for one of his ex-employers. Both were *his ex-employer’s customers*. Friends also formed the founding team for James John,
founder of Spaceage.com and S. Sivakumar, founder of Datainformatics Pvt. Ltd. Team members of S. Ram at Integrated Software Solutions were his ex-classmates at Indian Institute of Science, Bangalore. Jayant Srinivas, while founding Ahead Technologies Pvt. Ltd., found a collaborator through his mentor. Ranjan Raghavan founded Bangalore Technologies with the financial support of a company for which he was doing technology consulting. However, other than this company his brother was also involved in founding the company. He said,

I was consulting for a Swiss company. And we did a lot of work together and they were very happy with what I had done.... its not social capital, but, then we became good friends, the customer and I became good friend … I think, something had been running on my mind for several years, but I was not very serious about that. But this opportunity just came up and I said sure. Because its not something that I had not thought of. But it was not something that was planned or deliberated. So the suggestion came from the customer and then we said sure why don’t we do it? So that’s how we started the business.

Where as for Ullas Gowda the co-founder was a customer of his ex-employer, for Ranjan Raghavan it was his own customer.

Kunal Raman, founder of Sharp Technologies Pvt. Ltd., said that earlier in his career as an entrepreneur he was part of the founding team of a company that his brother had founded. The formation of that company involved a symbiotic relationship between his brother and his brother’s friend who was also a founder. He said,

… there was one of my brother’s friends who … just set up a company in the US … He was a kind of one man show. He was trying to develop a product on his own. And then okay we were medium, we had a ten or fifteen people team. We were doing some work and on the site we were developing some products on our own … Then this brother’s friend who was who had some good product, just a basic thing he had developed. So we all met and then we decided okay may be we should work together and then we created a company all of us … my brother’s friend’s company and our company kind of merged it and created another company.

Kirti Harlalka, founder of Knowhow had similar experience:

I think most important factor [in formation of collaboration] was personal as we say likeability or trust. Those are very subjective thing. Second is a complimentary availability of skills. I didn’t think I would be very good at business development. And she was very good at it because she had been a freelancer before having sourced projects from other organizations. That was I guess the primary reason. Other factors were she had experience in a different kind of research and I had experience in different kind of research. So yeah complimentary availability of skills.
6.4.2 Collaboration for Business Growth

Collaboration is necessary not only for founding an organization, but also for that organization to attain maturity in terms of business growth. However, the nature of such collaboration differs from the one required for founding the business, particularly as regards the role of relationship. Trust plays an important role in case of both type of collaboration, but it is often formalized in the latter. It was observed that, for founding a company, an entrepreneur often collaborates with individuals/organizations with whom he/she shares a strong tie, for example, family members, friends, ex-colleagues or ex-classmates or ex-customers who later become friends. Whereas, it was not necessarily so in case of developing collaborations for making the business grow. However, formal collaboration could develop with the intervention of an individual or organization with which the entrepreneur shares a strong tie.

Ajay Aggarwal, founder of Netware Pvt. Ltd., was helped by his uncle in building collaboration for developing his business in the USA. He said,

Recently, say like 2004/05, that’s when we actually got into software export. We got our first contract. That was through the contact … US is a very big market but when you are doing overseas work there is risk at both the ends that is you are at a risk of payments, the company which is giving you the contract is at the risk that if that company does not deliver who is there to feel and touch. So they are comfortable if there is someone representative of that company in US or in their state for there’s someone known who is saying that yes this person is there he will vouch for you. So I had my uncle there who helped me get this deed. But obviously after that deed if your service quality is not there you are not going to be able to retain that customer. But we have that contract now running in the 3rd calendar year where we still have that project running and through that there have been smaller project which have come across. And we have done work locally whereby we have been able to establish ourselves, again get the confidence of few set customer who have been very proactive in promoting us within their contact group … And actually that is what has driven our business in the last three/four years. We don’t have any sales agent.

Development of business partnership may be facilitated by the existing customers. This was the experience of S. Sivakumar, founder of Datainformatics Pvt. Ltd. S. Sivakumar is a reseller who deals in Apple Computers and some software products. While explaining the way in which he had built such relationships, he said,

Those days Apple Computers were sold by traders who did not have the technical background, who were not supporting their customers … So some of the customers, aggrieved customers, who brought the machine came to us through some reference. That’s how I told you the third
one director joined us. That person only brought machines to us and we solved the problems and we were very thrilled and that’s when he felt that … [he] should become partner to us. So it started. Because we could service these computers well. Some of the users of these computers told us you guys are able to do very well. Why don’t you sell the machines? Because of, I would say, social pressures, customer encouragement and motivation we took the dealership of this product and we could easily convince customers because … we were genuine. Supporting these computers is more difficult than just selling. Because that really boosted our business.

The same was true when he became a sales agent in India for a German software products company.

…the customer said why don’t you sell this product, somebody said why don’t you tie-up with this company, they are fairly good … It was not my selection, it was one of my customer’s, that’s how; I didn’t even know what they are dealing with, I didn’t even know how valid it is.

However, it is not necessary that collaboration for expanding business would develop out of relationships. About one of his business partners Hitesh Patel, founder of Knowledge Software Pvt. Ltd., said,

… they are an online software distributor. So we give them the software and they will distribute it for us … Well, I didn’t identify him. He identified us … we were exhibiting at an exhibition in Germany. He walked into our booth. We had a small chat. He looked at it. He is a very experienced man in software business. He realized the importance that this is a utility product for an individual user.

Similar was the experience of Kunal Raman, founder of Sharp Technologies Pvt. Ltd., whose business collaborators contacted him by looking at his website.

The discussion clarifies that, trust, emerging out of strong ties shared by entrepreneurs or their acquaintances, plays an important role in building collaborations. Given that trust emerges out of interpersonal relationships, this is another reason for visualizing interpersonal relationships as social capital. Different forms of interpersonal relationships which were observed in this context included friendships and/or work relationships with family members, ex-colleagues, and customers and ex-customers. Often, such relationships were based on complimentary availability of skills among collaborators, thus giving rise to a symbiotic relationship. It appeared that trust played a comparatively less important role in developing collaboration for business growth than in building collaboration for founding an organization. Sometimes trust emerged out of collaboration for business growth. Collaboration for business growth may even develop among two
individuals/organizations who shared no prior direct or indirect relationship. This is never the case when it comes to collaboration for foundation of an organization.

6.5 Relationship with Government

In India, as elsewhere, ICT industry has almost achieved an iconic status in the new economy. This is particularly true for many Asian countries which only recently have found an esteemed place on the economic map of the world. In India, ICT industry is often visualized as an offshoot of economic liberalization which began in the mid-1980s. The most significant step in this direction was the introduction of New Economic Policy in 1991. However, motivation to implement liberalization has varied across the states of India. It has been hypothesized that such differential initiatives in states (as introduced by state as well as central governments) is largely responsible for varied development of ICT industry in India (see Heeks, 1996; Heitzman, 2004). Although arguments emphasizing governmental role in the development of ICT clusters in cities like Bangalore, Hyderabad, Pune, and New Delhi have been put across by academic analysts, entrepreneurs provided us with diverse impressions about the role of government in this industry.

Amit Sharma, founder of Sindh Infotech Pvt. Ltd., recognized the role played by the government in setting the foundation of ICT industry:

In 1986 December the Department of Electronics held an annual symposium in New Delhi at Pragati Maidan. They held, a big seminar lasting two days in which particular focus was on computer software. And that came because Rajiv Gandhi in his first year did this fantastic thing and really speaking that is really a phenomenal thing which he did which people don’t recognize. But he laid the foundation for the IT industry. And in 1985 per se he became the prime minister. And [19]86 December he laid out this policy in which he encouraged because he was computer savvy. So he encouraged this computerization.

Paradoxically, the same Amit Sharma, who appreciated the role of government in development of ICT industry later on mentioned that one of the reasons he decided to diversify into the ICT industry was that it had “minimal government interference or even government awareness”! Dinesh Marwari, founder of Ryze Softech Pvt. Ltd. also had a similar negative impression about the government:

In my personal opinion the farther the government stays from the industry the better it is. The government should and currently plays a role in policy setting … I think, software industry is an example of an industry where the government was probably sleeping when it was created.
So they did not have time to create frameworks and policies to regulate the industry. And that’s the reason why we have been so successful. If you look at any other industry there’s hundreds of regulations. And whenever we have regulations, its just another form of restriction and when there is restriction then you have to cross-hurdle, you have corruption, you have this, you have that. Software as an industry, fortunately it’s a very, by default, its an intangible industry in the sense that you are not showing something that you are producing. Its all on the computer. Its sent through the internet back to your clients. So there is nothing that you are showing. So its very difficult to get your hands around it. So in my opinion the government as a regulator need not do much in the software industry. They probably realized that now, that it’s a great industry, its doing very well. If I do anything its probably going to mess with it rather than help it … I think the software industry today has got a lot of potential. But I think the potential, the real potential is being realized only by the top guys, the top five/seven/eight/ten/twelve companies in India. And there is a big challenge and a stretch that a small company has to do to cross a particular critical mass within the industry in terms of size for it to multiply and reach a certain scale. So I think the government has to probably do something to help the SME industry in some ways. I don’t see the government I don’t think there is anything that they are doing right now, I don’t see any plans either. But there are a lot of things that they can do to help it.

Dinesh Marwari highlighted the need for government to support the Small and Medium Enterprises (SME) segment of the ICT industry. Similar argument was advanced by Kirti Harlalka, founder of Knowhow. She felt that government does not have any way of facilitating the growth of educated women entrepreneurs like her who are functioning at a smaller scale, particularly in the service sector.

After 1987, the Department of Electronics (DOE) had developed the Software Technology Parks of India (STPI) scheme in order to attract offshore software production houses and 100 per cent export-oriented units by offering broadband communication networks, reliable infrastructure, tax reliefs, etc. (Heitzman, 2004). In the course of discussion, it came out that, for a large number of entrepreneurs, relationship with government meant relationship with STPI, as that was the only specialized governmental organization other than the Registrar of Companies and taxation departments that they had occasionally got in touch with. Vinay Reddy, founder of Software Consultants Pvt. Ltd., recognized the way in which he was benefited by his association with STPI in the past. He said,

… in those days to import a mainframe was a big task, so impossible. Foreign exchange wouldn’t be released. And so finally the Software Technology Park was set up where they imported one of the first machines so that even I had access. Otherwise everything was onsite. See the whole thing was onsite till I would say till [19]89/90. This is onsite model. Only then
slowly started the Software Technology Parks were set up, so they could import hardware, *access to mainframes* or midrange machines or whatever they were called ... So you could try hands on. Otherwise, it was all restricted to few companies – Tatas and few companies, who could import that kind of equipments with heavy investment and also guarantee that we will export.

**Similar observations were made by Ranjan Raghavan, founder of Bangalore Technologies. When asked about his association with government, he said,**

... given that we are an STP unit in a liberalized economy, I think we have to comply with several statutory requirements and we also enjoy the *benefits of customs duty waiver*. So that helps. That definitely help ... I think we were able to put together *infrastructure at definitely a lower price* than we would have otherwise if we had not been STPI unit. And then I think we keep getting, not that it has materialized into any benefit for us, but *we keep getting leads and invitations from STPI* for delegates that come to visit India from overseas. We haven’t been able to turn that into an opportunity and business. But at least STPI tries it part to help [with] *friendly referrals* and stuffs like that. So I think government has definitely played some part. Definitely and the cost side I think it has been it has helped us.

S. Ram of Integrated Software Solutions also highlighted the benefits of association with STPI:

... definitely *some of the clearances are faster*. Like having the *bonded warehouse* in your place and so on and so forth. For example, here we have bonded warehouse. So ... to import certain items required by work and so on those clearances are faster. Otherwise, you have to run to different government departments and STPI is a clean organization unlike many other government departments ...

He also mentioned how *favourable taxation policy of the government* has facilitated the growth of ICT industry in general:

*Taxation policies of government definitely help the industry grow.* There’s no denying that. And now some of them might get modified ... So some new taxes have come in and so on and so forth. But some more clearer legislation would be definitely be helpful. Sometimes the rules are not very clear and so on as to what attracts tax and what doesn’t attract tax.

Mangalam Srinivas, founder of Global Technologies Pvt. Ltd. also discussed his relationship with STPI. However, other than complying with rules and regulations he did not mention about any specific way in which he was benefited by his association with STPI. He elaborated on his relationship with the Registrar of Companies, which of course, any company needed to maintain:

We come under the Software Technology Park Scheme, that is a Government of India scheme. So STP and STP relations are very important. Because there is from an operational viewpoint we are part of the STP. So we comply with their rules and regulations and we keep them fully informed. There is a reporting guideline of how we have to report the company’s progress. And we are a company registered in India. So you have to keep your reports available to ROC
[Registrar of Companies]. So those basic complaints we do. In terms of business if you look at it we don’t do directly much business with government…. So there’s indirect relationship, but not direct relationship.

Naresh Ponnaiah, founder of Sunshine Technologies Ltd. also felt that relationship with government organizations was important:

… I would say these government bodies are facilitating and basically helping making our life little easier. I think without them also you can grow…. If it takes ten months to succeed with them, it would probably take eleven months to succeed without them or probably twelve month. That’s all the difference is. But I think they greatly help us in making our things simpler for us. For example, STPI helps us in getting the network connectivity, the internet. And they are very lenient when it comes to payment. For example, we are a start-up company, meaning if you are running through a private provider, if you don’t pay your bills on time they will cut your connection. But because STPI is helping, small companies to grow up even if there is a little bit delay in payment they will tolerate with us and they will talk to us and collect it. Because they play that parenting ... incubating role and they are doing a fantastic job.

However, not each entrepreneur recognized any significant contribution of government in their business operation. Many organizations had very little interface with government. K. Padmakumar, founder of Frontech Ltd., said,

I am sorry to say that I don’t think we have ever kept any relationship with any government bodies…. our company’s profile is different. We have never felt the need we are not in sink with any government bodies at all. Frankly I don’t even know who is the IT Secretary of Karnataka. See nothing to say about the government. It is just that … we come here morning 8.30/9.00 and we work till about 8 O’ Clock. And all the time we sleep, breathe only product. So we have very less time for any other activities except to keep the life in full balance.

In this chapter, under the broad rubric of ‘business ecosystem’ we have discussed the various aspects on which business development depends. This included financial investment, physical infrastructure, human resources, collaborations, and relationship with government. It was observed that in each of these aspects interpersonal relationship functioned as social capital for entrepreneurs. Interpersonal relationship was valuable for entrepreneurs in giving direct or indirect access to various resources. With reference to indirect access, reference often played an important role. The way in which relationship facilitated access to resources varied considerably depending on the nature of the resource the entrepreneur was seeking to access. For example, there was difference in the role of relationship in collaboration for founding an organization from collaboration for business growth. Role of relationship also varied depending on the maturity of a business. For example,
relationship often plays more significant role in identifying human resource in the start-up stage of business than during the growth stage. Role of trust was repeatedly mentioned by entrepreneurs in this context. Trust, as it appeared, developed out of interpersonal relationship. Once developed, trust played an important role in strengthening the relationship.