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Unveiling Best Practices for Competitive Edge: A Literature Review on Enhancing Private Equity Competitiveness in India

Nidhish Prasad N Singh
FCCA, CISI, SP Jain Global School of Management

Dr Priti Bakhshi,
Associate Professor, SP Jain Global School of Management

Abstract:
The Indian private equity industry has grown rapidly in the past decade. India must follow best practices to compete globally and attract investors. This study examined the best practices in six areas with the help of around 170 past research papers: Economic Activity, Taxation & Legal Codes, Capital Market Depth, Investor Protection & Corporate Governance, Human and Social Environment, and Entrepreneurial Culture after reviewing over 170 relevant articles. Private equity consulting firms, Preqin, and Private Equity International provided data for the study.
The paper seeks to pinpoint the research deficiencies in determining the effective strategies for Private Equity in a specific sector, sub-variable, or independent factors when the findings are unclear.
This research covers best practices to boost India's private equity competitiveness globally. Most of the research papers confirm that any developing country such as India can attract private equity investments and become a global capital hub by improving the legal framework, simplifying tax regulations, developing capital markets, strengthening corporate governance, and implementing investor-friendly economic policies. However, certain steps and policy changes are required cohesively to achieve the results in the long term.
The outcome of this research paper will set the ground for a more detailed study to execute the policy changes and adopt the best practices at the grassroots level.

Keywords: IPO; International Private Equity; Corporate Governance; Indian Business Ecosystem; Emerging Market

1. Introduction

Private equity is a collective investment and reserve capital that invests in equity and fixed income without public investment. It uses Leveraged Buy Out, Management Buy Out, and Growth Capital. 2013 (Chakravarty). Private equity is a partnership that invests in new ventures, struggling companies, and startups that need capital and expertise to grow. (Koponen 2015).

Funds buy portfolio companies with the expectation of a profitable exit in a few years. The general partner decides which properties or companies to buy, manage, and sell (P. A. Gompers & Kaplan, 2022) Limited partners share gains and losses but have no decision-making power (Matthew Hudson, 2014). The investment firm usually sponsors multiple special-purpose private equity investment funds as separate partnerships. A fund typically has a ten-year lifespan, but it must invest limited partner capital in the first three to five years or return uncommitted capital and management fees. Private portfolio companies are not marked to market (Metrick and Yasuda, 2010)

Private equity began in the US with two big waves. KKR acquired Fortune 500 company Houdaille Corporate four decades ago, Zeisberger et al., 2017a. The second wave began in 1990 and ended in 2007, with 1500 deals (Appelbaum, Batt, 2012). The 1970 Capital Gains Tax Reform and 1974 Employee Retirement Income Security Act (ERISA) allowed pension funds to invest in PE and VC, which boosted the PE industry.(Kocis, Bachman IV, Long III, Nickels, 2009)
In recent years, Private Equity invested $778 billion in 2018 (McKinsey Global Private Markets Review, 2019). Except for 2006 and 2007, every year since 2014 has had a higher deal value than the previous cycle. The industry has enjoyed unprecedented investor interest, supported by strong equity markets, low interest rates, and steady GDP growth in the US and Europe (Hale, 2015; Kocis et al., 2009). Naturally, experts debate how long the good times can last. Only one US recovery (from 1991 to 2001) has lasted as long. While Western GDP growth remains strong, US interest rates are rising

as inflation rises in the US and Europe (Cumming, 2010; Kent Baker et al., 2015). Slowing Chinese growth, global trade tensions, Brexit uncertainty, and year-end market volatility raise concerns that this cycle may be ending. (February 2019 Bain Report).

Underlying structural challenges in the growth trajectory of Indian Private Equity

The Indian PE market has its own limitations. The opportunities are huge, but the challenges are too, including complex regulatory framework, uncertainty and challenges around GAAR, double tax treaty, and bankruptcy laws, fair valuation and performance reporting issues, operating framework, corporate governance, integrity, and risk and performance reporting complexity. PE firms sometimes need approval from eight offices before signing a deal (Knowledge@Wharton Report on PE, 2019).

Need for further exploration of best practices to improve Indian Private Equity Landscape

Thorough research is needed to address critical PE industry issues in India. The Indian private equity market has unique demographics, culture, business, and regulatory environments. Global best practices are assessed for suitability in the Indian business context.

Section 2 enlists the independent factors used to systematically study the literatureunder the relevant category. Sections 3 and 4 elaborate on the literature review's scope and the article selection process, respectively. Subsequently, section 4 performs a thorough study of the literature across time and jurisdiction to synthesize the practices followed in various Private Equity markets, what worked, and the learning outcome for the Indian Private Industry.

2. Research Question

This articles exploresthe impact of the following six factors on the Competitiveness of Private Equity in India.

I. Economic Activity (EA)
II. Taxation & Legal Codes (TL)
III. Depth of Capital Market (DC)
IV. Investor Protection & Corporate Governance (IP)
V. Human and Social Environment (HS)
VI. Entrepreneurial culture (EC)

This study examined the required policy, practice, and business changes in the six areas mentioned above. Essentially, the article explored the factors impacting Private Equity in India and changes made globally from various fields required to catapult the competitiveness of private equity businesses in India to a higher level.

3. Literature Review

The research divides the six broad areas into 27 sub-variables and creates metrics to study the best practices under the relevant categories. This report balances economy, finance, and culture to assess a country's market competitiveness. It provides a ready list of factors and sub-variables essentialfor the private equity industry in India and other Asian countries, making it a hotspot for investment.

4. Literature Selection

Overall, 500 literatures were studied and analyzed from various areas related to Independent Factors and Sub-variables. Out of 500 articles, 170 were shortlisted, their key takeaways summarized and essence of that entire 170 articles are used for this research paper. Overall, 60 articles are referenced in this research to keep it more focused and suit the requirement of a standard review paper.

Although every attempt was made to choose recent articles, some of the older articles from the 1980s and 1990s were equally important. They provided valuable insights and a strong foundation for the subjects at hand. Nonetheless, 80% of the articles used in this study were written after 2010.

5. Literature and Discussions

In the Introduction section and literature review, there was a discussion on the suitability of the model to establish the factors and variables which can potentially impact the private equity industry in India. Subsequently, the shortlisted

model and the variables were discussed as part of the literature review to further validate if the established academic research agrees to the identified factors listed below.
The literature review also confirms those factors, which are also listed below:

i. Economic Activity (EA)
ii. Taxation & Legal Codes (TL)
iii. Depth of Capital Market (DC)
iv. Investor Protection & Corporate Governance (IP)
v. Human and Social Environment (HS)
vi. Entrepreneurial culture (EC)

5.1 Economic Activity

Empirical studies suggests, there is a negative relationship between private investment and economic uncertainty. Measures and sources of uncertainty include interest rate uncertainty (Ferdrer, 1993.), real exchange rate uncertainty ((Stevens, 1998);(Darby et al., 1999)(Pindyck et al., 1993)(Michael F. Bleaney, 1996)(Servén, 2003), inflation (Pablo Andrés Neumeyer, 1998), real interest rate (Mushtaq & Siddiqui, 2016); exchange rate uncertainty (Pindyck et al., 1993)(Soleymani, M., & Akbari, 2011), and terms of inflation, trade and real foreign exchange rate volatility (Aizenman, 1999).

Private investment to total investment grows proportionally with real GDP. (Blejer, M. I., & Khan, 1984) Romain and van Pottelsberghe de la Potterie (2004) found that VC/PE activity significantly affects real GDP growth.(Romain, A.; van Pottelsberghe de la Potterie, 2004)
Another study found a counterintuitive relationship between economic growth and Private Equity returns, requiring further study(Diller & Kaserer, 2009). While liberalization post-1991 has accelerated manufacturing and economic growth (Mishra, 2018), RSM and Pitchbook data warn of a slowing economy drying up Private Equity exit opportunities (Chinyamutangira, 2022). Unlike Diller &Kaserer, another study confirms that developing countries' economic growth has driven PE investment (Banerjee, 2008).

5.1.2 Size of the economy (EA2)

Wilton claims that GDP is one of three catalysts that can foster private equity investment(Wilton, 2012).Bain found that each percentage point of GDP growth requires $30 billion in capital. (Sheth, Arpan; Singhal, Madhur; Rajan, Srivatsan; Bhaskaran, 2016). Given the current equity and debt market growth, VCPE must double investment to meet the country's growth target(Dugar & Pandit, 2017). The research relies on Venture Intelligence, India secondary data. The article does not address how the VCPE market met India's growing investment capital needs.

5.1.3 Employment (EA3)

Job growth boosts consumer demand, GDP, and private investment, including private equity. Employment growth reduces economic volatility(Mehrotra, 2017). Thus, rising employment and workforce participation can boost consumption, cash flow, and investment confidence.

5.1.4 Rate of Interest (EA4)

Interest rates affect private market capital supply, and bonds are an alternative to venture capital and private equity. If interest rates rise, venture capital may suffer (Lerner, Josh; Gompers, P 1997)**.** This issue is unclear from research, industry reports, and data (Eesteren et al., 2023).
Research shows that venture capital and private equity, which are new, favorearly stage funds and that early stage entrepreneurs find it easy to raise funds in high-interest rate environments. High interest rates make venture capital more appealing to entrepreneurs (Bellavitis & Matanova, 2015). When interest rates rose sharply in the early 1980s, funds raised increased rapidly(Romain, A.; van Pottelsberghe de la Potterie, 2004)
Thus, interest rates affect venture capital demand and appeal of private equity and venture capital (Rollins, 2023).
Over time, GPs' leverage has declined from 46% of value creation before 2000 to 22% since 2008. Since 2008, operational enhancement and exit valuation have contributed 75% of the value increase (Rollins, 2023). Another Reserve Bank of India study claims that lowering the interest rate may lower project/investment cash flow and lower the IRR below the interest rate. In addition, rising uncertainty may raise risk premia, raising the hurdle rate above the IRR. A lower interest rate may not help the regulator, economy, or Private Equity managers. The RBI found that a 100-point real

interest rate increase reduces investment by 50 points, hurting the investment market (A. Srivastava et al., 2013). Interest rate private equity has non-linear effects.

Thus, while interest rates seem to play a role in financing entrepreneurship's investment, they have no clear relationship with Private Equity growth, value creation, or return multiples.

5.1.5 Growth in Infrastructure (EA5)

State funds cover 92% of infrastructure investment in Asia and the Pacific, but fiscal deficits and rising public debt make it difficult for some economies to meet these requirements. Developing countries need $3.7 trillion for infrastructure development (Global Infrastructure Hub 2017a), while South Asia and Southeast Asia need $1.7 trillion annually (Global Infrastructure Hub 2017b). In 2018, global foreign aid was limited to $147 billion (OECD 2018). These levels have remained stable in line with recent years and are unlikely to change significantly (Sawada, 2023).

Nearly 4 billion people are in the global middle class for the first time, surpassing 50%. Wealth in the global economy rose $61 trillion from 1990 to 2015 (Kharas, and Hamel 2018).

A good private equity infrastructure fund is essential for developing countries' growth and is highly sought after because it helps businesses build infrastructure(Yoshino, Hendriyetty, Lakhia, 2010). State infrastructure development affects private investment feasibility. Thus, infrastructure provides an opportunity for private equity investment and a conducive ecosystem for development, attracting more private investments (Runde 2020).

5.1.6 Stability of Currency (EA6)

Currency fluctuations affect the cost of imported capital goods, affecting private sector profitability and investment patterns. This could also change the economy's income, affecting production capacity. (L. Servén, 2003)

Previous research does not demonstrate a consistent impact of exchange rate volatility on European investment. The UK and Italy benefit less from exchange rate controls than France and Germany. (Darby et al.,1999)Real exchange rate uncertainty hurts investment in highly open economies and those with weak financial systems. (Servén, Luis, 2003).

5.2 Taxation & Legal Codes (TL)

Anglo-Saxon countries like India follow common law with legal principles and regulatory and enforcement structures similar to the UK and US. Thus, foreigners must understand legal foundations and principles to understand the Indian legal system.

Freedom of contract and proper enforcement of contractual provisions freely entered in accordance with relevant laws underpin the Indian legal system.

The capital gains tax rate affects VC/PE activity, say Gompers and Lerner (1998). Their findings support Poterba (1989), who developed a decision-model for entrepreneurship (Gompers et al., 1998). Bruce (2000& 2002) and Cullen and Gordon (2002) argue that taxes help businesses enter and exit. Djankova et al. (2008) demonstrate that corporate tax rates strongly impact entrepreneurship. Bruce and Gurley (2005) say higher personal income taxes increase entrepreneurship(Bruce & Gurley, 2005)..

Many regulators in emerging markets like India are reactive rather than proactive, and effective regulation boosts an essential industry like PE(Rohan and Vidhu, 2016).

SEBI (Venture Capital Funds) Regulations, 1996 and Foreign Venture Capital Funds Regulations, 2000 regulate Indian and foreign venture capital funds. Foreign private equity/venture capital fund investments must follow foreign capital inflow restrictions. The Indian government limits FII investment to 10%. However, the maximum FII investment in each publicly listed company may be lower than the foreign direct investment cap. FIPB approval is required for foreign investments above the sector cap under the FDI route. Also applied to investments in sectors where FDI is prohibited or where FIPB approval is required. (Chakrabarti,2013)

The Double Taxation Avoidance Treaty (DTAA), Place of Effective Management (PoEM), Base Erosion and Profit Shifting (BEPS), Multilateral Instruments (MLI), and General Anti Avoidance Rules regulatory changes in 2017-19 give investors hope. These changes brought long-term structural changes to the industry by giving global investors confidence in consistency, fairness, and transparency and ensuring India collects a fair share of investment income tax. (MG, Vineetha; Vittalachar, 2019)(Bratton & Mccahery, 2010)

The Income Tax Act applies to Foreign Venture Capital Investors (FVCIs), who have no tax exemptions. In the case of a non-resident investor from a country with a tax treaty with India, the Income Tax Act only applied to the extent that it is more advantageous. Thus, a Foreign Venture Capital Investor (FVCI) that invests through a tax treaty jurisdiction can benefit. India revised its double tax avoidance agreements with Mauritius and Singapore on April 1, 2017, eliminating tax benefits. However, investments made before April 1, 2017, through Mauritius or Singapore entities are exempt from new regulations. GAAR was implemented by the GoI on April 1, 2017. This rule promotes tax transparency and prevents evasion. (Amitabh Khemka; Uday Ved, 2022; MG, Vineetha; Vittalachar, 2019)

In a landmark PE ruling, an Indian court allowed the put option over the ROE, which meant the company management was in default of the agreement and the price of the put option was only enforceable as damages to the PE company (Majumdar,2020).

Indian regulations require multiple clearances and lengthy processes to sign a deal, another structural issue. Demonetization, retrospective tax-laws, and several bodies that can suddenly change business regulations with long-term negative effects contribute to the unfriendly business ecosystem (Knowledge@Wharton PE Report, 2019).

Constant regulatory changes, market volatility, and increased regulatory disclosures discourage PE investment in developing countries(Banerjee,2008).

The PE industry's main drawbacks are taxation and regulatory bottlenecks, transparency, performance reporting, poor deals, and frequent policy changes (Roy, 2017; Caselli, Negri, 2018). The author discussed the challenges and their effects, but little is known about what causes them and how regulators, policymakers, and other market players respond.

5.2.1 Entrepreneurial Tax Incentive & Tax filing (TL1)

Like the US, the UK has many start-up and R&D incentive programs. Startups can mark down their tax rate to 0%–19% of revenues under fiscal rules.

Venture capital funds organized as 10-year limited partnerships (LPs) can deduct capital gains in the UK and US, but other income and expenses are taxed. Venture capital and private equity funds invest in risky companies that traditional banks cannot. The limited partnership (LP) is the most common UK venture capital fund structure. To receive legal benefits, the Limited Partnership (LP) must operate for at least 10 years, with a possible extension of 1 year, and raise funds within 1 year. Certain restrictions apply to corporate venture investors. Companies that are not publicly traded can own up to 30%. Corporate ventures receive a 20% tax credit and untaxed profits from selling investments if reinvested within three years(Caselli, 2009; Olbert & Severin, 2020).

Some industries may restrict foreign investors, but most emerging countries allow private investments in all sectors. Private equity (PE) investments require a longer time frame and a favorable environment for new businesses. Thus, regulatory policies and market entry barriers can significantly impact private equity investments. Industries with high growth potential and good investment policies attract more private equity investment.(Caselli, 2009)

For fiscal neutrality, funds are pass-through internationally, and investors are taxed individually. This is important because certain revenue streams may be taxed at the fund level but exempt for individual investors based on their investor status. Indian Securities and Exchange Board-registered Category I and Category II Alternative Investment Funds (AIFs) have pass-through status. These AIFs must withhold 10% of income credited or paid to resident investors and determine non-resident investor tax rates based on current rates(Nishith Desai, Richie Sancheti, Nishchal Joshipura, Mansi Seth, 2017).

The UK provides generous tax incentives for investments in funds that target small unquoted high-tech companies, disadvantaged companies, or start-ups. Private individuals may be able to offset losses from investments in unquoted companies against income tax if there are no capital gains. Israel's high-tech economy is another example. Startup founders and VC funds receive generous tax breaks in Israel. This helps Israel have one of the most vibrant VC scenes outside the US. Thus, despite its geopolitical instability, Israel attracts VC and PE funding and ranks highest among its peers. Chile, another Latin American winner, exempts angel or seed capital investors' capital gains from tax profits (Bhardwaj et al., 2018; Groh & Liechtenstein, 2009; Kend & Katselas, 2013; Schwab, 2019).

5.2.2 Efficiency in Tax payments: Federal & State machinery (TL2)

Private Equity transactions like capital gains, earnings, and dividends may have different taxes, so there are several options:

- Participation exemptions
- Flat-tax approach
- Transparency taxation

The Indian government introduced the GST in 2017 to combine all indirect taxes. A unified registration process makes it easier to start and grow businesses under the new system(MG, Vineetha; Vittalachar, 2019).

5.2.3 Clarity in Taxation - Comprehensive & Transparent rule (TL3)

The Indian Companies Act 2013 has made few amendments that do not simplify foreign investment in private limited companies.

PE investors usually receive dividends, interest, or capital gains.

Dividend: Residents pay 10% and non-residents 20%.Interest: ITA taxable @5% or 20% (plus surcharge and cess) beneficial DTAA provision may be explored.

Listed securities' LTCG may be taxed at 10% or 20% (plus surcharge and cess). STCG on STT-paid securities is taxed at 15%. STCG from other securities is taxed at their rate.

Taxation of Category I and II AIFs as per Indian rules:

• Pass through status means that any income (other than business income) earned by the AIF is taxable in the investors' hands in the same way as if the income were accruing or arising to or received by such person had he made the investments directly. This income is exempt for the fund.

• AIFs pay maximum marginal tax on business income, while investors pay no tax.

• AIF to withhold 10% and non-resident investor rates on non-business income paid/credited to residents.

The rules above are unclear and need clarification:

a. Tax withholding on investor payments: gross or net (after AIF expenses).

Should investors claim AIF expenses as deductions?

c. Foreign investor: overseas vs. onshore pooling

d. Multi vs. single scheme AIF

e. Taxability and distribution of premiums paid by new investors during multiple closings.

f. Indian tax credit for US investor (Grant Thornton, 2021).

5.3 Depth of Capital Market (DC)

India's private equity growth depends on capital market depth. Authoritative relationship bankers must understand how strong capital markets grow private equity firms.

A strong capital market allows private equity firms to fundraise, and they need lots of cash to grow. Through deep capital markets, these firms can reach institutional, high-net-worth, and retail investors. This diverse investor base boosts private equity firm credibility and capital(Gilligan & Wright, 2020; Rader & Gelfer, 2023).

5.3.1 IPO and Public Issuing Activity (DC1)

Jeng and Wells (2000) emphasize that IPO activity drives cyclical swings because it reflects VC/PE fund returns. (Leslie A., Jeng, 2000) Kaplan and Schoar (2005) agree(Kaplan & Schoar,2005).

Indian firm financing is difficult due to PE ratio, which is 21 times overvalued, while HK exchange Chinese stocks are 15 times overvalued and more competitive.(Banerjee,2008).

Bain and McKinsey's Private Equity in India (2017) articles detail deals, volume, and dry powder, but they don't address industry issues or solutions. (Sheth, Arpan; Singhal, Madhur; Rajan, Srivatsan; Bhaskaran, 2016). Jeng and Wells, 2000, who studied VC financing determinants in 21 countries using 15 of them over 10 years (1986-1995), may be the seminal work in the field. They found that total IPO market value and Center for International Financial Analysis and Research Accounting Standards ratings were the strongest determinants of VC investment. Ironically, market capitalization and GDP growth were not significant in their analysis.

5.3.2 Merger & Acquisition Market (DC2)

After 1990, mergers and acquisitions increased in India. Between 1980 and 1990, 268 mergers and acquisitions occurred. In the following decade (1990–2000), the number rose to 1,034 and then to 2,656 between 2000 and 2009(Pandya,2018).

The IESE Business School study found no upward trend in exit sizes in India compared to China. Except for 2005, trade sales averaged USD 30-60 million from 2000 to 2010.17 India averaged USD 37 million in trade sale proceeds over the decade, slightly higher than China (USD 31 million). China's average M&A exit deal size increased after the 2007 sub-prime crisis, but India's did not (Prahl et al. 2011). However, M&A remains a popular PE exit route in India and globally. (Paumen, T., Kroon, D.P. Khapova, 2023) (Firoz & Kumar, 2021).

A recent study found that mergers and acquisitions accounted for most private equity transactions. Several of these transactions also used the initial public offering method to sell private company shares. The findings contradict previous research that suggests private equity managers exit investments through IPOs. Moreover, both channels outperformed the Nifty 50, a widely recognized stock market benchmark. The study found that 84% (277 Deals) of past-ten-year deals had cash multiples higher than the benchmark index, resulting in a positive outcome. Private equity firms and fund managers use these findings to guide their Indian private equity investments (Kumar & Firoz, 2023)

5.3.3 Debt and credit market *(DC3)*

RBI prohibits domestic banks from collateralizing company securities and bonds for loans and limits their capital market exposure. The FIPB prohibits foreign investment companies from borrowing from Indian banks to buy Indian securities (Afsharipour, 2016). This work omitted regulator and PE firm suggestions to avoid this deadlock.

5.3.4 Size and liquidity of the stock market *(DC4)*

Like Black and Gilson 1998, Gompers and Lerner (2000) argue that risk capital grows faster in countries with deep, vast, and liquid stock markets(Paul Gompers, 2000).Schertle, 2003 measures stock market liquidity by capitalization or listed companies. He finds a strong positive correlation between early VC investments and stock market liquidity(Gilligan & Wright, 2020; Schertler, 2003).

Publicly traded companies can raise funds through stock offerings or debt, giving private equity firms investment opportunities. Private equity firms can use the stock market to fund their portfolio companies' growth and value creation. Exits, portfolio diversification, valuation benchmarks, market intelligence, and capital access are available on the public exchanges. (Leleux, Megally, &Swaay, 2015)

5.3.5 Total trading volume in stock markets *(DC5)*

After new information, stock market returns and trading volume are positively correlated. A look at the Indian stock market showed a direct relationship between trading volume and return. The correlation between trading activity and market instability is unbalanced due to average investors' caution with market information. Authorities can stabilize the Indian market with domestic economic policies, according to trading volume and volatility studies.(Haliti et al., 2020; Mishra, 2012; Tripathi, 2015)

5.3.6 Recovery & repayment of Gross loan given by banks *(DC6)*

Higher debt levels do not necessarily increase default rates for individual positions. Rates fell over the last decade, keeping default rates low even as leverage rose. The interest coverage ratio—a borrower's ability to service debt—is the main indicator of default risk. In March 2022, India's NPL ratio was 5.8%, down from 7.3% the year before. NPA has fallen in India in recent years, but it is still high compared to developed economies and China, where it is 0-2.5% (RBI, 2023)

The default outcomes and management of PE-backed firms are generally interlinked, according to research. PE firms manage default better, but reducing default and improving banking policies will boost PE investor confidence and reduce default response time (Hotchkiss & Smith, 2012)

5.3.7 Financial Market Sophistication *(DC7)*

A Wharton report by Shweta Jalan lists "structural constraints" as the industry's biggest problem. The ‘structural constraint’ occurs when banks hesitate to lend PE managers the leverage and capital they need to sign off on deals, especially as they grow. Chinese PE is financed with half Renbini, while Indian PE is financed with 95% USD(McKinsey & Company, 2023; Wharton, 2019)

5.4 Investor Protection & Corporate Governance (IP)

Since prominent private equity investors have many investment options, they are drawn to well-organized and international investor-friendly environments. Common law jurisdictions may make contractual rights enforcement easier for funds. Improved legislation allows efficient deal screening, origination, board representation, and investor-preferred securities. The legal and economic conditions of the country and the private equity fund investing in emerging markets affect securities selection (Lerner & Schoar, 2004).

5.4.1 Quality of Corporate Governance *(IP1)*

Emerging stock markets value corporate governance more than developed markets. Indian companies are highly family-owned, which reduces conflicts between owners and managers but increases conflicts between owner groups(Shahid & Abbas, 2019)

Extensive research shows that efficient corporate governance can solve the agency problem, boost company performance, and maximize shareholder wealth. (Cremers & Nair,2005; CORE et al. 2006)
Current practice lacks transparency and disclosure of corporate governance mechanisms, according to the literature. Prior research found gaps in methods, sampling periods, and statistical tools. After the revised corporate governance code was implemented in India, research studies have not adequately addressed corporate governance practices. (Almaqtari et al.,2020)
The analysis included 53 non-financial listed companies from India and the GCC. The study examined 2009–2016 and found that board accountability (BA) and audit committee (AC) have little impact on firms' return on equity. (Al-ahdal, Alsamhi, & Farhan, 2020) Therefore, improving corporate governance in India will help PE managers drive value and get better multiples (Naciti, 2019)

5.4.2 Security of Property Rights (IP2)

Private equity investors are expected to struggle to manage businesses due to weak property rights and investor protection.
Economic theory shows that IPRs can promote or hinder economic growth and development. The evidence suggests a positive correlation, but it depends on other factors that enable intellectual property protection's benefits. IPRS, or Intellectual Property Rights Systems, can solve information creation and distribution market issues in a market-oriented manner. (Maskus, 2000). Institutions that protect private citizens from government expropriation boost economic growth, investment, and finance.(Acemoglu & Johnson, 2005). Patent protection boosts innovation and economic growth in countries with innovative research capabilities (Kim et al.,2012)

5.4.3 Quality of Legal Enforcement *(IP3)*

Having superior legal rights has many individual benefits for venture capital firms, according to empirical evidence. Deal screening, deal origination, syndication, negative co-investment, and VC performance have improved with improved investor legal rights(Nahata et al. 2014).
However, research contradicts these analyses of law and finance convergence. China has underdeveloped legal and financial systems with weak investor protection, according to research. China's economy is among the fastest-growing in the world despite these issues. Despite its less efficient legal and financial institutions, the Chinese Private Sector was growing faster than the State Sector and the Listed Sector(Allen et al.,2002). Firms with access to bank and market financing opportunities did not even have higher growth rates, suggesting that alternative finance outside of legal systems can be viable in fast-growing emerging markets like India and China (Allen et al.,2011; Wilton, 2012)
Corporate Governance and enforceability of Investor Rights: The significance of implementing regulatory policies to promote financial development is extensively supported in the literature on law and finance. La Porta et al. (1998) published a significant study that established the empirical connection between legal systems and investor protection. They specifically compared Common and Civil Law systems in 49 countries. (La Porta, R., Lopez-de-Silanes, F., Shleifer, A., &vishny, 1998). Subsequent research and studies revealed that French Civil Law systems have the least strong investor protection, while Common Law systems demonstrate the strongest protection. The German and Scandinavian Civil Law systems hold a middle ground between the two previously mentioned systems. The French and German Civil Law systems are commonly thought to have been intentionally designed to consolidate state authority, which makes the lack of surprise understandable (Joshi, 2023; Levine & Demirguc-Kunt, 2005; Wan et al., 2019)On the other hand, Common Law system developed as an independent institution that protected private property owners against the English crown, allowing private citizens to become more confident in conducting financial transactions(Khan & Menon, 2023).
Certain provisions of global corporate governance are incongruent with the Indian Corporate Law. In cases of conflict between the Memorandum and Article of Association and the ICA, the Indian Courts have consistently ruled in favor of the ICA. The Indian Contract Act of 1872 stipulates that any provisions in a legal agreement, such as the Article of Association of a Private Equity firm, that contradict the principles of the relevant laws will be deemed invalid. This is a notable constraint for private equity (PE) businesses and an example of how the ICA clauses can create challenges whenadopting a global corporate governance model in India. Private equity funds can find solace in the fact that if an agreement includes a provision that enhances corporate governance in a situation where the applicable law is silent, the terms of the agreement will take precedence (Majumdar, 2020).

Given that the majority of VCPE investments in India take the form of minority investments, private equity investors have limited capacities to operate as required and are subject to the discretion of management.India's lack of adherence to standard international practices such as Put option, share pricing, Compulsory Convertible Preference Shares (CCPS), Fully Compulsory Convertible Debentures (FCCD), and anti-dilution rights is a cause for concern regarding Corporate Governance. CCPS, or convertible cumulative preference shares, are preference shares that must be converted into ordinary shares after a predetermined date. The FCCD may be a debenture, but it must be completely convertible and may include a put option. The put option guarantees that if the promoter is unable to provide an exit or if an IPO is not feasible, the investor can return the FCCD to the promoter in exchange for their stake(Shrivastava & Garg, 2017).

Certain regulations enforced by Indian regulators warrant further scrutiny. The FIPB regulations (Foreign Investment Promotion Board) in India have significant ramifications for corporate governance and the regulations regarding private equity in India(Afsharipour, 2016)

The key factors behind menace of institutionalized corruption and lax regulatory enforcement is societal corruption and acceptance of the unethical practices. Foreign investment into India are based on standard practices in the Western market. In India, the lack of service providers and evolutionary process increase the expected cost of set up. Also, PE firms are not able to access the debt market with ease which reduces the return (Cheffins and Armour, 2007, as quoted by Dossani, 2012). The article does not provide solutions to the challenges faced by PE firms in India.

Suggested reforms to strengthen the Investor Confidence are voting rights to the minority shareholders, well-timed enforcement of shareholder disputes and better access to the necessary information relating to the company (Banerjee, 2008)

5.5 Human and Social Environment (HS):

India's human and social environment has great potential for private equity firms. In India's fast-growing economy, private equity firms can succeed by leveraging human capital, building strong relationships, understanding consumer behavior, and promoting responsible business practices(Chinyamutangira, 2022).

Private equity firms can capitalize on India's human capital. India's manpower and demographic dividend of over 1.3 billion people provides skilled workers in many industries.

5.5.1 Education and Human Capital *(HS1)*

Becker (1964) defines human capital as education, training, and experience. Becker divides human capital into task-related and non-task-related. Skills are improved by education and work experience. Knowledge and skills result from human capital investments. Task-relatedness is how much human capital investments and outcomes are tied to a task, like business management. Human capital attribute differentiation is needed to theoretically analyze causal factors and outcomes and identify potential key factors that may affect human capital and success (Becker, 1964)

Studies show a two-fold increase in business success with higher human capital (Unger et al., 2011). Human capital is said to boost entrepreneurial success in the entrepreneurship literature. Human capital initially improves entrepreneurs' ability to spot and seize business opportunities (Shane & Venkataraman, 2000). Prior knowledge helps owners spot and pursue opportunities that others may miss (Venkataraman, 1997; Scott, 2013). Entrepreneurs' ability and strategy to capitalize on market opportunities depend on human capital quality (Chandler & Hanks, 1994).

Human capital positively affects planning and venture strategy, which boosts success (Smith et al., 2001) (Frese et al, 2007).

Third, knowledge helps develop financial and physical capital and infrastructure (Brush et al., 2002) and can partially compensate for financial constraints. In entrepreneurship literature, the planning-success relationship is controversial (Brinckmann et al., 2010; Delmar and Shane, 2004; Honig and Karlsson, 2004; Schwenk and Shrader, 1993). Many entrepreneurial firms struggle with author copy capital (Chandler & Hanks, 1998; Shane & Venkataraman, 2000).

Finally, innovation and learning require human capital. It helps gain new skills and knowledge (Ackerman and Humphreys, 1990; Hunter, 1986). Overall, owners with higher human capital should manage their business more efficiently.

5.5.2 Labor Regulations *(HS2)*

Indian labor laws mandate minimum wages, working hours, and benefits, which can hinder private equity investments due to complex regulations and uncertainty about compliance costs. Labor laws provisions drive up costs and limit cost management during recessions. Private equity investors may avoid low-margin or capital-intensive businesses. Finally, Indian labor laws affect private equity and investments. Labor policy and compliance costs can slow business growth and private equity investments. Despite being simplified, labor laws must be tailored to investors, businesses, and employees(Stofa & Soltes, 2020).

5.5.3 Control & Punishment for Bribery and Corruption (HS3)

The academic and industry studies show how India can increase private equity and investment by reducing corruption and bribery. Controlling corruption boosts trust, lowers transaction costs, and creates a better business environment. Stronger anti-corruption and anti-bribery laws and regulation can attract investors and boost long-term PE investments. FDI requires control over corruption, and India's efforts can attract foreign investors who are wary of investing abroad(Meagan et al., 2022).

5.6 Entrepreneurial culture (EC)

In an interview with Knowledge@WHarton, Blackstone India head Amit Dixit says the Indian market is seeing more high-value deals over $100m, a recent trend. Indian PE is also supported by the need for outside expertise for company success, she adds. Similarly, businesses want to outsource non-core tasks, which boosts PE industry business. Dixit adds that business margins are narrowing as competition increases(Knowledge@Wharton PE Report, 2019).

5.6.1 Innovation *(EC1)*

Indian businesses have traditionally used the Jugad system to find quick, temporary, and alternative solutions rather than invest in research and innovation to create more sustainable and original ones. Due to globalization, multinational corporations have implemented many strategies to stimulate innovation in their Indian business divisions, changing the pattern. (Krishnan & Prashantham, 2018). Historically, administrations and business leaders have ignored R&D investments. In this context, NITI Aayog notes that research and development is lagging due to insufficient contributions. Additionally, NITI Aayog reports that the government spends over 55% on R&D.Since the private sector does most countries' R&D, this practice must be changed. India should identify the critical moment when the private sector can take over(Joshi, 2023)

There are many ways to lower taxes and optimize R&D funding. Research and development organizations must seize these opportunities to succeed. India's only way to avoid the consequences of low R&D spending is to strategically invest in science and research. Depending on private sector scientific research quality, governments may directly fund or finance firm-level R&D.Given this, India's corporate sector must significantly increase its gross R&D expenditure to match its status as the world's fifth-largest economy. To improve its scientific innovation ecosystem and reach $5 trillion, India must increase R&D spending to 2.0% of GDP (Joshi, 2023)(Maas et al., 2018)

Gompers and Lerner (1998) also found that industrial and academic R&D spending correlates with VC activity. Kortum and Lerner, 2000 suggest that a patent boom in the late 1980s and 1990s may have driven mid-90s VC fundraising. Changes in management, patent, and innovation growth also contributed to the surge in innovation(Kortum & Lerner, 2000). According to Schertler2003, the number of R&D employees and patents, which approximate human capital endowment, positively and significantly affects VC activity. Romain and von Pottelsberghe de la Potterie (2004) also find that start-up activity affects R&D capital stock, technological opportunities, and patents (Parhankangas, 2004).

5.6.2 Scientific and Technical Articles (EC2)

Scientific and technical research aids due diligence. Private equity firms scrutinize investments. Scientific and technical research can help these firms understand the industry's market dynamics, technological advances, and regulatory landscape before investing(Draskovic et al., 2020).

Moreover, these articles help private equity firms find disruptive tech. Finally, scientific and technical research aids private equity firms. Their research and analysis influence business innovation, investment, and trends(Bhardwaj et al., 2018).

5.6.3 Ease of Starting and Running a Business *(EC3)*

Entrepreneurship and business launch ease contribute to private equity deal success. An independent variable has a high impact on the dependent variable, Private Equity Industry Competitiveness.

West African research shows that Ease of Doing Business affects the capital market and the company's market. (Nageri, 2020). The European Commission's Ease of Doing Business study shows that administrative and regulatory burdens directly affect investment costs and barriers. Increased administrative burden can increase investment market uncertainty. This will also affect Private Equity competitiveness.Private equity investors care about profitability because business ease is directly related to it (European Commission, 2017)

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Five indicators from the 2005 World Bank report—starting a business, registering property, getting credit, paying taxes, and enforcing contracts—were studied in 177 countries and found to positively impact Foreign Direct Investment (Hossain et al.,2018). To boost private sector growth, foreign direct investment (FDI), and overall investment, many countries have simplified and reduced business startup and operation costs (Klapper & Love,2010) Policymakers should note that entry barriers and operational challenges hinder business establishment and operation in non-high-income countries. Thus, policymakers should prioritize reforms in areas that most affect business formation(Canare, 2018) Another study suggests that structural reforms and business policies should be prioritized to improve India's ease of doing business and investment competitiveness, such as private equity (Raza, 2017) (Bhimjiani et al., 2020)

5.6.4 Simplicity of Closing a Business *(EC4)*

Easy bus closing The Global Financial Crisis made business exit and closure one of Indian Private Equity's biggest challenges. IPOs and significantcorporate acquisitions were Indian Private Equity's main exit routes between 2015 and 2020 (Soni, 2021)

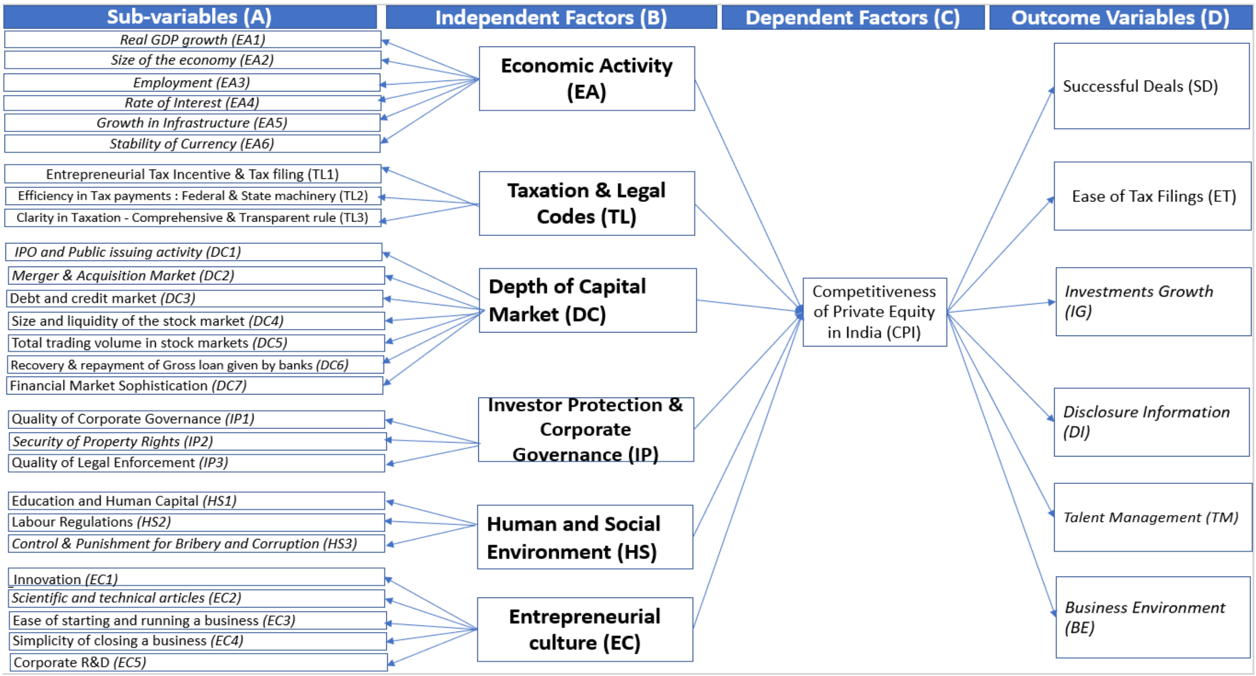
The Securities and Exchange Board of India eased listing loss-making firms on public bourses, clearing a long-standing roadblock for public market exits. This move paid off with $11 billion in public market exits, up $7 billion from 2020 (Sheth et al.,2022)

5.6.5 Corporate R&D *(EC5)*

Corporate R&D budgets increase new products, productivity, and efficiency, leading to increased revenue and profits, attracting investment and generating returns for equity investors(Kumar & Firoz, 2023). Equity investments will allow companies to raise capital and grow.Moreover, strong R&D spending boosts startup success. Finally, corporate R&D investment drives private equity and investment in India. R&D spending allows businesses to develop innovative products and technologies, which boosts investment and equity market growth (Joshi, 2023)

6. Conclusions

The research framework consists of one dependent factor, which is “Competitiveness of Private Equity in India”. The literature review confirms six Independent Factors, listed below in part ‘B’ and corresponding to theses six factors, there are 27 Sub-variables, in part ‘A’ below, which is also confirmed based on the literature review using various journal articles and academic research.



Discussion on best practices based on literature review: Private Equity in India has advanced. Bain & Company reported USD 44billion in PE investment from 2015 to 2020. Strong economic growth, large consumer market, favorable demographic profile, government initiatives, and improved regulatory environment have helped private equity in India(Stubb &Kasiva, 2023). In the last 8-10 years, stable political regime, facilitative regulatory environment, relaxation in foreign exchange regulations, increased enforceability of investment agreements, improved bankruptcy regulations, and more professional 1st/2nd generation investment approaches have made the PE market in India more attractive(Khan & Menon, 2023). Thus, between 2009 and 2014, fund managers managing two funds doubled.

India's Private Equity market needs strong alignment between stakeholders and economic policies to improve, but regulatory framework has negative effects on investment (Pandit et al., 2015) From its 1980s founding to a resilient investment ecosystem today, private equity in India has grown, especially in the last decade. More than 800 active investors have increased from 200 (Sheth et al.,2023)

India reserves 15% of capital for domestic PE investment, compared to 65% in China and 75% in India. This is partly because provident and pension funds, which are typically foreign investors, cannot invest in private equity in India. Domestic institutions can only invest a certain amount in alternative investments as part of their Net Asset Value(MG, Vineetha; Vittalachar, 2019; Pandit et al., 2015)

Private Equity managers expect delisting and court receivership to be simplified, making IPO exit easier. Due to the long and uncertain timelines in the Indian judicial process, constant regulatory changes increase uncertainty(Khan & Menon, 2023). Silos of detailed studies on Private Equity in India exist, but there is a massivegap in integrating all the components and their relationships. Best practices to address the issues and challenges in making India one of the top ten private equity markets globally are also lacking. This study seeks to identify private equity investment factors and best practices to make India a private equity hotspot. After discussing the research articles, the following observations should be made about their limitations:

This paper covered key takeaways from over 170 research papers on best practices that can enhance the competitiveness of Private Equity in any country. It is very contemporary to the unprecedented rise of Indian Private Equity in the last 4-5 years. This study explored 6 independent factors, relevant sub-variables for the factors, and best practices that could catapult the business of Private Equity. This could be the potential list of action items and best practices for Private Equity and Finance professionals, investors and money managers, regulators, and government agencies such as SEBI and RBI, who are responsible for policy-making. This could also be relevant for the judiciary and bureaucracy which need to take a broader view of the implications of their decisions and should be aware of how the economic, financial, and business reality are changing fast globally and their action should not impede the growth of India Private Equity business to the extent possible, within the ambit of rules and laws.

As Indian Private Equity is going through the golden era of growth, such study of tried and tested practice covering the relevant studies from across the world can provide a checklist and reference toolkit, for example there are confusion and ambiguity with regard to the implementation of MLI, The Double Taxation Avoidance Treaty (DTAA), Place of Effective Management (PoEM), Base Erosion and Profit Shifting (BEPS), Multilateral Instruments (MLI), and General Anti Avoidance Rules regulatory changes in 2017-19. The list of desired changes gets even longer when we consider various changes related to Investor protection and corporate governance, economic macro-level policies, and Capital Market, for example.
While this paper focused on the work literature available on Private Equity and suggest a long list of best practices, it There is a need for additional empirical research on private equity (PE) strategies and their impact on various industries and the overall economy in India. There is a lack of extensive research on the challenges and opportunities related to PE strategy issues in India. Therefore, it is necessary to conduct comprehensive work to address these issues. This literature review has identified significant factors that impact the competitiveness of Indian Private Equity. Therefore, further research is required to realign India's position and enable it to compete with the leading players in the global market. Literature reviews indicate that research on private equity in India lacks comprehensive and in-depth analysis. Indian

private equity articles seldom address the difficulties, optimal methods, and resolutions. The global private equity industry is vast, yet there is a dearth of academic and industrial research. A notable dearth of research characterizes the Private Equity Industry in India.

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