Chapter 27

Overview of Venture Capital Avenues for Business Process Outsourcing Companies in India: Conceptual Approach

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ABSTRACT

India became a prominent destination for outsourcing in the services sector in the 1990s. Outsourcing to India started with the IT industry, which has responded to the changing market requirements by increasing the scale of operations and capability to handle complexity. Business Process Outsourcing (BPO) in India has grown rapidly as compared to software services as the advantages offered by the country (low cost and abundant talent pool) were well known and tested in IT outsourcing. Most of the infrastructure required was already in place, and companies needed to set the processes right to get BPO going in India. Funding is the essence of any corporate growth story, and the Indian corporate are spreading around the globe with some remarkable takeovers. Coupled with the fact that India has highly skilled manpower with leading global tech, companies are setting their ventures, research and developmental activities in India with the help of venture capital avenues. This chapter highlights some of the venture capital avenues and government policies that have proven very beneficial in the growth of the IT/BPO industry. These favorable government policies have gone a long way in making India an outsourcing/IT hub. Finally, this chapter conceptualizes the implementation of venture capital avenues and application in IT/BPO industry. The major limitation of this chapter is conceptual in nature, which will definitely form a base to test empirically.

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INTRODUCTION

After the success achieved in information technology, the time has come for seizing the ample opportunities in several other areas like bio-technology, pharmaceuticals and drugs, agriculture, food processing, telecommunications, call centers, business process outsourcing (BPO) and services. The vast pool of skilled and cost competitive manpower, technology and research institutes, and entrepreneurship need to be catalyzed through proper policy support and financing of risk capital for achieving this objective. Venture capital funding is critical in this context. In the life-cycle of almost every business, in any sector, venture capital funds can play a very useful role in solving the problem of the pre initial public offering (IPO) financing. Venture Capital funding is different from traditional sources of financing. Venture capitalists finance innovation and ideas which have potential for high growth, but with it, inherent uncertainties. This makes it a high-risk, high return investment. In addition to finance, venture capitalists also provide hands-on management support and other skills that help to convert the entrepreneurial vision into marketable products.

According to Bruton et al. (2003) A flourishing venture capital industry in India will fill the gap between the capital requirements of technology and knowledge-based startup enterprises and funding available from traditional institutional lenders such as banks. The gap exists because such startups are necessarily based on intangible assets. Traditional sources of finance are more comfortable with tangibles. Venture capital supported enterprises would convert into quality initial public offerings (IPOs) providing over-all benefit and protection to the investors. Additionally, judging from the global experience, this will result in substantial and sustainable employment generation. The spin off effects of such activities would create other support services and further employment. While success stories of young, technically qualified entrepreneurs in India as well. Furthermore, a number of senior managers have been leaving established multinationals and Indian companies to start new ventures. The quality of enterprise in India is on an ascending curve. The atmosphere, thus, is ripe for creating the right regulatory and policy environment for sustaining the momentum for high-technology entrepreneurship. The Indians abroad have leapfrogged the value chain of technology to its highest levels. By bringing venture capital and other supporting infrastructure, this can be encouraged to happen at home too.

In this report, beginning with a consideration of the wide role of venture capital to encompass not just information technology, but all high-growth technology and knowledge-based enterprises, the endeavor of the Committee has been to make recommendations for changes in the legal framework and regulations that will facilitate the further development of a vibrant venture capital industry in India.

AIM OF THE PAPER

This paper is designed to provide a comprehensive picture of venture capital avenues for BPO companies. It tracing out the need of venture capital, kinds, its evolutionary stages in raising venture capital by BPO companies.

BACKGROUND OF THE STUDY

Between taking-up a job for salary and starting their own risky business venture, many educated youth prefer the former which, they think, will give them comfortable existence. Besides, people have become risk-averse, conditioned by their direct and indirect experiences. What is needed at present is change in the mindset at a faster rate never before seen in history. Every human behavior is positive, that is, goal-directed, backed by true-will. There is a passion and commitment to start their own