Chapter I

Introduction.
Chapter X

The Origins of Entrepreneurship

Introduction

The more significant findings in this chapter will be considered in the light of existing theory and of the actual world of the entrepreneur rather than being abstracted from Secondary Sources. References to concepts developed in other disciplines will also be made. There are any number of ways in which the world of entrepreneurs may be interpreted. To consider their development from the point where they enter industry is to use an arbitrary point of reference. Much has happened in the economic and psychological life of entrepreneur to take them to the brink of a new era. What is it that takes them to the cross-roads of life and to accept significant risks? There is much cumulative experience given that any individual is unique. Some of the origins, mobility, experience, education, and training of entrepreneurs will be examined and the informal influences of family, caste and community and their effect in the making of entrepreneurs will be discussed. The aim here is to examine entrepreneurs in as wide a context as possible. The geographical spread of the sample was the entire length of India.
ENTREPRENEURIAL activity needs an environment conducive to its growth. It involves assumption of considerable risks by the entrepreneur and, therefore, what is essential is "entrepreneurial security". Easterbrook suggests four bases of such a security environment:

1. the nature of the physical environment; its location in terms of trade, military and naval necessity; its resource characteristics; its position, whether continental or maritime;

2. technology;

3. institutions or organisations like state and law; church and sect (in their power aspects); social organisations and social classes; the character of political institutions as well as the stability of the social structure; and

4. "ideological" or "sentimental" (attitudinal) security like nationalism, legalism, religious feeling or spirit, and social attitudes which may or may not favour entrepreneurial action.

In the same vein, Cole also speaks of environmental conditions which influence the origin of an entrepreneurial class:
(1) stable government;
(2) external security; protection from war and invasion etc.; and
(3) internal security; protection from internal strife and revolution, protection of person and property under law, and the assurance of legal process in disputes. 2

Any analysis of the industrialisation process within a country and of the concomitant behaviour of the entrepreneurs needs, therefore, a study of the interplay of a host of such factors. A complex economic and social behaviour such as entrepreneurship can scarcely develop in an unfavourable setting. It is only where the ideal market conditions have been most closely approximated—in terms of political, economic, social and ethical securities, that economic change has been most free from restraint. 3

Purpose of this Study

The purpose of this chapter is to bring out the nature and character of industrial entrepreneurship in India before Independence and to shed some light on the conditioning forces thereof. It attempts to analyse the factors which prompted the Indian business communities to undertake entrepreneurial activity, the behaviour patterns of the entrepreneurs and the reasons
for the lack of widespread entrepreneurship, despite nearly a century of industrialisation before Independence. The study focuses on the native industrial entrepreneur.

BUSINESS COMMUNITIES PRIOR TO THE ADVENT OF MODERN INDUSTRY

The Indian society from times immemorial has been characterised by a kind of stratification into religious and regional sections. The Hindu society was conceived as 'homo hierarchicus' where caste groups were rigidly separated from each other on functional basis - a feature which perpetuated the practice of following the family occupation leaving little scope for mobility between one occupation and another. Among the Hindus, the bania was such a caste which mainly dealt in commodities and carried on money lending business. As the baniyas specialised in trade and commerce, they were the most urbanised section of the community and because of their financial predominance enjoyed an enviable position in the urban centres, though in the caste-hierarchy they came third after the Brahmins and the Kshatariyas. Where the caste system was relatively loose, the danger of ostracisation absent and the trading castes missing, people of other castes also moved into these occupations and came to be regarded as members of the business community.
By the middle of the 19th century, India had a fairly
developed business community. Dadgill notes that
Gujarat and erstwhile Saurashtra were the most urbanised
and developed tract in the whole of India with a contin­
nuous record of foreign trade lasting over centuries.
This region had a highly developed bania community, both
Hindu and Jain and also large Muslim trading communities
(Bohras, Khojas and Kacchi Memons), mainly converts
from Hinduism. Apart from trading chiefly in cotton,
piece goods, and merchandise in their own regions, they
participated very actively in maritime trade, both to
the west with the Persian Gulf, Arabia and Africa, and
to the south and south-east along the coast of India to
Malaya, Indonesia, etc.

Parsis who migrated from Persia to Gujarat in the 8th
century were chiefly noticed as artisans, carpenters,
weavers, etc., in the 17th century. They had become
prominent shipbuilders by the 18th century and had set
up merchant houses in Bombay, Burma, China and London.
Their overseas trade was mainly in yarn and opium.
They also acted as brokers for the European traders at
Bombay and Surat, and gradually, established them­
selves as merchants and traders of repute. By the middle
of the 19th century, they had emerged as a dominant
trading and financing community of Bombay and Gujarat.
Thus, the Parsis and Gujarati trading castes became the
wealthiest Indian communities by the middle of the 19th century, controlling whatever foreign trade was in Indian hands. 7

Among the trading castes of south India were the Chettis sub-divided into various groups such as the Telugu Komatis, the Tamil Nattukottai Chettis, Beri-Chettis, etc. The Komatis were the chief traders not only in the Telugu districts, but also in Mysore, Coimbatore, Canara and other places. The Nattukottai Chettis were the chief bankers and financiers of south India. The Beri-Chettis traded chiefly in drugs, grain and cloth. In the beginning of the 19th century, they were described as a respectable kind of pedlars travelling in caravans. 8 These trading communities also had their trade connections with the South-East Asian countries like Burma, Ceylon, Malaya, Singapore, etc. The Chettiars formed an important part of the propertied class of Indians in Malaya. They built up connections with reputed Indian business firms and acquired landed and other investment interests. They had become indispensable as the principal purveyors of rural credit. 9 The Nattukottai Chettiars in particular were prominent in Burma. More than half of their total working funds, or three-fifths of their working funds invested abroad, were employed in Burma. 10

On the West coast in south, most of the trade was in the hands of Syrian Christians called Nazrani Mappilas and
Mohammedan merchants known as Moplahs. The internal trade of Cochin and Travancore was financed mainly by the Nazrani Mappilas, while the Moplahs were found in larger or smaller numbers throughout Malabar and Canara. In Canara, the Moplahs shared the functions of trade with the Konkanis who also conducted the banking business of the country. As the trading monopoly of the East India Company faded and finally vanished after 1857, many of the Christians prospered as merchants in the benign atmosphere of Victorian free trade. They became private bankers, and when native joint stock banks began to appear at the end of the 19th century, it was the Syrian and Chaldean Christians who were most active in promoting them.

In Bengal, the situation was slightly different. There did exist communities like the 'Subarna Baniks' who traditionally specialised in trade and commerce and corresponded to the banias in other regions. The Bengali merchants and capitalists did participate in trade, industry and banking along with their British principals, but as the British political power became more firmly consolidated, the Bengali houses gradually receded from the scene. The Bengali merchants' capital then turned towards the land, as investment in land had become profitable. The average Bengali received English education and joined mercantile houses.
as well as administrative services. Thus, the educated upper and middle classes of Bengal were rendered not prone to enter the risks of trade and commerce. If at all, people from communities such as the Brahmins and Kayasthas in Bengal entered business, it was to assist and act as agents of British businessmen. Hence, Bengali names in business are relatively unimportant and where they occur, they are mostly of the rising professional agent class and not those of indigenous trading elements.16

There was another important and fairly developed business community called 'Marwars', hailing from Marwar in Rajasthan. The trading and money lending castes attained their greatest development in Gujarat and Rajputana through which lay the famous trade route from the Gujarat ports to the historical centre of the Great Mogul State.17 But even during the first half of the 19th century, Rajputana was ravaged by feudal strife and it was by no means an ideal place for large scale trading and moneylending operations. Further, although local trade was relatively brisk, its volume remained fairly constant and that afforded only limited scope for the merchant's capital. Therefore, the situation as it developed in Rajputana necessitated the trading and moneylending capital to seek new opportunities beyond its borders.18 They spread their
tentacles in towns throughout the north, east and west, especially the commercial centres of Bombay and Calcutta. They carried on their vocation unassuming and consolidated their position in these centres. With the rise of British Commerce, they gradually replaced the Bengalis as the British agents in Calcutta. The Brahmins and Kayasthas of Bengal who earlier served as the British agents drifted into landed proprietorship and the learned professions, but the vacuum so created was filled by the Subarna Baniks. But, in the meantime, Bengal became a hot-bed of politics which was not palatable to the British ruling and commercial elite. Wherever possible, a Bengali was replaced by someone who promised to be more dependable. And in this affair, the Rajasthani traders proved to be much more cooperative than Bengali commercial castes.

Besides these trading and moneylending communities and the European commercial interests, there were some others like Bhatias and Lohanas who were engaged in local trade, and were very widely dispersed all over the country. A vigorous urban Hindu community called "Khatris" was engaged notably in trading activity not only in Punjab but also in Afghanistan, Central Asia etc. In the absence of bania elements in Maharashtra, Vajurvedi Brahmins and Chitpavan Brahmins took considerable part in trading, moneylending and indigenous banking.
In the middle of the 19th century, the British economy was undergoing a metamorphosis. The industrial revolution was having its profound impact and forcing the British industry to search for wider markets. Consequently, the British thought of developing India into a market for their manufactures and exploiting her natural resources to their advantage. To penetrate into the Indian territory, they undertook the building of certain infrastructure such as the development of the ports of Calcutta and Bombay, construction of roads, and laying down of railway lines. The Indian economy could no longer escape the consequences of transformation taking place in the governing country.

This considerably enlarged the extent of the Indian market and the trade with Britain grew. A growing number of people were drawn towards trading and import-export which had become highly profitable. The control of the East India Company over trade had become loose during the middle of the 19th century. Its own employees, civil and military, set up their independent businesses with finances borrowed from the company, their acquaintances and the businessmen in England whom they represented in India. This brought the native businessmen in
exceedingly close contact with the British businessmen. As a boon to them came the blockade of the southern ports in the American Civil War which shut off Lancashire's supply of raw cotton. The result was that the cotton price in India touched a new high and the profits made by her merchants were far in excess of their wildest dreams. Now a wave of speculation overwhelmed them and for many a man the temptation to multiply his gains was so great that the boom attained the character of a 19th century South Sea Bubble. Gold and silver poured into Bombay in such profusion that the legitimate channels of investment were soon exhausted and the money overflowed into a multitude of crazy concerns.22

The railways were introduced in India in 1853, but a network was still to be built. The problem of industry was not merely the assembling of raw materials at the factory site or disposing of the finished products, but the very fact of a factory coming into existence was a serious matter. The entire machinery and know-how had to be imported from England. At the time, there was no Suez Canal, all the machinery had to be imported by sailing vessels via the Cape, the operative had to be thoroughly trained and the industry had to meet the formidable competition of English manufactures.23 Under the circumstances, any industrial activity was the result of venturesomenes. Thus, in the early stages of development, the businessman were faced with two
dilemmas: on the one hand, they were strongly motivated to search for alternate avenues of employment for their surplus funds accumulated in trading and on the other, cautious and calculating as they were, they would not risk their money in hitherto unknown ventures. Further, modern industry was not on cottage or household basis but on factory basis, not based on the use of manual power but on mechanical power and called for attitudinal adjustments, heavy investments and knowledge of machine operation. Under these circumstances, only those who were familiar with factory products as well as with the Indian Market, could give a lead in starting modern industry.

Amongst the native people, there were certain classes of persons who could possibly be influenced to take to industry. There was the Indian mercantile class along with the Europeans that had taken advantage of the rapidly expanding trade and amassed considerable riches in trading, financing, import-export, financing of the armies and winning the favour of the rulers. They were familiar with the availability of raw materials, market for their products and also to a limited extent, management of resources. However, certain cultural, social, and economic factors militated against their coming to industry. They had, no doubt, enough funds for investments, but no technical competence. They did
not know much about the administration of factory labour. As they were already engaged in highly lucrative trading, there was no lurement to abandon their former places in the business and social order.

The Brahmins who also constituted a small part of the business community preferred to take to administrative services which were then becoming more important and were akin to their hereditary occupations. The Mohammedan group spent their incomes extravagantly and had little capital to invest. Another class of persons who could be possibly influenced to take to industry were the craftsmen who had recently been uprooted from their vocations by the factory products of England and had become a burden on land. They knew manipulation of raw materials, but had virtually no capital to invest, were illiterate and ignorant of the complexities of the new machines and processes, and had little ambition to make money. They did not dream of wealth and even if they had indulged in such visions, they would have preferred the certainty of their hereditary occupations, with hereditary customers and social relationships, to the uncertainty associated with so radical a change from all their traditions and experience.

No facilities for technical education existed at that time and hence, the technician-entrepreneur was
not even within the realm of imagination. There were no layers of mechanics or technicians or engineers in whom the spirit of entrepreneurship could permeate.

The other classes of people who did not come from mercantile background but had accumulated money were not ready for entrepreneurial activity. With the development of transport and communications during the second-half of the 19th century, the land values in urban areas were showing signs of rapid rise. The professional men and salaried officials who had savings to invest found it more attractive to put most of it in landed property—a very safe and sound investment. An investment in industry does not seem to have been a very strong motive with the rajahs, maharajahs, nawabs and zamindars, barring a few exceptions. They preferred to hoard large quantities of precious metals and indulge in conspicuous consumption on a very large-scale.

It was, therefore, out of these various classes of people, a short and logical step for those merchants who had been successful in purely trading pursuits, importing manufactured goods and exporting raw or partly processed raw materials, to look round for profitable ways of using their growing capital resources and begin to commit their savings and the savings of their friends, to the establishment of those industries for which India seemed to offer a promising field. The conditions
were favourably disposed to the merchant class and among them, to the community which was close to the British and in a position to hire the British techniciens. This is how the Parsis came to set up their first industrial ventures and were able to make a transition to modern industry. It was but natural for the Parsis who came into association with the Europeans, adopted their ways of life, spoke their language, to take advantage of the situation. As they were eminently fitted to be the means of transplanting European manufacturing to India and also all the essential requisites of industrial development existed at Bombay, the Parsis came into the vanguard of this movement and set up the first industrial ventures.

The development of cotton and jute textiles was a natural corollary of the fact that India was the home of hand manufacture of both cotton and jute and so, there was great familiarity with these fibres and skill in handling them, besides large home production of the raw materials. For these industries, factory machinery and organisation had already been brought to a high stage of perfection in other countries. Moreover, India was a very great consumer and importer of cotton cloth while the world's commerce was furnishing a rapidly expanding market for jute bagging and wrapping material.
The history of modern industrial enterprise dates back to 1854 when the first successful textile mill was set up at Bombay by a Parsi gentleman named Cowasjee Nanabhoj Davor—a financier and trader having many British contacts. The mill was styled as the Bombay Spinning and Weaving Mill. He was soon followed by Ranchhodlal Chhotelal, C.I.E., a Sathodra Nagar Brahmin, in 1859 when he established the first mill at Ahmedabad under the name and style of the Ahmedabad Spinning and Weaving Mills. Simultaneously in 1855, the first jute mill came into existence at Rishra, a few miles above Calcutta, due to the enterprise of an Englishman named George Acland, but owing to financial stringency, the mill had to be closed down in 1868. However, fortune smiled on George Henderson who started the Borneo Jute Company in 1859. These early enterprises were so successful that the Bombay Spinning and Weaving Mill declared in the very first year of its existence a bumper dividend of 20 per cent.

Inspired by this initial success, the other enterprising Parsi and Gujarati cotton traders who had reaped huge speculative gains during the American Civil War (1861-65) also made their debut in manufacturing and one textile mill after another was set up at Bombay and Ahmedabad. After 1875, there was a veritable boom, the number of mills in Bombay Presidency increasing to 41 by 1877 and in India as a whole to 51. Several
up-country mills were established during this period. Besides growth at Ahmedabad and Kanpur, a beginning was made at Sholapur and Nagpur. By 1884, it is surmised, the number of mills in the country was not fewer than 63 with a total nominal capital of ₹55.76 million and the number rose to 156 with a total nominal capital of ₹141.95 million at the turn of the century.

The progress registered in jute mill industry was no less spectacular. Henderson’s venture was a success from the very beginning and his performance led to the establishment of three other mills in quick succession—two in 1862 and one in 1866. From 1868 to 1873, the five mills except the Rishra Mill made huge profits.

Thus India stepped into the modern industrial era during the latter half of the 19th century. A new caste termed by Lamb as the ‘British Caste’ appeared and dominated the industrial scene on the north-eastern side. With the weakening of control of the East India Company and after gaining familiarity with the Indian market, the servants of the Company, civil and military, started, acting as agents for the businessmen in England and later, launched enterprises on their own. They developed coal mining, tea plantations and jute manufacturing industries. The jute industry remained predominantly under the control of the British till
In the infancy of industrialisation everywhere, entry into industry has been by way of trading. Even those who came from different backgrounds first picked up the threads of commerce spun by the earlier traders and, after weaving a fabric of their own design and accumulating some surplus, marked a branching out into manufacturing. The experience of the UK, the birthplace of industrial revolution, has been no different in this regard. In America, the potential entrepreneurs came from already economically well-developed nations of Western Europe and they had in general been in contact with fairly advanced stages of trade and handicrafts. In Egypt, cotton merchants invested some of their profits first in ginning and pressing cotton, later in spinning and weaving it. In other Middle East countries, the first initiative, capital and ability were usually provided by merchants, rarely by landlords or craftsmen. Their path usually progressed from retail trade to wholesale trade, importing and finally, manufacturing.
What accounts for business to be the prime mover is fairly obvious. The businessmen have an edge over others in matters like supply of finance, knowledge of markets, familiarity with raw materials, manipulation of resources, and above all, risk-bearing capacity. They are better placed to perceive profit opportunities and appraise them. Many traders have a further advantage in their access to a distribution system. When a cloth merchant sets up a textile mill, he has a ready-made sales organisation. Competitors with backgrounds other than trading have difficulties in the absence of a well-developed general distribution system in distributing their products. At times of excessive controls and high tax rates, a captive sales organisation also proves useful in evading price-control and taxes, since illegal income can be hidden in transfers between producing and sales units. Former importers, in addition, are in touch with foreign firms which can assist in buying machinery and imported raw materials and arranging for foreign technicians. Landlords, financiers and real estate owners who have accumulations of capital are not so prone to assume risks. They do not enjoy the advantages the businessmen do and therefore, their economic horizon is usually narrower. They prefer safe incomes and do not risk their money in industry where the invested capital turns over more slowly and is more specifically tied to supplying a particular market.
Increasing Supply of Entrepreneurs from Business Communities

It is established that trading pursuits have been the source of entrepreneurial activity everywhere, but once the roots of industrialisation have been laid, one expects that the enterprising spirit permeates among people from other occupations also. The experience in the U.K. and the U.S. suggests that a new element—men with technical skills entered entrepreneurship. They set up shops—enterprises that often grew into sizable factories. They were neither engineers nor academically trained persons, but possessed useful instincts or had acquired a practical skill.

What surprises one the most is that despite the advent of a century of industrialisation before Independence, there were no traces of the same phenomenon occurring in India. The entrepreneurial activity remained an exclusive preserve of the trading and financing classes, and other sections of the society were unstirred. Or if they made a modest start, they stagnated and died out or were devoured by the successful ones. The supply of entrepreneurs from business communities was unabated and the beginning of the 20th century witnessed the emergence of two more regional communities as industrialists; in the first quarter of the century, the Marwaris and in the
second, the Chettiar caste of Tamil Nadu appeared on the industrial scene.

The Marwari community which had considerable business acumen remained unnoticed for quite some time in Calcutta business circles. But by 1914, this community had become a force to reckon with. The Marwaris had established themselves in import-export of cotton and cotton piece goods, wheat and seeds trade, jute baling, the real estate and banking business. They had acquired the ability to speculate profitably in shares and commodities. Gradually, they started acquiring large blocks of stock and became directors in British jute firms. They also had developed the skill to organise their own concerns and buy the going ones. By the end of the first quarter of the 20th century, they were yielding considerable economic power, and sophistication filtered into their business. In contrast with others, they made the transition to modern industry far from their home base.47

Notwithstanding a late start, after the Parsis and Gujaratis had entrenched themselves, this community registered a meteoric rise and attained a dominating position in business and industry.

A notable development of the inter-war period was the appearance of the South Indian business communities in industry. The Nattukottai Chettiar caste, a sub-caste
of the Chetti caste in South India which is again a sub-division of the Vaish order, dominated this class. The Chettiar families which come from Chettinad in Tamil Nadu entered industry in slightly different circumstances. They were landowners, indigenous bankers and had built a good base in banking and insurance. They were carrying on their financing and trading activities principally in Burma and also in Ceylon, Malaya, Singapore etc. Some of the South Indians had appeared in industry even earlier, but as a result of the war, these Chettiars, scattered at different places, became 'displaced' persons. They were no longer particularly welcome and were treated as 'foreigners' after Burma became independent of India. When they were deprived of their traditional economic activities in Burma, they turned with greater force to transform themselves into modern capitalists in their own country. They were wealthy and had enough surplus capital to invest. Thus, the Marwaris came to industry in large numbers as a result of flush of post-war prosperity, whereas the Chettiars came to industry as a result of being unwelcome else here and wanted to find use for their accumulated resources in their own country. Their first modern incorporated enterprises were founded in the 1930's and till Independence, they remained most closely connected with the cotton textile industry.
## TABLE 1

Frequency Distribution of Industrial Companies Controlled and Directorships Held by Community, 1911-51

<table>
<thead>
<tr>
<th>Communities</th>
<th>No. of Companies controlled</th>
<th>No. of Directorships Held</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1911</td>
<td>1931</td>
</tr>
<tr>
<td>British</td>
<td>282</td>
<td>416</td>
</tr>
<tr>
<td>Parsees</td>
<td>15</td>
<td>25</td>
</tr>
<tr>
<td>Gujaratis</td>
<td>3</td>
<td>11</td>
</tr>
<tr>
<td>Jews</td>
<td>5</td>
<td>9</td>
</tr>
<tr>
<td>Muslims</td>
<td>-</td>
<td>10</td>
</tr>
<tr>
<td>Bengalis</td>
<td>8</td>
<td>5</td>
</tr>
<tr>
<td>Marwari</td>
<td>-</td>
<td>6</td>
</tr>
<tr>
<td>Mixed Control</td>
<td>28</td>
<td>28</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>341</td>
<td>510</td>
</tr>
</tbody>
</table>


The periodic changes among principal business communities as springs of entrepreneurship may be reflected by the Table 1.
Behaviour Patterns of Entrepreneurs

Backgrounds condition the habits and attitudes of people and so, their perception. People who branch out into manufacturing from diverse backgrounds must feel attracted to different types of industry, the habits and attitudes of each professional group being the determining factors.

Flavia Darossi has succinctly put it:

"Thus, it would be forecast that the men from an agricultural background would gravitate towards a traditional industry, where the technology is fairly elementary and the capital requirements modest. The sons of professional men or skilled craftsmen, on the other hand, as they are already acquainted with specialised knowledge, might well be attracted by more complex production methods. Unlike agriculture and commerce, however, the professions or crafts do not permit of the accumulation of substantial capital, and therefore one would expect anyone entering the entrepreneurial field from these backgrounds to set up in a small-sized firm, at least to start with. Industrial investment involving slow amortisation would be unlikely to attract those accustomed to the climate of commerce, and this group might also be expected to fight shy of complex technology, though they
would be predisposed to the taking of considerable financial risks.

On the basis of the above hypothesis, she suggests that the following pattern of industrial development would emerge:

An idea about behaviour patterns may be available from the behaviour of Established Industrial Houses (both Larger and Large) enumerated by the Industrial Licensing Policy Inquiry Committee (Report of 1969). These industrial houses (including foreign groups), exclusive of their second-tier companies, commanded a substantial volume of the paid-up capital of the entire corporate private sector, i.e., 42% in 1958-59 and 42.2% in 1966-67. The founders of these houses predominantly emerged from business and financing backgrounds and a substantial majority of them stepped into their industrial career with founding or acquisition of a textile mill.

<table>
<thead>
<tr>
<th>Sector of Origin</th>
<th>Investment</th>
<th>Risk-taking attitudes</th>
<th>Search for Quick Returns</th>
<th>Interest in Complex Technology</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>Low</td>
<td>-</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>Commerce</td>
<td>High</td>
<td>+</td>
<td>+</td>
<td>-</td>
</tr>
<tr>
<td>Handicraft</td>
<td>Low</td>
<td>-</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Professions</td>
<td>Low</td>
<td>+</td>
<td></td>
<td>+</td>
</tr>
</tbody>
</table>
The available information tracing the origins of founders of these industrial empires is given in the Appendix.

It would be recollected that in the initial stages of industrialisation the pace was set in Western India by Parsi and Gujarati entrepreneurs. The idea was to seek employment of expanding mercantile profits made, inter alia, in cotton trade. In the eastern part of India, the British were active and set the pace in jute industry. When a few modern enterprises proved successful, the idea of establishing cotton and jute mills began to stir the minds of Indian merchants and capitalists. To this, the introduction of the concept of limited liability to the joint stock companies by the Act of 1857 gave further impetus. Industrial activity was gaining momentum; just then, the American Civil War presented Indian merchants with an opportunity to realise fabulous prices upon shipments of cotton to Liverpool. At this time, limited liability granted to the banking companies added fuel to the fire and became an instrument in developing the wildest share mania in the corporate history of the century. Soon a group of unscrupulous promoters emerged and companies were started for every imaginable purpose. The financial mechanism adopted by the banks especially provided opportunities for speculation. Thus, there initiation of over-ambitious, reckless and speculative elements into industry.
At the dawn of the 20th century, the Swadeshi Movement aroused the sentiments and emotions of people and a serious feeling against the British products was generated. Still, before the First World War, the only major break from tradition was the establishment of the Tata Iron & Steel Company in 1911.

After the war was over, some change was noticeable in the attitude of the Government of India. Its policy of laissez faire in commercial and industrial matters had given place to tariff protection to selected industries and new industries sprang up under its shelter. The industries developed during this period included sugar, cement, paper and to some extent, heavy chemicals, but the development was not to the extent of priming the pump of real industrial integration and all-round expansion of the economy. When the Second World War broke out, the businessmen again cashed in on this opportunity, new industries were developed, old industries were re-organised and the industrial base was slightly broadened, but still the country came out of the war poorer in her industrial equipment, in her major industries and her railways, because they were used to the hit during the war and their annual replacement need had not been filled. The textile industry continued to dominate Indian industry. Basic industries had made only a small beginning. There was no textile machinery or with spare parts. Despite the size of
India's railway network, there was no production in India to locomotives or freight or passenger cars. Every time the war took place, there was shipping crisis and obtaining even simple tools and elementary parts needed for industry and the railways dramatised India's lack of industrial integration.

The fortuitous prosperity during this period encouraged even entrepreneurs of inadequate means and experience to enter the industry. They had little spirit of self-denial and little solicitude for the struggling company they managed. They speculated, lost and dipped themselves into companies' funds to cover themselves; in the ensuing wrangle, companies went bankrupt. Attempts were made to gain control through cornering of shares of the going concerns. It was more a financial manipulation than entrepreneurship. The new companies started were very small-sized and their running was contingent upon happening of some unexpected events in which the promoter could reap a rich harvest. Consequently, this period ended with alienation of the people and the government from the business class which resorted to a number of malpractices by frequently violating government regulations, legislation and fiscal policies by deceitful means; this came to be a regular feature with some families, bringing in its wake a questioning attitude by the general public towards business class.

The nature and character of industrialisation in India
at the time of Independence was such that even after nearly a century of development, the textile industry—cotton, woollen and jute—remained the most preferred industrial sector for the Indian entrepreneurial class and it attracted most of their resources and efforts—50.32 per cent of total capital and 65.20 per cent of total human force for all manufacturing industries put together. 60

TABLE 2

Shares of the Traditional Products in Relation to the Total Turnover of Selected Industrial Houses

<table>
<thead>
<tr>
<th>Industrial Houses</th>
<th>Percentage Share of Four Traditional Products to Total Turnover</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sugar</td>
</tr>
<tr>
<td>Birla</td>
<td>5.0</td>
</tr>
<tr>
<td>Bangur</td>
<td>2.1</td>
</tr>
<tr>
<td>J.K. Singania</td>
<td>-</td>
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<td>Goenka</td>
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<td>N. Wadia</td>
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Source: Adapted from Tabe Noboru, Indian Entrepreneurs at the Cross Roads—A study of Business Leadership, Institute of Developing Economics, Tokyo, 1970, Table IV, p.57.
Another way of looking at the behaviour patterns could be to examine the composition of industrial activity of individual entrepreneurs. Leaving aside the Tatas who had developed heavy industry even before Independence and the Kirloskars who were then coming up and advanced only after Independence, most of the Industrial Houses till the early 1960s had concentrated mainly on traditional industries. A glance at the figures presented in Table 2 brings out the same.

An Explanation for the Absence of Broad-based Entrepreneurship

The history of growth of entrepreneurship in India leaves many questions unanswered. One is left guessing about why were not people from other backgrounds attracted to industry, despite the fact that the roots of industrialisation had already been laid? Why could not the spirit of enterprise permeate among other sections of the society once the successes of the initial enterprises was demonstrated by the Europeans and the Indian business communities? Again, why did it concentrate in a few families even among business communities? The explanations for absence of broad based entrepreneurship are commonly found in caste system, the inertia of associated cultural traditions, joint family system and the like.

It is often contended that the caste system, as a rigid
organisation into hereditary and endogamous groups
deciding for their members the activities they could
undertake, did not permit mobility to members from one
caste to another. As a result, the activities in which
some accumulation of economic surplus was possible,
remained the prerogative of a limited class. This argument
seems to have some element of validity in it in the sense
that the caste system in all its seriousness was practised
in the villages. India, despite some extent of industrialisation, continued to live in her countryside and
thus, a vast section of the society remained insulated
from culture of commerce and enterprise. Even the
character of Industrial labour force remained migratory,
residing in the towns for a part of the year and returning
to their villages when their labour was required for
agricultural operations. This too checked attitudinal
adjustments to factory life and consequently, skill
formation. This, however, raises another question: why
could not the base of entrepreneurship widen even in
that limited class which had traditions of business?
Why did it remain so narrow and lead to the formation of
big industrial combines?

More important than what damage the caste system caused
in the countryside seems to be the method of extracting
economic surplus from there. Both the Permanent settle-
ment and the Ryotwari systems of direct taxation drove
the peasants into the clutches of moneylenders. Besides, unlike Japan, the commercial development did
not stimulate the agricultural sector of India's economy. Most of them were engaged in subsistence farming, and the new economic opportunities did not interest the wealthy farmers. To participate in trading and manufacturing enterprises and search for new sources of profits, as the Japanese wealthy farmers did, did not fascinate them much, as even otherwise they enjoyed a better social status. Thus, on the one hand, the moneylenders squeezed the masses and on the other, the landlords, nawabs, rajahs and maharajahs (excepting a few who did make industrial investments and provided concessions to their subjects) who were patronised by and served as agents of the British government, dissipated their resources, indulging in conspicuous consumption and hoarding wealth in the form of land, gold or jewellery. The problem was further accentuated by the lack of banking and communication facilities, as the scattered bits of savings could not be mobilised. Thus, the whole political and economic system was such that the foreigner, the landlord, and the moneylender took the economic surplus away from the peasantry, failed to invest it in industrial growth and thereby ruled out the possibility of repeating Japan's way of entering the modern era.

The educational system was so geared as to turn out clerks. No importance was attached to development of
technical abilities or executive skills. The enterprises for a long time continued to be supervised by Europeans. In the industries owned and controlled by foreigners, appointments of native to managerial and higher technical jobs were kept to a minimum.\(^6^7\) Even as late as 1900's, the State Policy was biased against technical education on the ground that the prevailing pattern of employment opportunities did not justify its encouragement.\(^6^8\) The legal profession and administrative services attracted the most brilliant and highly ambitious young men. As the government did not ascribe any high value to economic development, society continued to bestow the greatest prestige on intellectual or non-material pursuits. Further, as the liberation movement gained momentum, many talented young men drifted toward political activity.

The process of industrialisation could be hastened through certain instrumentalities like an ideology of industrialisation and, more specifically, active State policies calculated to foster growth. In fact, the kind of entrepreneurial development that took place before Independence was a product of the situation created by the State itself. None of the policies which the situation called for emerged. As the relevant decisions were ultimately determined by the interests of the British economy and the British private capital in particular,\(^6^9\) the state pursued a laissez-faire policy despite public demand for State action to protect Indian industries. It is evidenced by the fact that
though cotton textile was a highly profitable industry, the British themselves took to an industry which would not compete with their home industry. Even later the overwhelming bulk of foreign capital investment—accounting for the bulk of the total investment in modern industry—was in transport and extractive or export industries. For the economy of the colonial country, such investment merely meant the growth of enclaves, their linkage effects being confined to a minimum. It was not a problem of more State inaction or indifference; it was a calculated discrimination, perpetrated against the Indian industrial interests, which scuttled the growth of native entrepreneurship. The dominance of modern industry by the European business houses before the First World War was supported and reinforced by a whole set of administrative, political, economic, and financial arrangements within India. The European businessmen very consciously set themselves apart from native businessmen; they claimed a cultural and racial affinity with the British rulers of India which was denied to the Indians who might compete with them. Even in such petty matters as railway facilities, it was pointed out in testimony before the Aqorth Committee in 1919-20 that the Indian subordinate railway officials were able to capitalise on the chronic shortage of cars by exacting payments from Indian businessmen in return for prompt service, whereas British business expected and received prompt service on the Indian railways without
paying bribes to petty officials. The same practice was virtually conceded by the Wedgwood Committee in 1937.72 The fact that the British business for whose interests the government existed, had easier access to government in all matters militated against the growth of native entrepreneurship in general. But the emergence of widespread entrepreneurship was also hampered by collaboration between the native business interests, the foreign interests and the alien government.

For many things, the industrialists have to depend upon the State. The State is a big buyer of many products and can influence the market. Those who came in touch with the State, established a rapport and cooperated, considerably increased their gains and influence. There was no class of men more interested in the stability of the British rule in India than that of the respectable merchants.73 Even when the national movement started, they served simultaneously both the motives of pursuit of profit and sympathy with the movement. Noboru is surprised that the Indian entrepreneurs were able to separate their economic and political activity to enable their own communities to prosper.74 In fact, the resourceful always maintains special connections with the government as it can affect his opportunities of profit, but others who lag behind, suffer.

For any industrial enterprise to succeed, a minimum of economic facilities is needed. Though transport and
communications were developing, insurance and banking facilities did not assume the form of a public service. These institutions mainly catered to the requirements of their own promoters. In the absence of any State assistance and with the institutional agencies furthering the interests of only a handful of people, only the highly resourceful could think of launching an industrial enterprise. Thus, apart from cooperation with the State, there were three necessary conditions of success: (1) deriving a large amount of initial capital, organisation and management abilities from family or relatives; (2) integrating interests with banking, investment and insurance companies; and (3) exploiting successive commercial opportunities.  

The satisfaction of these essential conditions culminated in the formation of family enterprises, extensive use of a peculiar entrepreneurial form of organisation (namely, the Managing Agency System) and ultimately, development of industrial combines with or without forward and backward linkages. Through the Managing Agency System, the enterprising families achieved integration of their diverse activities. They engaged themselves in trading, banking, insurance, manufacturing (cement, cotton, jute, sugar, etc.), shipping, planting, etc. This was the kind of activity one usually encountered at the apex of India's business pyramid that a family simultaneously engaged
in trade, real estate, and banking and also managed industrial corporations through the device of one or more managing agency firms. For obvious reasons, most of them launched their careers as traders and continued to rely on trade as the chief source of income. If such businessmen were to concentrate all their assets in one agency firm and engage in both trade—a relatively safe activity and experimental manufacturing, they would expose their entire fortune to the vicissitudes of a field in which they possessed little competence. Almost every new operating company was managed by a managing agency firm.

The system of managing agency came into such a vogue that no industrial company could be floated without a managing agency firm which usually consisted of members of the promoters' family. These managing agency houses became the suppliers of capital, know-how, management, and constituted a form of business organisation most adapted to a country with practically negligible banking facilities (especially for long-term finance), an apathetic government, and lack of institutions for supply of know-how in modern industry. Thus, the industrial empires came to be built under the control of particular families. The successful proved to be more successful and the gains made had snowballing effect. The new and small enterprises struggled for their survival and, in the face of this situation, a
vast number of them either died out in the process or were
devoured by the predominant ones which, according to the
call of the time, strengthened their position further.
It would be pertinent to quote Shoji Ito:

"The reason why enterprise under the control of
these business combines grow more rapidly than
medium and small independent enterprises of the
same size is that when a number of enterprises is
concentrated under the control of a single
decision-making 'authority' they cease to be a
mere congeries of independent enterprises and are
freed to a certain degree from capitalist free
competition, gain stability and credit-wothiness;
have easier access to foreign capital and technical
collaboration (this is one of the most important
means to be employed under present conditions if
individual Indian enterprises are to expand), and,
as a result of these things, are able to accomplish
a rapid elevation of their economic, social, and
political position. In concrete terms, if a number
of enterprises which have vertical and horizontal
relations in matters of technology are under the
control of a single decision-maker, it will be
possible to make bookkeeping adjustments to a
considerable degree when passing goods from one
company to another within the group, and in this
way to disperse profits among the enterprises. Further to this, we are obliged to say that the mobilization of funds for the enterprises in the group from sources both inside and outside the group by means of the group's own banks, investment companies, managing agents, etc., is an extremely profitable mechanism under the conditions of an economy in which investment requires immense funds in the light of present levels of technology and in which capital accumulation is lagging behind. What is more, all these things can be done quite legally."

Thus, conditions were such that without substantial means, when one emerged out of non-business occupations or even petty business, could not compete or face the onslaughts of predominant entrepreneurs. The new and small entrepreneurs were in such a situation faced with extinction. Those who came from a mercantile background continued to carry on their mercantile activities which at least served as a hedge, but the entrepreneurs from other backgrounds did not enjoy even this advantage.

One of the necessary conditions of success as outlined above is 'deriving a large amount of initial capital, organisation and management abilities from family or relatives'. Membership of a resourceful family or
belonging to a resourceful community facilitates entrepreneurship. There is, of course, controversy regarding the role of Indian joint family system which is often suggested to be an obstacle in Indian economic development. Its baneful effects on enterprise are said to be serious. As Peter Harris points out, people often explain African backwardness in terms of the fact that the traditions of African family life inhibited individualism and the accumulation of capital; the same is supposed to be true in the case of India. But the entire reasoning behind this argument seems to be fallacious as it considers only the darker side and ignores the fact that the same members who are a drag on resources prove to be a source of strength in adversity. Once a beginning is made, the family becomes the breeding ground for more entrepreneurs. Most of the enterprises, especially those started by the new entrepreneurs, are started on a modest scale and need close supervision by those in whom the entrepreneur can repose confidence. Such persons can be forthcoming only from amongst the members of the family, nucleus in developing the industrial houses. What Harris argues in the case of Kenyan entrepreneurs, that they make very explicit the priority of the well being of the enterprise, is equally applicable to the Indian case.

Family relationships are directly important, for they decisively extend the capital available to the individual
promoter. But wider ethnic connections are fully as significant. In an unstable economic and social order, decisions often rest on personal judgements of a man's trustworthiness. Derivation from a known background, membership in a proper church, reputation for virtues defined in accordance with standards accepted by the ethnic group are of inestimable importance in this respect. Keeping these considerations in view, membership in a trading community has significant advantages for industrialists in making, community members tend to trust each other, especially since most communities impose sanctions against violators of their code of behaviour, community membership facilitates raising capital. The confidence among community members widens the pool from which accountants, managers, technicians and partners can be drawn. It is difficult to trust outsiders in a situation fraught with uncertainty, with few institutional or professional standards, and with no traditional code of ethics in industry. Entrepreneurs from a trading community can also often draw on information and a wider circle of trusted collaborators than can others do.

The Indian trading communities had very well-knit resource groups and the members not belonging to these trading communities were not only at a serious disadvantage in these regards, but also were not very welcome to an exclusive preserve of theirs.
Notes and References


5. The term 'community' has, if fact, confused many of us many a time. We often hear of student community, business community, Bengali community, Sikh community, Brahmin community and so on.

"These communities are not simply crowds, aggregations of people who chance to be physically close to one another. They are 'societies' organised groups of people who have learned to live and work together, interacting in the pursuit of common ends." See George M. Foster, Traditional Cultures and the Impact of Technological Change, Harper & Row,
New York, 1962, p.10. A community is thus an 
organised group of people striving for a common 
objective and being governed by a set of rules 
and regulations for day-to-day conduct amongst 
themselves, be it on the basis of occupation, 
region, language, religion, caste and the like.

6. D.R. Gadgil, op.cit., p.20

7. H.G.Lamb, "The Indian Business Communities and the 
Evolution of an Industrial Class", Pacific Affairs, 

8. A.Sarada Raju, Economic Conditions in the Madras 
Presidence, 1800-1850, Department of economics, 
University of Madras, 1941, pp.186-187.

9. S.Nanjundan, Indians in Malayan Economy, New Delhi, 
p.35.

10. Shoji Ito, "A note on the Business Combine in India— 
with Special Reference to the Nattukottai Chettiar", 
The Developing Economies, Vol. IV, No.3, Sept.1966, 
p.369

11. A. Sarada Raju, op.cit., p.188

12. George Woodcock, Kerala— A Portrait of the Malabar 


17. V.I. Pavlov, op.cit., p.44

18. Ibid., pp.155-156.


20. Nirmal Kumar Bose, op.cit., p.36.

There is hardly any correlation between formal education and success as an entrepreneur. "Some of the ablest and most systematic have never been to school. Their book-keeping is often haphazard, their costing speculative; yet there are successful businesses whose only accounts are random notes jumbled into a drawer along with pencil stubs, old letters and a trade calendar and others whose neatly ruled ledgers and certified accounts merely document the coming collapse." See Peter Harris, "The Social Barriers to African Entrepreneurship", The Journal of Development Studies, Vol.5, No.1, Oct. 1968, p.31. This is true of the Indian entrepreneurship is the result of interplay of several factors and any individual input, even possession of vast capital resources, in the absence of other factors, is not very much meaningful. Further, education should not be understood in a very restricted sense. A person who spends several years in school, college and university and another who sits in his shop and runs his business, both of them, are acquiring some skills. But the difference is that the former knows something
about many things, whereas the latter knows many thing about something. We cannot belittle education as it has its own role in the moulding of man. It changes habits and attitudes, broadens the vision and improves perception. In modern times when too many restrictions have been imposed by the State, education is an aid to comprehend complexities of the situation. Even in the olden times, in the absence of vast capital resources, education was the only way to have come in contact with those who mattered in those days.


30. Considering the fact that the Parsi community, which lived relatively unnoticed for over a thousand years on the periphery of the Indian society, showed remarkable changes only after the advent of the British, Kulke poses a question: which are the decisive factors, endogenous as well as exogenous, which caused this sudden dynamisation and social mobilisation among the Parsis and which made the Parsis, more than any other community, the agents of social change in the wider Indian context? For an answer to the question, see Eckehard Kulke, The Parsees in India: A Minority as Agent of Social Change, Vikas Publishing House Pvt. Ltd., Delhi, 1974.


32. It does not, however, suggest that no other communities were contemplating industrial ventures at the same time. About 1847 itself, while still
in government service, Ranchhodlal, a Sathodra Nagar Brahmin of Ahmedabad, thought of founding a textile mill and took some steps in this direction. For the Ahmadabadi enterprise, see Kenneth L. Gillian, Ahmedabad: A Study in Indian Urban History University of California Press, Berkeley and Los Angeles, 1968, pp. 74-104. He provides an interesting account of the Ahmedabadians turning themselves into industrialists and confirms the opinion of those who regard the extent of western contact and the extent of infrastructure provided as less important causal agents in economic growth than cultural factors of a more indigenous and long standing kind. Not does he think that the theory of withdrawal of status respect (Hagen, on the Theory of Social Change) accounts for the emergence of economic creativity in later generations.


34. For the history of early enterprises and emergence of Parsi and Gujarati merchants as entrepreneurs, see S.M. Rutnagur, Bombay Industries: The Cotton Mills, 1927; S.D. Mehta, The Cotton Mills of India, 1854 to 1954, The Textile Association of India, Bombay, 1954; Sunil Kumar Sen, The House of Tata (1839-1939), Calcutta, Progressive Publishers, 1975. Gillian contrasts Gujarat with Bengal and observes; "...In the 19th century, the Gujaratis (and not just their mercantile communities) were, of all the Indian peoples, the ones most favourably conditioned by their culture and history to take advantage of the new economic opportunities in trade and industry." See Kenneth L. Gillian, op.cit., pp.79-81.


38. "...Nearly every where it seems to have been the merchants who took active part in the development and operation of railways, especially as investors and as members of boards of directors; and frequently in England and the United States it was the mercantile persuasion that put its capital into factories and gave its talents to their direction." See Arthur H. Cole, Business Enterprise in its Social Setting, Harvard University Press, Cambridge, Mass., 1959, p.114.


41. ibid, p.418


44. Ibid., p.390--A Reply.

45. "Boulton knew how to work iron; much later Michael J. Owens had a way of handling molten glass, while Samuel Slater, the Schol-field and numerous other mechanics had learned the tricks of the textile machinery in England and were minded to set up their own mills in America. A large majority of the individual small establishments launched in England, on the Continent, and in the United States during the early phases of industrialisation were quite surely the projects of mechanic entrepreneurs. But quite often, the mechanic was associated with a businessman, as inventors have been rather notoriously poor businessmen, especially in the marketing aspects of their operations. See Arthur H. Cole, Business Enterprise in its Social Setting, Op.cit. pp.116-117.

46. For regional and communal character of entrepreneurship in India, see Asim Chaudhuri, Private Economic Power in India: A Study in Genesis and Concentration, People's Publishing House, New Delhi, 1975, pp.108-144.


50. Flavia Derosii, op.cit., p.155

51. ibid., p.155.


53. ibid. p.71

54. ibid., pp.74-80, He has made an excellent discussion of Banking Inflation in Bombay, 1861-65.

55. H.B. Lamb, "India: A Colonial setting", op.cit., p.469

56. ibid., p.469.

57. ibid., p.478

58. ibid., p.479

59. A. Dasgupta, Indian Business and Management, Dept. of Business Management and Industrial Administration, University of Delhi, 1969, p.16.

60. Calculated From Jagdish N. Shaguati and Padma Desai, op. cit., Table 3.1, pp.39-42.

61. For factors inhibiting Indian entrepreneurship, reference may also be made to Asim Chaudhury, op. cit., pp.67-107.
When we consider the ratio of urban population to total population for some decades before Independence, we notice that the farther the distance from the year of Independence, the lower the ratio. There is slight improvement in the degree of urbanization from time to time, but there is tremendous spurt recorded only in the year after Independence. As is clear in the following table.

<table>
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<tr>
<th>Year</th>
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<tr>
<td>1901</td>
<td>10.8</td>
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<tr>
<td>1911</td>
<td>10.3</td>
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<tr>
<td>1941</td>
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<td>1951</td>
<td>17.3</td>
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63. Sung Jee Koh, op. cit., p.114
64. Ibid., pp. 112-113.
65. Ibid., pp.42-52

69. T. Raychaudhuri, op.cit., p.97

70. Ibid., p.96


74. Tabe Noboru, op.cit., pp.19-20


78. George B. Baldwin, op. cit., p.247. Even the very first industrial unit promoted by Davar entered into managing agency agreement. See Radhe Shum Rungta, op. cit., p.228.

79. George B. Baldwin, op. cit., p.24

80. Jagdish N. Bhagwati and Padma Desai, op. cit., p.23


82. Peter Morris, op. cit., p.30


84. For a detailed discussion, see R.A. Sharma, "Emerging Patterns of Industrial Entrepreneurship in India", The Developing Economies, Vol. XI, No.1, March 1973, pp.40-41.

85. Peter Morris, op. cit., p.31

86. Oscar and Mary F. Handl in, "Ethnic Factors in Social Mobility", Explorations in Entrepreneurial History, Vol.9, No.1, Oct. 1956, p.4