The usual way for a company to expand its operation is through a process of natural or evolutionary growth financed out of earnings or new security floatations. Another pattern of growth is through vertical and horizontal combinations. The subject-matter in this chapter is divided into two Sections. Section-I describes various forms of combinations which have been used for expansion. This is supported with examples of Big Industrial Houses which have acquired economic power through each method of combination. Section-II explains the inter-connection between prominent groups and the financial institutions.
SECTION I

METHODS OF EFFECTING COMBINATIONS IN INDIAN INDUSTRIES

Corporate combination may be effected in a number of ways that reflect the purpose of the combination. When the purpose is primarily one of controlling markets and competition, an informal arrangement may be expected. On the other hand, when the purpose is primarily one of achieving the economies that may be inherent in large-scale integrated operation, a formal legal organisation will be used.

In the broadest application of the term "combination" we may include all the devices by which corporations attain a unity of direction and expansion of operations or control. These may range all the way from the gentlemen's agreements to outright amalgamation of the units into a single corporation. For purpose of discussion


here, the various methods of combination have been classified as:

(1) Informal Methods;
(2) Formal Methods with separate identities;
(3) Outright absorption of separate corporation, or Mergers.

These combinations are forged either by (a) managerial integration; multiple and inter-locking of directorships, and financial integration.

A brief description of the growth pattern emerging out of these methods is necessary at this stage.

MANAGERIAL INTEGRATION:

Managerial integration is manifested in the concentration of management of a number of concerns in the hands of a managing firm or a group of managing firms.2 In managerial integration, there is one common authority which controls the 'decision making power' of several bodies. One such device notable in this context, particularly after 1956, is the formation of multiple managing agencies. Nearly every important industrial house now maintains a number of managing firms, both incorporated and non-incorporated, to be able to exercise control over a large number of companies, thereby flouting legally

---

the ceiling rigours of 10 companies prescribed in the new company legislation. Big managing agents, who managed more than ten companies each before 1956, either set up new firms to act as managing agents or converted some of their controlled companies into managing agency companies and thereafter transferred the rights of management of some of their existing concerns to these apparently and legally separate managing agencies.¹

Thus, although the number of companies was reduced to 10 or less than that under one managing agency firm, the total number of companies under the management of a particular House indirectly remained the same, or increased in some cases, as a result of multiple managing agencies. Then, again, these multiple managing agencies have common directors who work in close collaboration thereby leading to managerial integration between all companies controlled by multiple managing agencies belonging to a particular House.

Another device adopted by entrepreneurs to retain their 'Industrial Empires' even in the teeth of Companies Act, has been the conversion of managing agency rights into those of Secretaries and Treasurers. As on March 31 1969, the number of managed companies having the managing agency form of management was 594 and the total number

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of managing agents was 393. Of this, 44 Secretaries and Treasurers were managing among themselves 106 companies. It is evident that the system of Secretaries and Treasurers has thrown an open invitation to managing agents to enter the field of company management through the backdoor. Since no qualifications have been laid down for the appointment of Secretaries and Treasurers, no restrictions have been imposed on conversion, and no rules have been framed to restrict a firm to act as Secretaries and Treasurers of some and managing agents of other companies, forces have been released for the managing agents to outwit all important restrictions imposed on them by converting themselves into Secretaries and Treasurers with all their powers and advantages. Further, because no limit has been placed on the number of companies that can be managed by a firm as Secretaries and Treasurers, many industrial houses in India, as we shall see, shortly hereafter, today control larger number of companies in their capacity as Secretaries and Treasurers than as managing agents. In all such cases, the controlling authority does not change, the only change that takes place is the nomenclature of control.

Then there are a large number of associate concerns, where the legal ties are non-existent, and which work

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under the dominating influence of a particular industrial house. For instance, banks and insurance companies are not allowed by law to appoint managing agents, but it does not follow that they do not have affiliations with particular industrial groups. In such cases, the Industrial Houses control the companies through their nominees acting as directors, managing directors, secretaries, agents, or managers and in some cases through large shareholdings. For example, persons associated with Birla Group of companies also acted as directors of United Commercial Bank and hence this bank was known as Birla's Bank. For the same reason of common directorship, Tatas had a dominating influence over Central Bank Ltd; and Bank of India Ltd.; Goenkar had influence over Hind Bank Ltd and J.K. Groups had over Hindustan Commercial Bank Ltd.

Similar was the case with many general insurance companies.

This shows that, as the things stand at present, managing agencies alone do not form the centre of managerial integration. For a proper picture of concentration of managerial power 'Group', study must be undertaken without which an all-round and comprehensive study of managerial integration can not be presented. Let us, therefore, apply the above tests to factual data and see how far the

1. An 'Industrial Group' consists of all those units which are subject to the decision making power of a common authority, irrespective of the way in which they are inter-related.
managerial power of Indian industries is concentrated in a few Industrial Houses.

CASE STUDIES ON MANAGERIAL INTEGRATION:

ANDREW YULE GROUP

The case of Andrew Yule Group is easy to understand. The group was controlling 30 companies as managing agents.\(^1\) In view of the provisions of Companies Act, 1956, the Group retained important and big ten companies under managing agency system, because Secretaries and Treasurers of 19 companies, merged one company with another of its own companies (Orient Jute Mills Ltd., merged with Cheviot Jute Mills Ltd.), controlled four companies by controlling their Boards, liquidated one concern (Central Hydraulic Press Company) and relinquished the charge of only four small companies (three of them had paid-up capital of less than 5 lakhs of rupees).

Mcleod Group

Similar devices were followed by McLeod Group,\(^2\) which kept only 9 companies under managing agency; changed over to Secretaries and Treasurers in case of 20 companies and controlled the Board of one company.

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1. Department of Company Law Affairs, Ministry of Industrial Development, Internal Trade & Company Affairs, Govt. of India, New Delhi.
2. Ibid.
One of its companies (Kalighat-Falta Railway Company) was taken over by the Government and it left the management of only one company. Almost all other foreign controlled managing agencies have extensively used the method of converting their managing agencies into Secretaries and Treasurers with the objective of maintaining control over their concerns.

BIRLA GROUP

On the side of Indian managing agency, we find that the Birla Group, the biggest of all groups, which controlled 42 companies (38 companies as managing agents) in 1955, retained in 1969, 28 companies under managing agency system, through multiple managing agencies, converted 8 managing agencies into Secretaries and Treasurers and the rest of the companies were retained in the Group through nominees appointed on the Boards of different companies. This Group is the biggest managing agent in India. Thapars and Tatas have also adopted the method of converting managing agencies into Secretaries and Treasurers, but the system has not found favour with Dalmia-Jain, J.K. and Bangur Groups who have preferred to retain control by controlling the composition of Board of Directors of different companies.

1. op.cit.
In some cases, a slight fall in managerial integration is visible. But if we analyse the position of these Groups, we will find that the number of companies in such Groups has gone down due to merger of companies and/or due to liquidation or nationalisation of companies. Only in a very few cases, there has been actual transfer of management, but such transfers are not unusual in the business world.

Thus, nothing spectacular has happened in the realm of controlling managerial integration, as a result of the enforcement of the Companies Act, 1956. In majority of cases, the situation in 1964-65 remains as it was in 1960, and a few cases reveal that managerial integration has even intensified due to take over of old concerns of other groups and floatation of new concerns by the important Industrial Houses of the country.

The position of individual industrial 'Groups' with respect to number of companies managed by each Group in various capacities is shown in Table-47. It is apparent from the table that the largest number of companies (i.e. 50) is controlled by Birla Group, followed by Thapar, Tata, Bird Heiligess, Andrew Yule and McLeod Groups, which control 47, 38, 36, 33 and 30 companies respectively. The other peculiarities that emerge out from the above table are
(1) Birla group is not only the biggest industrial group in the country but it also controls largest numbers (29) of companies as managing agents; (2) McLeod Group controls the largest number (24) of companies as Secretaries and Treasurers; and (3) Thapar Group controls the largest number (26) of companies through nominees and other techniques.

To sum up, the above statistical study clearly establishes the fact that managerial integration continues to be an integral part of the industrial structure of the country and this tendency towards concentration of managerial power has strengthened, in some cases, during recent years, in spite of Industrial Policy and regulatory measures of Companies Act, 1956. It must, however, be noted that whereas in the past the techniques adopted for the arrogation of power was the managing agency system, during recent years ingenious entrepreneurs have used many backdoor techniques, mentioned earlier, to retain their control over large number of companies, resulting in the formation of a pyramid of 'Group Companies'.

**NATURE OF MANAGERIAL INTEGRATION:**

Another feature revealing managerial integration in India is that 'Industrial Groups' do not confine their control to particular region of Industries, rather the domain of their activities extends to a variety of
## Table - 47

**Nature and Extent of Managerial Integration in Selected Industries of India**

(1964-65)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Andrew Yule</td>
<td>33</td>
<td>-</td>
<td>7</td>
<td>-</td>
<td>2</td>
<td>2</td>
<td>4</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>10</td>
<td>2</td>
<td>-</td>
<td>5</td>
</tr>
<tr>
<td>Bird-Heilgers</td>
<td>36</td>
<td>-</td>
<td>17</td>
<td>-</td>
<td>1</td>
<td>4</td>
<td>9</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>4</td>
<td>-</td>
</tr>
<tr>
<td>Siria</td>
<td>58</td>
<td>-</td>
<td>2</td>
<td>13</td>
<td>1</td>
<td>3</td>
<td>3</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td>Duncan Bros.</td>
<td>22</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>18</td>
<td>-</td>
<td>-</td>
<td>3</td>
</tr>
<tr>
<td>Dalmia-Jain</td>
<td>23</td>
<td>6</td>
<td>1</td>
<td>-</td>
<td>3</td>
<td>1</td>
<td>4</td>
<td>1</td>
<td>3</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>6</td>
<td>-</td>
</tr>
<tr>
<td>J.K. Group</td>
<td>15</td>
<td>-</td>
<td>-</td>
<td>4</td>
<td>-</td>
<td>4</td>
<td>1</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>5</td>
</tr>
<tr>
<td>Jardine Henderson</td>
<td>20</td>
<td>-</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>-</td>
<td>4</td>
<td>-</td>
</tr>
<tr>
<td>K.C. Thapar</td>
<td>47</td>
<td>-</td>
<td>10</td>
<td>3</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>8</td>
<td>-</td>
<td>1</td>
<td>23</td>
<td></td>
</tr>
<tr>
<td>Macnab-Berry</td>
<td>25</td>
<td>-</td>
<td>3</td>
<td>-</td>
<td>1</td>
<td>2</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>14</td>
<td>1</td>
<td>-</td>
<td>4</td>
<td>-</td>
</tr>
<tr>
<td>Mclain</td>
<td>30</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>9</td>
<td>-</td>
<td>4</td>
<td>-</td>
<td>15</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td>Mafatlal</td>
<td>9</td>
<td>-</td>
<td>-</td>
<td>6</td>
<td>-</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Tata Group</td>
<td>38</td>
<td>1</td>
<td>1</td>
<td>5</td>
<td>3</td>
<td>2</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>24</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Table compiled from Department of Statistics & Research Division, Ministry of Company Law Affairs, Government of India, New Delhi.
industries. A glance of Table-47 will bear testimony to the fact that the interests of Groups are far too diffused over industrial as well as non-industrial enterprises.

Barring a few Groups, which have confined their control to one type of Industry, all other Groups show a propensity to invest large funds in wide variety of Industries. These Groups do not seek horizontal or vertical integration of Industries, rather their aim is to achieve financial and managerial integration.

For example, the Birla Group manages 2 coal companies, 13 textile companies, 1 electricity concern, 2 investment trust companies, 5 jute mills, 3 paper mills, 6 sugar companies, 1 tea company, 1 shipping company, 3 banks and insurance companies and 21 other concerns like engineering, cycles, cables, automobiles, plastics, chemicals, machinery, iron and steel, trading companies, etc.

Similarly, Dalmia-Jain Group manages 6 cement companies, 1 coal company, 3 investment trusts, 1 jute mill, 1 railway company, 3 sugar factories, 2 banks and general insurance companies and 6 other companies. Another important managing house of Thaparas controls 10 coal companies, 2 cotton textile mills, 1 electricity concern, 2 paper factories, 1 sugar mills, 1 insurance company,1 vegetable products company and 22 other companies relating to

chemicals, engineering, medical supply laboratories, etc.
Tata Group controls 5 cotton mills, 1 cement factory, 1
colliery company, 3 electricity supply companies, 2 invest-
ment trusts, 2 banks and general insurance companies and
24 miscellaneous concerns, most of which are engineering
companies including Tata Iron and Steel Company Ltd.
Similar tendency is noticed in case of Bangur Group, J.N.
Group and many other Indian Industrial Houses.

Industrial Houses managed by foreigners are no
exception to the rule, e.g. Andrew Yule Group controls 33
of which 7 are coal companies, 2 electricity supply
companies, 2 investment trusts, 4 jute mills, 1 paper
mill, 10 tea companies, 2 shipping companies, 1 engineering
company, 1 printing press company, and 3 miscellaneous
concerns. Similarly, the industrial power of Bird-Heilgers
Group extends to 17 collieries, 1 electric-supply company,
4 investment trusts, 9 jute mills, 1 paper factory, 1
rolling mill, 1 engineering works, and 1 lime-stone company.
Some story is repeated in the case of Duncan Bros; Gillanders
Arbuthnot, Jardine Henderson, Macneil-Barry, Mcleods,
Octavious Steel and others.

Besides these giant organisations, there are larger
number of other managing agency houses which control
lesser number of companies, but the nature of their control
over companies is also widespread. We find, for example,
Killick Industries Ltd.; controlling only 11 companies but interested in coal, textiles, electricity, railway, shipping, carbon-paper manufacture, cement and engineering industries. Similarly, Martin Burns Group is associated with steel, railways, engineering, iron & steel and gas companies. Nafatali Group has sufficient interest in cotton, jute, sugar and chemical industries; and Jaipurias control coal, cotton, textiles, sugar, vanaspatti, export-import, engineering and land-development companies. Examples can be multiplied to show that managerial integration is a characteristic not only of big industrial Groups but even small 'Groups' show a tendency to bring under their fold large variety of industrial undertakings.

The reasons for diversified interests of industrial groups can be traced in the economic situation of the country. Mainly it is a legacy of the managing agency system. Because of the small and unstable market for each industry obtaining in India in the past, managing agents did not deem it proper to invest their vast resources in the expansion of only one type of industry; instead they searched out alternative channels of employment of their funds, resulting in the diversification of their investments. Of late, Groups have shown a tendency towards excessive diversification of their investments which they seek to achieve partly by complete or partial acquisition of

1. Ibid, p. 280
old European concerns and partly by participation into various unrelated industries. With the implementation implementation of industrial programmes of Five Year Plans, newer and newer industries have been set up in the country and here also existing managing agency groups have shown ample interest.

**MULTIPLE AND INTERLOCKING DIRECTORSHIPS:**

Multiple and interlocking directorships in Indian industries is another phenomenon which indirectly contribute to strengthening the integration of managing agency Groups.¹ This is more often discernible in the U.K. and U.S.A., where this aspect of managerial integration has vitiated itself to a large degree. The comparative position of multiple directorship in India, U.K. and the U.S.A. is given below:

**Table - 49**

**MULTIPLE DIRECTORSHIP IN INDIA, U.K & USA.**

<table>
<thead>
<tr>
<th>No. of companies in which directorships are held</th>
<th>Directors in large Indian companies</th>
<th>Directors in large companies in U.K.</th>
<th>Directors in large companies in USA</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 - 5</td>
<td>59.5</td>
<td>70.0</td>
<td>72.5</td>
</tr>
<tr>
<td>6 - 10</td>
<td>20.3</td>
<td>17.0</td>
<td>17.5</td>
</tr>
<tr>
<td>Over 10</td>
<td>20.2</td>
<td>13.0</td>
<td>10.0</td>
</tr>
</tbody>
</table>

**SOURCE:** Commerce, 8-12-1962, p. 999

This reveals the fact that popularity of directorship is a phenomenon common in many countries. The practice of holding one to five directorships is widely prevalent invariably in all the countries, inasmuch as 72.5 per cent directors in the U.S.A. and 70 per cent directors in the U.K., hold such directorships. In India, the percentage in this bracket is only 59.57 but this only shows that directors in Indian companies are holding more multiple interests than their counterparts in the U.S.A. and the U.K. Over 20 per cent of the Indian directors hold directorship in more than ten companies, while the corresponding figures for the U.K. and the USA are 13 percent and 10 per cent, respectively. Similarly, in the group of 6 to 10 companies, the position of directors in India is superior to those in the U.K. and the U.S.A.

**NATURE AND EXTENT OF PLURAL DIRECTORSHIPS IN INDIAN INDUSTRIES**

**FAMILY HOLD OVER DIRECTORSHIP:**

An interesting feature of the industrial organisation in India is that a few prominent Indian families control large number of directorships of joint-stock companies. A glance at Table-49 will reveal that 14 leading Indian families hold as many as 498 directorships-17.4 per cent of total of 2786 directorships held in the present context.
Seven leading families, viz., Goenkaes, Paddars, Bajories, Bangures, Birlas, Jelans and Khattans share among themselves 331 directorships—the largest number of directorships, however, being concentrated in the hands of Goenkaes who hold 74 directorships in various companies. Further, each family group has directorial interests in a variety of industrial undertakings. Birlas, Bangures, Goenkaes, Jelans, Bajories and Paddars, as we shall see shortly, have extensive business interests. Bangures, Goenkaes, Jelans and Bajories have more directorships in Jute and Plantation industries; whereas Birlas, Kasturbhata Laibhat and Nafatlal families hold more directorships in cotton textile industry. Similarly, Khattans have more interests in sugar industry, Paddars and Thapars in coal, Kotharits in tea and so on.

WIDESPREAD PLURALISM:

A detailed information about multiple directorships in Indian joint-stock companies is given in Table-49.

TABLE-49
FREQUENCY DISTRIBUTION OF MULTIPLE DIRECTORSHIPS IN RESPECT OF 631 COMPANIES

<table>
<thead>
<tr>
<th>Number of directorships holding</th>
<th>No. of persons</th>
<th>%age of total</th>
<th>Total directorships held</th>
<th>%age of total directorships held</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 - 5</td>
<td>211</td>
<td>64.60</td>
<td>626</td>
<td>37.2</td>
</tr>
<tr>
<td>6 - 10</td>
<td>79</td>
<td>24.39</td>
<td>601</td>
<td>35.6</td>
</tr>
<tr>
<td>11 - 15</td>
<td>30</td>
<td>9.54</td>
<td>365</td>
<td>21.6</td>
</tr>
<tr>
<td>16 - 20</td>
<td>5</td>
<td>1.56</td>
<td>95</td>
<td>5.6</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>325</strong></td>
<td><strong>100.00</strong></td>
<td><strong>1687</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

It is justified from Table-49 that as many as 325 persons hold multiple directorships of which 64.60 per cent directors hold two to five directorships, 24.30 per cent hold 6 to 10 directorships, 9.54 per cent hold 11 to 15 directorships, and only 1.56 per cent hold 16 to 20 directorships. The total number of directorships in all the 631 companies was 2786, of which 1687 or 60.5 per cent directorships (not directors) were influenced by pluralism.

The Table-49 further shows that an unmistakable tendency towards multiple directorships exists in India. As a result thereof a large number of directors enjoy more than five directorships each at the same time.

According to our survey relating to the year 1966-67, 325 persons hold among themselves 1687 directorship or 9 positions on an average.

**Foreigners Dominate:**

Further, amongst directors in Indian companies, foreign businessmen are holding more plural directorships than their Indian counterparts. It is revealed in Table-50 that the proportion of foreign nationals in the group of '1 to 5 companies' and 'over 10 companies' is more than their Indian counterparts. As against this, Indian directors holding 6 to 10 directorships are proportionately more (22.9. per cent) than the foreign directors. However,
during recent years, due to progressive Indianisation of business, changes have taken place in the nature and extent of directorships held by foreigners.

**TABLE - 50**

**DIRECTORSHIPS HELD BY INDIAN AND FOREIGN DIRECTORS IN INDIAN INDUSTRIES**

<table>
<thead>
<tr>
<th>No. of companies in which directorships held</th>
<th>Indian Directors</th>
<th>Foreign Directors</th>
<th>All Directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 - 5</td>
<td>57.0</td>
<td>67.8</td>
<td>59.5</td>
</tr>
<tr>
<td>6 - 10</td>
<td>22.9</td>
<td>11.6</td>
<td>20.3</td>
</tr>
<tr>
<td>Over 10</td>
<td>20.1</td>
<td>20.6</td>
<td>20.2</td>
</tr>
</tbody>
</table>

**SOURCE:** Commerce, December, 1962, p. 399

**PLURALISM IN GOVERNMENT COMPANIES:**

Government companies are also not free from the system of multiple and interlocutory directorships, as is evident from Table-51.

**TABLE - 51**

**OVERALL GROWTH OF DIRECTORSHIPS IN GOVT. COMPANIES**

<table>
<thead>
<tr>
<th>YEAR</th>
<th>No. of Govt. Cos.</th>
<th>Total Directorships</th>
<th>No. of persons holding directorships</th>
<th>Average directorships per person</th>
</tr>
</thead>
<tbody>
<tr>
<td>1957-58</td>
<td>84</td>
<td>580</td>
<td>400</td>
<td>1.4</td>
</tr>
<tr>
<td>1958-59</td>
<td>103</td>
<td>685</td>
<td>450</td>
<td>1.6</td>
</tr>
<tr>
<td>1960-61</td>
<td>140</td>
<td>1007</td>
<td>665</td>
<td>1.6</td>
</tr>
</tbody>
</table>

**SOURCE:** Kothari, M.L. Industrial Combinations, Chattanya Publishing House, 1967, p. 85
However, there is one point that should always be borne in mind regarding multiple directorships in government companies—such company directors have no ownership interest. Since they are nominated by the government and the policy is also decided by the government, they have no real power to regulate the policy of the undertaking, they act only as mouthpiece of the government. Therefore, even if some persons hold multiple directorships in government companies, it does not lead to the faults for industrial concentration. On the other hand, inter-locking in such companies may help in the formulation of uniform policy for all government concerns.

**PLURALISM GOES WITH BIGNESS**

It will be interesting to compare the percentage of persons holding directorships from the findings of the survey of 631 companies\(^1\)—out of which 384 companies have capital above Rs. 10 lakhs and 247 companies have capital below Rs. 10 lakhs—with the findings of an All-India survey of 331 big-sized companies\(^2\) (capital Rs. 50 lakhs or above).

**TABLE - 52**

<table>
<thead>
<tr>
<th>No. of Directorships</th>
<th>Percentage of persons holding directorships in 631 small-size cos.</th>
<th>Percentage of persons holding directorships in 331 big size cos.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>77.2</td>
<td>26.6</td>
</tr>
<tr>
<td>2 or more</td>
<td>22.8</td>
<td>73.4</td>
</tr>
</tbody>
</table>

**SOURCE:** Self-computed from the survey of under-noted authors.

According to Table-52 nearly one-quarter of the directors of small-sized companies were pluralists and 77.2 per cent of them held only one directorship. But in case of big-sized companies, three-quarters of the directors were pluralists and only 26.6 per cent held single directorship. This comparison is of great significance because it shows that the tendency towards multiple directorships is more pronounced among directors of big-sized companies than among directors of small-sized companies. The same tendency has been observed in foreign countries as well.  

TYPE OF INTER-LOCKING OF DIRECTORSHIPS:  

When a person holds directorships in a large number of companies, inter-locking relationships are established among corporations having common directors. It may be remembered that all the interlocks established through common directorships are not to be regarded as significant, since some of them may be of a fortuitous nature.

---

1. Sergent, P. Florence, Ownership, Control & Success of Large Companies, 1961, pp.45-46. "From a random sample of all trading companies in the Stock-exchange Year Book it appear that the directors of large companies hold more directorships on the average than directors of small concerns. Half of the directors of the small companies were pluralists and 4% held over ten. But three-quarter of the directors of larger companies were pluralists, with 30% holding six or more directorships and 13% over ten".  

However, the following three types of inter-locking directorships are of great significance as they have great bearing on the 'decision making power' of different corporations:

(a) inter-locking between competing units;
(b) inter-locking between different 'Groups', and
(c) inter-locking between manufacturing and financing companies.

Here we propose to study first the inter-locking between units, belonging to the same industry and which are in competition with each other.

A NEW DEVICE OF INTER-LOCKING
(Inter-locking between Manufacturing and Financing Companies)

The tendency towards integration is further aggravated by interlocking relations between manufacturing companies and financial institutions like investment trusts, banks, insurance companies and financial corporation. Through these financial institutions, the prominent industrialists pool the savings of the community and utilise them for the expansion of the industrial activities of their interest.

The inter-connections between financial institutions and other corporate bodies arise under different situations. In the case of Investment Trusts, the inter-connections

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arise mainly due to managing agency (including Secretaries and Treasurership) rights, which is a common form of management of investment trust companies in India. Most of the investment trusts in India have been floated by managing agency houses and these houses act either as managing agents or Secretaries and Treasurers of the investment trusts floated by them. Since these managing agency houses have under their control large number of manufacturing concerns, they seek to maintain effective relations between manufacturing concerns and financial institutions. At times it is found that some investment trusts work also as managing agents and Secretaries and Treasurers of manufacturing concerns. Under these circumstances the 'Pioneering Group' can exercise the control over manufacturing concerns through the investment trust. By this two way process a pyramid of industrial super-structure is raised on a pin-pointed apex of capital ownership of investment trusts.

As regards other financial institutions, the integration between them and manufacturing concern is achieved only through the intermediary of common directorships, especially in the case of banks and insurance companies where the appointment of managing agents is now prohibited by law. The financial institutions appoint
their own men on the Boards of Directors of manufacturing companies under four principal situations:
(a) when the financial institutions hold a huge block of shareholding in other companies, or
(b) where long term credit has been granted by financial institutions to such companies and by virtue of an agreement the financial institution is entitled to appoint a director on the Boards of Companies for protecting its interests. This is a prevalent practice among financial corporations sponsored by the governments or
(c) when for the sake of securing prestige and experience directors from financial institutions are appointed on the Boards of manufacturing companies; or
(d) directors from manufacturing companies are invited by financial institutions to foster better business relations or to secure the guidance of prominent business leaders.

SECTION - 2

(1) INTER CONNECTIONS BETWEEN PROMINENT GROUP AND FINANCIAL INSTITUTIONS:

It can be observed from Table-53 the directorships held by 19 banks, 27 insurance companies and 24 investment
trusts. This reveals that almost all prominent industrial houses are inter-linked with financial institutions through common directors. Table-53 further shows the number of directorships held by different 'Groups' in banks, insurance companies and investment trusts, through their nominees and representatives.

**Table - 53**

**DIRECTORSHIPS HELD BY INDUSTRIAL GROUPS IN FINANCIAL INSTITUTIONS**

<table>
<thead>
<tr>
<th>Representatives of</th>
<th>No. of directorships held by the representatives of the Groups in</th>
<th>Total directorships held in financial institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Banks</td>
<td>Insurance Co.</td>
</tr>
<tr>
<td>Tata Group</td>
<td>7(4)</td>
<td>2(2)</td>
</tr>
<tr>
<td>Bird-Hatler Group</td>
<td>1(1)</td>
<td>1(1)</td>
</tr>
<tr>
<td>Bangur Group</td>
<td>2(2)</td>
<td>4(4)</td>
</tr>
<tr>
<td>Andrew Jules Group</td>
<td></td>
<td>3(1)</td>
</tr>
<tr>
<td>Gosenka Group</td>
<td>4(4)</td>
<td>3(2)</td>
</tr>
<tr>
<td>Birla Group</td>
<td>3(2)</td>
<td>2(2)</td>
</tr>
<tr>
<td>Dalmia Group</td>
<td>2(1)</td>
<td>1(1)</td>
</tr>
<tr>
<td>J.K. Group</td>
<td>1(1)</td>
<td>1(1)</td>
</tr>
</tbody>
</table>

**Source:** Kothari, N.L. Industrial Combinations, Chaitanya Publishing House, Allahabad, 1967.

Figures in brackets give the number of industries in which directorships are held.

Table-53 reveals that largest number of connections are maintained by the Tata Group, followed by Bangur.
Bird-Heilgers, Goenka, J.K., Birla, Andrew Yule, and Dalmias, through their nominees and representatives who act as directors.

(i) **INTER-LOCKING BETWEEN BANKS AND OTHER COMPANIES**

According to a detailed study of directorships held in different companies by the directors of 5 leading banks of the private sector, names given in Table-54 it is revealed that through common directors largest number of directorships are held by the directors of Bank of Baroda (198) followed by Bank of India (174), United National Bank (144) and Punjab National Bank (65). Of the total directorships held, an overwhelming number (64.7 per cent) of directorships is in the manufacturing and other companies. The detailed position in regard to each of the five banks is shown in Table-54.

(iii) **INTER-LOCKING BETWEEN FINANCIAL CORPORATIONS AND OTHER COMPANIES**

A further study of the distribution of 516 directorships held by 41 directors of five financial corporations, as shown in Table-55 reveals that the directors of these corporations are interlocked with banking, investment, manufacturing, trading and other companies, in such as they hold 28 directorships in banks, 73 in investment

---

**TABLE - 54**

**DISTRIBUTION OF DIRECTORSHIPS HELD BY THE DIRECTORS OF THE LEADING FIVE BANKS**

(1961)

<table>
<thead>
<tr>
<th>BANK OF BANK</th>
<th>No. of Directors of the bank</th>
<th>No. of Directorships held in other companies</th>
<th>Insur-</th>
<th>Financial</th>
<th>Invest-</th>
<th>Manuf-</th>
<th>Accturing</th>
<th>Trusts &amp; other</th>
<th>Trad-</th>
<th>Association</th>
<th>for profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Bank of India Ltd.</td>
<td>11</td>
<td>174</td>
<td>10</td>
<td>1</td>
<td>8</td>
<td>146</td>
<td>9</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Central Bank of India</td>
<td>10</td>
<td>108</td>
<td>4</td>
<td>1</td>
<td>3</td>
<td>94</td>
<td>4</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Bank of Baroda Ltd.</td>
<td>12</td>
<td>198</td>
<td>9</td>
<td>-</td>
<td>9</td>
<td>162</td>
<td>7</td>
<td>11</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. United Commercial Bank</td>
<td>13</td>
<td>144</td>
<td>6</td>
<td>2</td>
<td>4</td>
<td>127</td>
<td>3</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Punjab National Bank</td>
<td>9</td>
<td>65</td>
<td>4</td>
<td>2</td>
<td>1</td>
<td>55</td>
<td>3</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL:</strong></td>
<td>55</td>
<td>689</td>
<td>33</td>
<td>6</td>
<td>25</td>
<td>584</td>
<td>26</td>
<td>15</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Table - 55

**Distribution of Directorships Held by the Directors of Five Financial Corporations**

<table>
<thead>
<tr>
<th>No. of directors of financial corporations</th>
<th>Total no. of directorship held in other companies</th>
<th>Directorships held in</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Banks</td>
<td>Investment</td>
<td>Manufacturing &amp; Trusts</td>
<td>Other Cos.</td>
</tr>
<tr>
<td>1. L.I.C.</td>
<td>12</td>
<td>146</td>
<td>8</td>
<td>22</td>
<td>104</td>
</tr>
<tr>
<td>2. Industrial Credit &amp; Investment Corp.</td>
<td>18</td>
<td>136</td>
<td>7</td>
<td>14</td>
<td>106</td>
</tr>
<tr>
<td>3. National Industrial Development Corp.</td>
<td>8</td>
<td>90</td>
<td>3</td>
<td>7</td>
<td>76</td>
</tr>
<tr>
<td>4. Industrial Finance Corporation</td>
<td>18</td>
<td>138</td>
<td>69</td>
<td>26</td>
<td>88</td>
</tr>
<tr>
<td>5. Refinance Corporation for Industry</td>
<td>3</td>
<td>6</td>
<td>1</td>
<td>4</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td><strong>41</strong></td>
<td><strong>516</strong></td>
<td><strong>28</strong></td>
<td><strong>73</strong></td>
<td><strong>374</strong></td>
</tr>
</tbody>
</table>

companies, 23 in trading companies and the highest 374 in manufacturing companies.

In conclusion, it can be said with a degree of certainty that pluralism in directorship and an intricate network of interlocutory directorships exist in India, as in most of the industrially advanced nations of the western hemisphere, and in this elaborate network all varieties of Industries (financial and manufacturing) all classes of directors (foreigners and Indians), all all sizes of units (small and big), and all types of industrial houses (old and new), are unmistakably involved— the degree of inter-connection, however, varies with individual cases.

**FINANCIAL INTEGRATION:**

Financial integration is the relationship existing between independent corporate bodies by virtue of which they regularly interchange their finance through the process of inter-corporate investments, loans and advances. Such a relationship is not of a casual nature; rather there is a regular flow of capital between certain companies resulting in complete or partial fusion of their financial interests. In financial integration, there is no 'one-way traffic' i.e. a concern is not always in the position of a lender to another concern, but it borrows, too.

Financial integration is the natural concomitant of managerial interlocking and inter-locking directorships—two phenomena so widely prevalent in the industrial economy of our country. Financial integration can neither be formed nor can it be effective unless there exists managerial integration or common directorship between different companies. Complied with managerial integration and inter-locking directorships, the financial integration is likely to lead to the formation of big "Industrial Empires".

**EFFECTS OF FINANCIAL INTEGRATION:**

Financial integration is just like benevolent depotism which can be argued for and against, but, all the same it is depotism. Inter-company investments and inter-company loans, advances and transfers are normal and necessary features of corporate management as they assist in the economic and industrial development of the country. Especially in the case of companies under the same management, financial integration is a matter of common occurrence. Such investments and loans are proper and justified if they are guided by the principles of 'common help' and utilisation of surplus funds'. There are many economies
of financial integration, e.g. as a result of centralized financing it is easier to raise funds and it is easier to arouse public confidence; and by using the composite credit of the whole organisation it is possible for the affiliated corporations to tide over difficult periods in their development. These integrations are expected to yield greater profits for the constituents than those without integration.

However, there are two basic defects of financial integration—firstly, those who are in control of the Group wrest an improper advantage for themselves from the companies under their control and let the company and the investing public suffer; secondly, financial integration is likely to lead to the formation of 'industrial empires'.

Many ingenious devices are adopted by the businessmen to fulfil their narrow objectives of personal gains and concentration of economic power, the chief among them being:

(1) the funds of the group companies, which include banks, insurance companies and other public limited companies, are improperly invested in purchasing majority shares of other companies which have large reserve funds and huge liquid resources with them. After acquisition, such companies are made to give loans and advances to the
directors personally or to the companies in which the

group or the directors are personally interested. Generally,
such advances are made without proper security and at
nominal rate of interest. The acquired companies are,
thus, squeezed dry by unscrupulous methods and the husks
are discarded and destroyed.¹

(2) Assets and investments of one company are improperly
transferred to other companies at nominal price with the
object of benefitting the favourite companies. In many
cases, assets are transferred by mere book entries, without
making any payment in cash;

(3) Sometimes concerns from which the directors derive
the main benefit are appointed as selling and managing
agents of the public companies, which they have acquired
for the purpose of securing personal benefits. These
agents get not only their high remuneration but heavy
compensation for breach of managing and selling agency
contracts, while the shareholders of the company that they
manage next to nothing on their investments. Such breaches
are, in most cases, arranged to get heavy compensation
for interested companies.

For instance, in 1950, Dalmia Group acquired control
of two cotton textile mills, viz. Sir Shapurji Breacha
Mills Ltd. and Madhavji Dharmaji Manufacturing company Ltd.
¹ Report of the Commission of Inquiry on the Administra-
After acquisition, Dalmia Cement and Paper Manufacturing company Ltd., of Dalmia Group was appointed as selling agent of both the companies. Two other firms (Bharat Union Agency and Vastra Vyapari Private Ltd., respectively), in which Dalmias had personal interests, were appointed as their managing agents. Since Dalmias were interested only in swallowing the accumulated profits of these two textile mills, breaches were arranged both in selling agency contracts and managing agency contracts within 16 days of the appointments and the two companies had to pay a heavy compensation amounting to Rs. 1,19,90,000 to managing agents and another compensation amounting to Rs. 46,90,000 to selling agents.

(4) In some cases, influential persons of the Group are appointed as manager or Secretary on salary basis for an unusually long period of time and their compensation is paid to these persons for earlier termination of their services. This happened in the case of Dalmia Cement and Paper Manufacturing Company Ltd., which was required to pay Rs. 7 lakhs in 1950 to S.P. Jain by way of compensation for early termination of his appointment as manager of that company. It is worth noting in this reference that the company was made to pay heavy compensation in spite of the fact that the company was unable to pay dividend from 1941 onwards.

(5) Sometimes the device of non-declaration of dividends

1. op. cit.
is also adopted for the purpose of depressing the value of shares. Taking advantage of this situation, the group or group directors purchase a large number of shares from the market at reduced prices. After the directors have acquired sufficiently large number of shares, the company is asked to declared high dividends. Consequently, a major part of the accumulated profits of such a company goes into the pockets of such group leaders, and all this happens at the cost of the general public. This technique was used in the case of eight of the ten companies about which the Vivian Bose Commission have given their reports.

(vi) another device used is to convert the public limited company into a private limited company to take advantage of the less stringent provisions of the Companies Act in favour of private companies. This was done in case of Dalmia-Jain Aviation Ltd., Dalmia Cement and Paper Mfg. Co.Ltd. and Lahore Electric Supply Co. Ltd. in the year 1952.

**INTER-COMPANY INVESTMENT**

**die-a-die SIZE OF COMPANY**

The study of Table-56 shows that small companies invest larger proportion of their funds in shares and securities of other companies. It is revealed in the table that industrial investment of small companies was 11.8 per cent and 12 per cent as against this it was 11.7
TABLE - 56

INTER-COMPANY INVESTMENTS v/s a-vs SIZE OF
COMPANIES DURING 1968-69 & 1969-70

<table>
<thead>
<tr>
<th></th>
<th>1968-69</th>
<th></th>
<th>1969-70</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Paid-up</td>
<td>Industrial</td>
<td>Paid-up</td>
<td>Industrial</td>
</tr>
<tr>
<td></td>
<td>Capital</td>
<td>Investment</td>
<td>Capital</td>
<td>Investment</td>
</tr>
<tr>
<td></td>
<td>as % of</td>
<td></td>
<td>as % of</td>
<td></td>
</tr>
<tr>
<td></td>
<td>P.U. Capital</td>
<td></td>
<td>P.U. Capital</td>
<td></td>
</tr>
<tr>
<td>Small</td>
<td>1314</td>
<td>155</td>
<td>11.8</td>
<td>1296</td>
</tr>
<tr>
<td>Companies</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Big Companies</td>
<td>92765</td>
<td>10934</td>
<td>11.7</td>
<td>98386</td>
</tr>
</tbody>
</table>

SOURCE: Compiled from Reserve Bank of India Bulletin, April, 1972.

per cent and 11.3 per cent of big companies during the period 1968-69 and 1969-70.

Another point worth noting is that in 1969-70 the percentage of industrial investments to paid-up capital has come down slightly to 11.3 per cent from 11.7 per cent in case of big companies, whereas this percentage has gone up from 11.8 per cent to 12.0 per cent in respect of small companies.

One of the main reasons for the excessive investment of shares and securities of small companies is that of established earnings and a safe return on their investment. The other reason may be of managerial and financial integration between small and big companies.
INTER-CORPORATE LOANS AND ADVANCES

Inter-company investments are greatly facilitated by the system of inter-corporate loans and advances. In all cases of inter-company investments, shares of other companies are purchased not only with the capital available with the group but recourse to borrowings is taken to pursue the policy of expanding the 'Empire'. Generally, loans and advances are taken from companies controlled by the particular group, but sometimes money is borrowed from banks, insurance and other companies outside the group.

One of the most important peculiarities of inter-corporate loans and advances is that a concern grants accommodation to the units of the same group and, at the same time, borrows heavily from banks and associate concerns. This shows that the group companies resort to inter-company investments and loans not because they have surplus funds with them, but the main objective behind all such transactions is to pool the resources of various concerns for the benefit of the leaders of the group.

Most of the money was borrowed from the companies in the same group. The borrowings were facilitated by appointing employees of Dalmia Cement and Paper Manufacturing Co. Ltd. on the Board of Companies from whom large amounts were borrowed. Unsecured loans were granted to the directors.

of the company and no adequate security was received for advances made to associated companies. In many cases, loans were liquidated by mere book entries, e.g. loan to Jai Dayal Dalmia was liquidated by transfer to Vyapari Ltd., and amounts advanced to Vyapari Ltd were in turn advanced to Jai Dayal Dalmia. Evidently, the company advanced money to its directors and associate companies much in excess of its own capital resources. The manner in which the loans were eventually shown as repaid was fraudulent in that amounts were either not paid fully or they were shown as repaid either by transferring assets of sister companies of doubtful value or by making adjustment towards selling and managing agency compensation.

"By reason of the inter-locking of funds and common control, the Dalmia-Jain Group and later Ramkrishna Dalmia used the company as 'financial agency' for the purpose of borrowing large sums of money ....distributing such borrowed funds to several companies in the same group, investing in shares of sister companies and/or acquiring or retaining control of the Group over such companies". 

The instances cited above regarding inter-company investment, loans and advances mostly relate to the situation as it existed before the enforcement of the Companies Act, 1956. It is, however, worth noting that

cases of improper and undesirable inter-company investments and loans have been noticed in other groups as well even after the coming into force of the provisions of the new company law. The Company Law Administration Department has pointed out in its report\(^1\) that the groups have taken resort not only to improper inter-company loans and advances, but several ingenious devices\(^2\) like converting the borrowing company into subsidiary of lending company, and reconstituting the Board of Directors have been adopted to circumvent the provisions of company Act, 1956, which is aimed at restricting and regulating inter-company investments.

**ROLE OF BANKS AND INSURANCE COMPANIES:**

Banks and insurance companies are the chief financial institutions which have played a very vital role in hastening the maturity of capitalism in India. Bigger banks and bigger insurance companies are generally controlled by the bigger industrial houses. The control over these credit institutions brings to the bigger countries a great industrial power. Such a considerable high degree of concentration of control over savings exists in the country\(^3\).

The control of these financial institutions gives rise to

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3. In 1957, 96.6% of Bank deposits, 95.58% of bank resources and 72.5% of total assets of banks in India were concentrated with 16 big banks— Mohnot— Concentration of Economic Power in India, 1962, p. 138-39.
concentration of control in industry. The result of such a fusion of industrial capital with bank and insurance companies is the formation of complex capital process when the economic power rules the economic efficiency. The control over credit leads to expropriation of independent industrial units by powerful groups, not for the sake of economy but for the purpose of bringing under their control complex type of industries so that they may earn profits by way of managing agency commission, interests, compensation, dividends, etc. In this way, the capital accumulates and this accumulated capital helps the groups to expand their power further. Thus, a capitalistic process sets in, wherein borrowed capital helps accumulation of profits, which in turn seek new channels of employment resulting in concentration of industrial power in a few groups. It shows also the way 'fusion' of capital goes on advancing which, if permitted to continue, gives rise to formation of combinations, associations, trusts and cartels, etc. Out of combinations also grow power and influence which otherwise are difficult to obtain for an industrialist.

The Dalmia—Jain Group of industries furnish an easy understanding of this process of capitalist development. From a tiny Sugar Mill in 1933 (capital Rs. 30 lakhs), a big empire in its present form has been raised with the
help of accumulated profits and fusion of industrial and finance capital.

It is disclosed in the Vivian Bose Commission Report that the security for the advances taken from banks consisted of large blocks of shares of the companies under the effective control of Dalmias. As on 26.2.1949 the amounts borrowed by DCPM from the two banks was Rs. 150.87 lakhs, whereas the value of investments and stock-in-trade was only Rs. 123.48 lakhs and the paid-up capital of DCPM Ltd. only Rs. 50 lakhs. But in the case of Bharat Company all the advances taken were unsecured. In order to adjust the accounts, shares of associated companies were transferred from time to time to these financial institutions at arbitrary prices.

These instances certainly do not disclose a case of economic growth or expansion in industry as a result of inter-company investments, loans and transfers. On the other hand, they show that the loans and advances are made in total disregard of prudent commercial practices to benefit the leaders of the Group.

Other industrial groups also make use of bank loans and advances in huge quantity to carry on the affairs of their big industrial empires. Huge amount of money is advanced by various banks to companies and firms in which their directors are interested. What use has been made
of these advances is a matter of close secrecy both for banks and loanee concerns. But one fact is absolutely certain that big business houses have freely used the funds of the associated banks for their own purpose.

"In view of the prevalence of mutual understanding among the big industrial complexes, banks might give assistance not only to industrial concerns in which their own directors have a major interest, but also to other industrial houses which might in turn reciprocate through the banks on which they have strong representation. By its very nature, this is a very difficult field for investigation."

ROLE OF INVESTMENT TRUSTS:

Investment trusts and investment companies have also played a prominent role in accentuating the tendency towards financial integration among Indian industries. Instead of working on the principles of disinterested diversification, Indian investment trusts hold majority of their investments in the associated companies. The chief reason for this state of affairs is that in India the investment companies are the creation of prominent industrial houses and, therefore, they are closely associated with particular industrial group.

One of the corporate analysts observed that

"However unimpeachable the objects with which investment companies were started, they deteriorated into dumping grounds of shares of questionable marketability, in addition to their being used also as the refuge of the unsubscribed capital of certain new issues. All these things happened because these investment trusts were a wing of management groups."  

The above remarks about the investment companies are fully endorsed by the figures given in Table-57. It is clear from the table that investment of investment trust companies in the securities of concerns in the same group was about 65 per cent in 1964-65. In the case of companies belonging to four groups, viz., JH, Martin & Burn, Jardine Bundersons and Williamson Major, almost 100 per cent investment was within the same group. Within group investments constitute about 99 per cent of the total investments of investment companies belonging to the Andrew Iule group. The holdings of Bird Neighers, Birlas and Dalmia Sahu Jain groups of investment trust companies in the same group amounted to 89 per cent, 83 per cent and 81 per cent respectively.

Bangur group of investment companies have 60 per cent of the investment in the same group. In the case of

TABLE - 57

GROUP INVESTMENTS OF INVESTMENT COMPANIES
IN INDIA 1964-65

<table>
<thead>
<tr>
<th>Name of Industrial Group</th>
<th>Total Investment (in lakhs of Rs.)</th>
<th>Within Group Investment</th>
<th>% of col.2</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Birlas</td>
<td>435.09</td>
<td>360.90</td>
<td>83.00</td>
</tr>
<tr>
<td>2. Tatas</td>
<td>834.14</td>
<td>250.25</td>
<td>30.00</td>
</tr>
<tr>
<td>3. Bangur</td>
<td>330.09</td>
<td>200.83</td>
<td>60.00</td>
</tr>
<tr>
<td>4. Dalmia Sahu Jain</td>
<td>495.84</td>
<td>425.00</td>
<td>81.00</td>
</tr>
<tr>
<td>5. J.K.</td>
<td>34.50</td>
<td>34.08</td>
<td>100.00</td>
</tr>
<tr>
<td>6. Martin Burns</td>
<td>24.75</td>
<td>24.75</td>
<td>100.00</td>
</tr>
<tr>
<td>7. Bird Helgards</td>
<td>266.63</td>
<td>238.89</td>
<td>89.00</td>
</tr>
<tr>
<td>8. Andrew Jule</td>
<td>422.33</td>
<td>416.78</td>
<td>99.00</td>
</tr>
<tr>
<td>9. Kothari Nitha</td>
<td>13.41</td>
<td>5.00</td>
<td>40.00</td>
</tr>
<tr>
<td>10. Advanta</td>
<td>78.20</td>
<td>40.00</td>
<td>51.00</td>
</tr>
<tr>
<td>11. Devkaran Nanju</td>
<td>29.94</td>
<td>11.87</td>
<td>40.00</td>
</tr>
<tr>
<td>12. B.R. Group</td>
<td>12.12</td>
<td>9.13</td>
<td>75.00</td>
</tr>
<tr>
<td>13. Jardine Henderson</td>
<td>22.54</td>
<td>22.54</td>
<td>100.00</td>
</tr>
<tr>
<td>14. Williamson Magor</td>
<td>13.67</td>
<td>13.67</td>
<td>100.00</td>
</tr>
<tr>
<td>15. Non-group companies</td>
<td>255.51</td>
<td>71.01</td>
<td>28.00</td>
</tr>
</tbody>
</table>

| TOTAL:                   | 3,268.76                          | 2,124.70                | 65.00      |

SOURCE: Company News and Notes, August 16, 1968.

Tatas a smaller percentage e.g. 30 per cent is in companies belonging to the same group. It is interesting to note that non-group companies also have about 28 per cent of
their total investment as 'Group investment'. This shows that the investments of almost all the investment trusts are group oriented and fail miserably to qualify for the test of disinterested diversification.

Since there is no disinterested diversification of the investment portfolio in the case of most of the investment companies, they are not investment trusts in the true sense of the term and at best they can be treated as "House Finance Companies". As a result of interested centralisation of investments, the proportion of investment in unquoted shares of group is sufficiently high, as is evident from the following Table-58.

**TABLE - 58**

**INVESTMENTS OF INVESTMENT TRUSTS IN UNQUOTED SHARES**

<table>
<thead>
<tr>
<th>Percentage of unquoted investments to the total investments</th>
<th>Number of investment companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 5</td>
<td>8</td>
</tr>
<tr>
<td>5.1 - 10</td>
<td>5</td>
</tr>
<tr>
<td>10.1 - 25</td>
<td>4</td>
</tr>
<tr>
<td>Above 25</td>
<td>5</td>
</tr>
<tr>
<td><strong>TOTAL</strong>:</td>
<td><strong>23</strong></td>
</tr>
</tbody>
</table>


A further investigation into the investment pattern of investment trust companies discloses that after investing major portion of their funds in the shares of companies
belonging to their own groups, the investment companies invest remaining funds in such companies which also have their affiliation with other prominent industrial groups. Consequently, the entire investment of investment trust companies get concentrated into some industrial houses of the country. It is further observed that the investment pattern of other investment companies and trusts also exhibits that these companies invest, more or less, the entire amount only in companies controlled by different industrial groups.

Thus, the investment trusts not only help to bring financial integration among companies belonging to the same group, but they also act as intermediaries to foster close financial relations between different industrial groups.

ROLE OF DIRECT GOVERNMENT FINANCING, FINANCIAL CORPORATIONS & FOREIGN CAPITAL:

The tendency towards financial integration in Indian industries has been further encouraged, during recent years, by the financial assistance rendered (1) by central and State governments directly to industries; (ii) by financial corporations like Industrial Finance Corporation, National Industrial Development Corporation, and Industrial Credit & Investment Corporation, and (iii) by international finance agencies like World Bank and International Finance
Corporation. The following figures of direct Government financing will establish the point in discussion.

During the Plan period, Central Government gave direct loans to many companies for their establishment, modernization and expansion purposes. Among the recipients of these loans, important were Tata Iron & Steel Co. Ltd., of Tata Group (Rs. 10 crores); Indian Iron & Steel Company Ltd., of Martin Burn Group (Rs. 18 crores); Atul Products Ltd. of Lalbhai Group (Rs. 3 crores); and Tata Locomotives and Engineering Co. Ltd. of Tata Group (Rs. 2 crores in preference share). A glance at these companies will bear sufficient testimony to the fact that group-companies were the main beneficiaries of direct government finance. Similarly, State Governments also granted loans to companies affiliated to big business houses. For instance, Orissa Government gave a loan of Rs. 50 lakhs to and purchased shares worth Rs. 40 lakhs in Orissa Cement Ltd., (a Dalmia-Jain concern); Rajasthan Government purchased 3 per cent preference shares of Rs. 75 lakhs in Jaipur Udyog Ltd., another group company. Had the latter company issued the capital by public subscription, it would have to pay dividend at about 9 per cent taxable. In other words, Rajasthan Government's investment meant an indirect and permanent subsidy to the company of about Rs. 4 lakhs per year, for which there could hardly be any justification. In reality, no definite
policy, from the point of view of checking financial concentration, has been laid down as regards providing of direct government assistance to industries. The result is that only influential entrepreneurs approach the Government, Centre and State, either for granting loans or for subscribing to the equity or preference capital of their companies.

Some remarks apply to the loan policy of public financial institutions, like the Life Insurance Corporation, Industrial Development Bank of India, and Industrial Finance Corporation.

An analysis of Table-56\(^{(a)}\) shows that the Life Insurance Corporation of India has given loans amounting to Rs. 86,26,60 lakhs to 10 big industrial Groups during 1970. Of this, Tatas received the highest amount of Rs. 30,22,9 lakhs and in terms of percentage, it was 12.92 per cent. The Industrial Development Bank of India has also followed a parallel pattern of providing assistance to bigger industrial concerns. An analysis of the loan assistance given by the Industrial Development Bank of India shows that as on 31st March 1970-71, a total sum of Rs. 51.4 crores was given as loan to 35 concerns, of which 19 concerns were given loans of upto Rs. 5 lakhs (the percentage to total assistance was 0.2) while 20 concerns were given loans of exceeding Rs. 200 - Rs. 500 lakhs.
<table>
<thead>
<tr>
<th>BUSINESS GROUPS</th>
<th>Total no. of companies</th>
<th>No. of Cos. in which L.I.C has invested</th>
<th>TOTAL (Rs. in lakhs)</th>
<th>%age to the total investment in the private sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Tata</td>
<td>54</td>
<td>23</td>
<td>30.22.09</td>
<td>12.92</td>
</tr>
<tr>
<td>2. Birla</td>
<td>152</td>
<td>40</td>
<td>22.22.77</td>
<td>9.50</td>
</tr>
<tr>
<td>3. Martin Burn</td>
<td>21</td>
<td>17</td>
<td>9.28.40</td>
<td>3.97</td>
</tr>
<tr>
<td>4. Bangur</td>
<td>81</td>
<td>17</td>
<td>5.66.30</td>
<td>2.42</td>
</tr>
<tr>
<td>5. A.C.C.</td>
<td>5</td>
<td>1</td>
<td>8.23.06</td>
<td>3.51</td>
</tr>
<tr>
<td>6. Thapar</td>
<td>41</td>
<td>8</td>
<td>2.16.54</td>
<td>0.93</td>
</tr>
<tr>
<td>7. Sahu Jain</td>
<td>27</td>
<td>9</td>
<td>2.16.71</td>
<td>0.93</td>
</tr>
<tr>
<td>8. Bird-Heiligis</td>
<td>64</td>
<td>24</td>
<td>3.03.61</td>
<td>1.64</td>
</tr>
<tr>
<td>9. J.K. Singhania</td>
<td>46</td>
<td>15</td>
<td>1.28.78</td>
<td>0.55</td>
</tr>
<tr>
<td>10. Soorajmal Magannal</td>
<td>76</td>
<td>30</td>
<td>1.18.34</td>
<td>0.50</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td></td>
<td><strong>66.26.60</strong></td>
<td><strong>36.87</strong></td>
</tr>
<tr>
<td><strong>TOTAL INVESTMENT in the remaining Groups</strong></td>
<td></td>
<td></td>
<td><strong>62.85.33</strong></td>
<td><strong>26.86</strong></td>
</tr>
<tr>
<td><strong>TOTAL INVESTMENT IN GROUPS</strong></td>
<td></td>
<td></td>
<td><strong>149.11.93</strong></td>
<td><strong>65.73</strong></td>
</tr>
</tbody>
</table>


(the percentage to total was 37.6), and loans exceeding Rs. 500 and above were given to 9 concerns, and accounted for 43.6 per cent. This shows that the Industrial
TABLE - 59
SIZE-WISE BREAKDOWN OF DIRECT ASSISTANCE SANCTIONED
(1969-70 and 1970-71)

<table>
<thead>
<tr>
<th>SIZE OF ASSISTANCE</th>
<th>No. of project</th>
<th>Percentage to total assistance</th>
<th>No. of Projects</th>
<th>Percentage to total assistance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upto Rs. 5 lakhs</td>
<td>2</td>
<td>0.6</td>
<td>19</td>
<td>0.2</td>
</tr>
<tr>
<td>Rs. 5 - Rs. 25 lakhs</td>
<td>8</td>
<td>9.7</td>
<td>40</td>
<td>3.5</td>
</tr>
<tr>
<td>Rs. 25 - Rs. 50 lakhs</td>
<td>3</td>
<td>7.4</td>
<td>23</td>
<td>6.9</td>
</tr>
<tr>
<td>Rs. 50 - Rs. 100</td>
<td>5</td>
<td>20.4</td>
<td>19</td>
<td>5.4</td>
</tr>
<tr>
<td>Rs. 100 - Rs. 200</td>
<td>1</td>
<td>6.0</td>
<td>14</td>
<td>2.8</td>
</tr>
<tr>
<td>Rs. 200 - Rs. 500</td>
<td>3</td>
<td>53.9</td>
<td>20</td>
<td>37.6</td>
</tr>
<tr>
<td>Rs. 500 lakhs &amp; Above</td>
<td>9</td>
<td>43.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>22</strong></td>
<td><strong>100.0</strong></td>
<td><strong>33</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>


Development Bank of India has given more assistance to big companies than to smaller units.

The objection to the loan policy of these financial corporations is not so much on the point that the funds have been diverted to assist bigger companies or concerns affiliated to Big Business Houses, but the main point of criticism is with regard to the manner in which this assistance had been used. The worst part of the situation is that in many cases these loans had been used not
for the purpose for which they were sanctioned but for the enlargement of industrial empire of a particular group. "Cases have come to the notice where companies with large reserves have invested heavy amounts in shares of other companies in the same group, while borrowing heavily from Government and quasi-government institutions like the Industrial Finance Corporation, State Bank of India and the National Industrial Development Corporation. While these companies appeared to be financially sound and could have apparently met their needs for expansion or modernisation of their plants and machinery by converting their investments into cash, they have preferred to borrow from outside besides. Presumably, the companies have, on balance, decided to keep their voting power intact in the companies in which shares were held by them ...."

It shows that the financial corporations, on the one hand, help accumulation of finance in big companies or in big Groups by advancing the huge sums to the companies controlled by them and on the other hand, they also encourage indirectly the establishment of financial integration among companies of the same group, because loans taken from them are invested in purchasing shares of other companies to enlarge their 'Empires'.

Equally important role has been played by the foreign capital in the encouragement of financial integration in Indian industries. An analysis of loans granted by various international finance agencies to Indian companies shows that major portion of the loans has gone to companies controlled by big Industrial Houses.

The foregoing analysis has revealed that a strong tendency towards financial integration subsists in Indian Industries and inter-company loans and investments have become a normal feature of the corporate life in this country. Financial integration which is a creation of managerial and administrative integration, has been fostered by the financial agencies like banks, insurance companies and investment trusts and in recent years, has been accentuated by the Industrial assistance policy of the Government and financial corporations. A noteworthy outcome of this tendency has been that the industrial power of the country has tended to concentrate in few business groups. It is not contented here whether the inter-company loans and investments are a normal feature of Indian industrial economy or that all such transactions are unnecessary and full of mischief; but the fact remains that large number of unholy alliances between companies have come to notice and they have given birth to many unhealthy and anti-social practices like stock-exchange
manipulations, manoeuvres, wrong transfer of funds, squeezing of concerns having large accumulated funds, misappropriation of profits and the like.

**GOVERNMENT'S EFFORTS TO CONTROL THE FINANCIAL INTEGRATION:**

The Government is fully conscious of the problem and its effects on the development of corporate enterprises in the country. Taking lessons from its own experience and from the reports of Chagla Commission on Mundra episode and Vivian Bose Commission on Dalmia-Jain concerns, the government have incorporated several provisions1 in the Companies Act, 1956, with a view to controlling loans to investments in companies under the same management. Under Section 369, every company has been prohibited to make loans to its managing agents or to any other body with which its managing agent has been associated. Similarly, Section 370 of the Companies Act, 1956, specially provides that unless authorised by a special resolution of the lending company, no company shall make loan to or give any guarantee in respect of a loan made by any other person to any company under the same management. In order to regulate inter-company investments, Section 372 makes a provision that no company shall invest more than 30 per cent of its

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subscribed capital in the shares of other companies. Further, if such investments are made in companies in the same group then the aggregate of such investments should not exceed 20 per cent of the subscribed capital of the investing company. Investments even within these limits could be made only with the unanimous consent of the directors. For investments in excess of the above limits, sanction of the company in general meeting and further approval of the Central Government is made essential. The inclusion of such stringent provisions in the Companies Act, clearly exhibits that the Government is not in favour of encouraging financial integration among companies because of its evil repercussions on the economy.

CONCLUSION:

The study in this chapter shows the important conclusion that the managerial integration, interlocking of directorship and financial integration are the main devices used for combination. The phenomenon is pervasive in entire organised industrial sector of the economy through open and broader techniques. In the ultimate analysis, this tendency has resulted into the establishment of the plenary authority of a
few big Industrial Houses over a larger portion of the country's industrial economy leading to the establishment of 'Industrial Empires' despite the provisions made in the Indian Companies Act to restrict such tendencies. The purpose of the next chapter is to suggest devices to regulate the pattern of growth of big companies in conformity with the accepted socio-economic policies.