

# A NOTE ON THE "BUSINESS COMBINE" IN INDIA

— with Special Reference to the Nattukottai Chettiars\*—

SHŌJI ITŌ

The history and present position of the business combines controlled by members of the Nattukottai Chettiar community in southern India have not been elucidated so far. Their business combines have many aspects common to the well-known business combines of northern India. But they possess distinct peculiarities relating to the leaders' characteristics. Through analysis of these peculiarities the present writer insists that there have been some defects in viewpoints and methodologies of the studies done so far on Indian business combines.

## I. THE BACKGROUND OF THE PROBLEM

### A. *The Fundamental Problem*

This article is concerned with the formation of business combines by members of the Nattukottai Chettiar<sup>1</sup> community. The reason for choosing this subject is not merely that hitherto specific studies of this subject have not been conducted, but also that the elucidation of the peculiarities seen in the process of the formation of business combines in this case leads us to some more fundamental problems.

In recent times, for example, the relation between economic development and entrepreneurship has been the object of discussion. In many cases the image of such a type of entrepreneur as formed in the modern western Europe is associated with rapid industrialization, and the *absence* of such a type of entrepreneur is considered to be the cause of economic underdevelopment. We may agree that few members of Indian society possess 'western European rationality' and an individualistic temperament in relation to the pursuit of profit, but nevertheless entrepreneurial activity in India is by no means dull, and since Independence it has in fact expanded rapidly. Further, it is also a notable fact that the main among these enterprises are under the control of business combines. If we consider this fact within the framework of an argument which is concerned with entrepreneurship as the principal factor in economic development the following question will present

\* This article is primarily based on the data up to 1963. For this study I am much indebted to Dr. V. Shanmugasundram, Head and Professor of the Department of Economics, University of Madras for his kind guidance and encouragement, especially when I was his student there between 1961 and 1963.

<sup>1</sup> The *Nattukottai Chettiar* (or *Chettyar*) caste is the distinctive sub-caste of the *Chetti* (or *Chetty*) caste in southern India which is again a sub-division of the *Vaisha* order.

itself to us. Should we seek the basic cause of this notable fact in the absence of the type of undertaker required in the growth of independent capitalist enterprises in innumerable numbers as in the early stage of development in western Europe? It is true, as is well known, that the basis of Indian entrepreneurs' motivation of profit-making is *not* the individual, as in western Europe, and that the minimum unit of enterprises is *not* the individual, but the joint family.

But if, then a body of persons of a type whose basic motivation in the pursuit of profit was individualistic and who took the individual as the basic unit of entrepreneurial activity were to start up enterprises in India, would these enterprises possess structural characteristics different from those of the business combines? If our answer to this question is in the negative we will have made it plain that fundamentally the rationale of the characteristics of the Indian industrial structure—of the extremely early and rapid formation of the business combines—cannot be grasped in the dimension of the individuals. An analysis of the business combination movement among the enterprises formed by members of the Nattukottai Chettiar community provides good material for an approach to this problem.

#### *B. Studies on the Community*

No small number of studies of the economic activities of this community has been made to date. The studies published hitherto can be divided into the following three main divisions. (1) Those in which the community is surveyed sociologically as a caste,<sup>2</sup> (2) those which deal with this community in connexion with questions of finance—the problem of rural indebtedness, the elucidation of the native banking system, etc.,<sup>3</sup> and (3) those written for the purpose of elucidating Burmese colonial history.<sup>4</sup> As a study of their industrial activities, the process of formation and present state of their business combines, there exists only the present writer's paper in Japanese.<sup>5</sup> In India there is considerable interest in the business combines and a large number of works on them have been published, but somehow there is almost no reference to the business combines of this community.<sup>6</sup>

<sup>2</sup> Edgar Thurston, *Castes and Tribes of Southern India*, Madras Government Press, 1909; W. Francis, *Madras District Gazetteer*, Madras Government Press, 1906, etc.

<sup>3</sup> *The Madras Province Banking Enquiry Committee Report*, 1930; V. Krishnan, *Indigenous Banking in South India*, The Bombay State Cooperative Union, 1957; L.C. Jain, *Indigenous Banking in India*, London, Macmillan, 1929, etc.

<sup>4</sup> Phillip Siegelman, "Colonial Development and the Chettyar: A Study in the Ecology of Modern Burma, 1850-1941," University of Minnesota Ph. D. Thesis (University Microfilm Inc., Ann Arbor, Michigan), 1962; J. S. Furnival, *Colonial Policy and Practice*, New York, New York University Press, 1956; John F. Cady, *A History of Modern Burma*, New York, Cornell University Press, 1958; U Tun Wai, *Burma's Currency and Credit*, Calcutta, Orient Longmans Ltd., 1953; etc., etc.

<sup>5</sup> Shōji Itō, "Indo no Chūshō Zaibatsu no Sōsei to Genjō—Chetia no Baai" (The Rise, Development, and Present Condition of the Smaller Financial Groups in India), Parts I and II, *Ajia Keizai*, Vol. V, Nos. 11-12 (November-December, 1964).

The following analysis is based on the fragmentary information available in the sources listed above, on published balance sheets, and on information obtained by the writer during his stay in Madras (1961-1963).

## II. THE COMMUNITY: THE CHARACTERISTICS ENVISAGED BEFORE INDUSTRIALIZATION

This community is a small one from the point of view of population, and at present numbers about 80,000 persons (10,000 in 1896). Nevertheless, "they have a reputation throughout the land for their spirit of adventure and enterprise, for their natural shrewdness and ability and for their acts of magnificence."<sup>7</sup>

Since about 130 years ago they have been overseas (principally in Burma, and also in Ceylon, Malaya, Singapore, and elsewhere), and it is principally in these places that they have carried out their proverbial accumulation of wealth. Between 1896 and 1930 their total assets rose steeply from 1 to 8 hundred million Rupees.<sup>8</sup> In 1930, when their financial activities in Burma were at the height of prosperity, the working capital employed in their economic activities at home and abroad consisted of 5 hundred million Rupees of owned capital, 0.8 hundred million Rupees of deposits from their own caste-members, and 1.7 hundred million Rupees in deposits and loans from other individuals and banks, making a total of no less than 7.5 hundred million Rupees.<sup>9</sup> According to another estimate the total assets amounted to as much as 14 hundred million Rupees.<sup>10</sup>

The greater part of their assets was in the hands of the so-called 'indigenous banking business.'<sup>11</sup> Viewed by regions, more than half of their total working funds, or three-fifths of their working funds invested abroad, were employed in Burma. Furthermore, since two-thirds of their working funds in Burma were given out on loan on the security of agricultural land, the

<sup>6</sup> The report of the so-called Mahalanobis Committee, which was charged with the task of looking into the concentration of economic power in India, deals with as many as 25 large and small business combines, but not one of the business combines of the Nattukottai Chettiars is included. (*Report of the Committee on Distribution of Income and Levels of Living, Part I: Distribution of Income and Wealth and Concentration of Economic Power*, Planning Commission, New Delhi, February, 1964.) All that is available even in the recent so-called Monopoly Commission Report (*Report of the Monopoly Inquiry Commission*, New Delhi, 1965) is the simple information regarding two Nattukottai Chettiars combines.

<sup>7</sup> L. C. Jain, p. 30.

<sup>8</sup> V. Krishnan, p. 31.

<sup>9</sup> *The Madras Banking Enquiry Committee Report*, Vol. I, pp. 185 ff.

<sup>10</sup> M. S. Natarajan, *A Study of the Capital Market of Madras Presidency*, Calcutta, 1936.

<sup>11</sup> The indigenous bankers are a separate entity intermediate in nature and scale of operation between the money-lenders and the joint-stock bankers. They carry on all the business of a modern bank, but their scale of operation is small, and the form of the enterprise is that of the traditional firm. For details, see L. C. Jain, *op. cit.*, etc.

advent of the depression of 1930 rendered these loans unrecoverable, and overnight they became absentee landlords. In 1937 they had become the owners of one-fourth of the total area of cultivated land in Lower Burma. Since their natural bent was for money-lending this state of affairs was most unwelcome to them, but as a result of the continuing depression, the invasion by the Japanese Army, the independence of Burma, the nationalization of land and other events they lost their principal fields of activity in the realm of finance and foreign trading. In this way they lost not only the greater part of their invested capital but also their sense of mission as indigenous bankers, and as an accompaniment to this their peculiar community system, perfectly adapted to the needs of financial business, also progressively dissolved.

Professor Phillip Siegelman correctly lists their *financial acumen, psychological cohesion, caste discipline*, and, as the premise for these, the *colonial system*, as reasons for their great success in money-lending up to 1930.<sup>12</sup> The matter to which the present writer wishes to direct readers' attention in this article relates to the character of the entrepreneurs: It is notable that they strictly followed an ascetic ethic and, moreover, that their motivation in the pursuit of profit was basically the individualistic initiatives rather than the consideration for the prosperity of joint family as will be analysed below.

They have a family system which is peculiar to themselves. Although physically this possesses the aspect of the Indian joint-family system in general, financially the unit of family accounting is that of the married couple, and on this point it is the same as the modern family system of western Europe. When they marry it is usual for them to become completely financially independent of their parents and siblings. At this time they succeed to a part of their parents' estate calculated on the basis of equal shares, and they undertake business on their own responsibility and at their own risk. Any money which they may have earned before marriage is included for the meantime in their parents' estate, but when they marry this amount is exclusively set aside for them, and is added to their equal share of the estate. We may say that physically it is the joint family because the house is extremely large, with a large number of rooms opening off a central hall, and after marriage and independence they remain in the same house and are provided by their parents with a fixed quantity of rice and condiments. However, family accounting is carried on independently as between siblings, and cooking is also done separately. This calls for, and urges on, free competition even among siblings, and it has ever been the cause of nurturing in them their famous spirit of economy and their financial acumen.<sup>13</sup>

While this peculiar family system, which is exceptional in India, has

<sup>12</sup> Phillip Siegelman, *op. cit.* (microfilm), Chapter VII.

<sup>13</sup> "With the *Chettis* every married member is supposed to live on his own, with the *Vaishas* all the married members live a common life—all benefiting in the gain and suffering in the loss that befalls to any individual member. The manifest result is that the *Chettis* are independent and self-reliant, the *Vaishas* dependent on one another." (L. C. Jain, p. 32.)

continually nurtured a spirit of individual initiative in economic activity, another institution peculiar to them, the *Agency System*,<sup>14</sup> has performed the function of co-ordinating the activities of individuals and bringing unity into undertakings dispersed in distant places. (In Burma they had their agents established in all the big villages.) It was due to this system that the villages in the outlying arid regions in which they lived, called Chettinad, were able to function as headquarters for their financial business. "This is peculiar to Nattukottai Chettis. ... It enables the Nattukottai Chetti to bring down his overhead charges to low level while it encourages honesty and devotion to work by the system of payment by results."<sup>15</sup>

In outline this system was as follows. Those who had not enough funds, or who, although possessing enough funds, were of junior years, went to distant places at home or abroad on behalf of one who had a larger volume of funds, and served as his agent for a fixed period of three years. On his own responsibility the agent employed the funds entrusted to him by his principal in such manner as to obtain the maximum return, and by prior arrangement he received remuneration in proportion to the remoteness of the location of his post and the volume of funds placed at his disposal, and if, on the conclusion of his contracted period of service, his principal recognized the results of his work he was given a bonus amounting to about 10 per cent of the net returns. After having served in this manner for a number of times the agent accumulated a certain volume of funds and became independent.

Another institution, the Chettiar Associations, ensured spatial unity, and these were established in each centre of business. All the Chettiar firms belonged to these associations, and a basic rate of interest was decided upon once a month in a religious manner.

All these institutions ensured and nurtured a spirit of asceticism and individualism in economic activity. Further, these forms of organization existed in response to the needs of the particular economic and financial activities of these times, but with the collapse of their financial activities in Burma they became weak or lapsed in some cases. Consequently, *in theoretical terms* we can postulate the following alternatives. When they embarked quite anew on modern industrial activities they may be presumed to have faced a choice between (1) bringing into the running of the new enterprise the traditional individualistic spirit of business, or (2), conversely, building up a business combine as among other communities out of a number of blood-related nuclear families. As we show below, during the early period the first alternative is also found to occur. Over the whole, however, and at the present day in particular, they have chosen the second alternative. This is a fact which we regard as being of much importance. We do so because it is

<sup>14</sup> "Of all the indigenous bankers the Nattukottai Chettis are the most perfectly organised." (L. C. Jain, p. 36.)

<sup>15</sup> A. Savannatha Pillai, "Written Statement of Evidence," in *The Madras Province Banking Enquiry Committee Report*, Vol. III, pp. 1170 ff.

something which cannot be rightly elucidated with the help of the methods employed hitherto in the studies of 'business community,' or in terms of the argument concerning entrepreneurship which we have mentioned above.

### III. THEIR TRANSFORMATION INTO MODERN ENTREPRENEURS

The bankruptcy of their traditional economic activities in Burma was an important occasion for their transforming themselves into modern capitalists in their own country. In fact, many were deprived of their livelihood and went out of business. It is not the case that all of them were subject to a uniform influence, and furthermore there were some who had not invested very much money in Burma. But the failure in business of those near to them, although it subjected them to no material influence, was a great shock. It was natural that a certain section of them should now seek for a means of livelihood in some new direction, even if it were a form of activity to which they were unaccustomed. In fact, if we examine the modern incorporated enterprises in which they have some interest at present we find that the majority were founded in the 1930's and 1940's. Further, this period was the time at which India's capitalism was gradually expanding, and even the famous Marwaris, skilled in trading and having accumulated rich profits from commerce and money-lending, were turning in the same direction on a large scale.

The industry with which the Nattukottai Chettiars are most closely connected at present is the cotton textile industry, and according to the estimate made by Mr. Manickavasagam Chettiar, a cotton mill owner of Madurai, 40 mills with one million spindles are under the control of the Nattukottai Chettiars, this amounting to one-fifth of the total spindlage of the four states of southern India. However, their position in the banking and credit provision business is a strong one, and they control four banks of various sizes (although this control is confined to a minority among them), and they hold one-fourth of the total bank deposits in southern India. As a whole, few of them have entered other industries as yet, and their entry into the metal and engineering industry, the fertilizer and other chemical industries, the sugar industry, etc., has been confined principally to those Nattukottai Chettiars who possess great economic resources. The great majority of the Nattukottai Chettiars who are concerned in modern incorporated enterprises as members of their boards of directors are mere participators in any enterprises which are controlled by members of other communities. Again, those who hold multiple directorships are few in number; and in general the more an individual belongs to this group of influential Nattukottai Chettiars, the more are the controllers of the companies that is owned by either he himself or members of his family, or, at the least, members of his own caste.

This implies that there is a great gap in economic resources between the

influential Nattukottai Chettiars and the rest, and that in future this gap may be expected to become greater. Further, as we show below, it is the influential Nattukottai Chettiars who form the business combines. The chief among these are the Somasundaram Group, the Rajah Sir Group (this is now divided into the Rajah Sir Muthiah, M. A. Chidambaram, and M. Ct. groups), the Karumuthu Group, and the A.M.M. Group.

Let us describe the process of the formation of two or three of these groups in so far as they concern the points at issue in this article.<sup>16</sup>

Beginning with the Rajah Sir Groups, their chief asset is their possession of the largest banks in southern India, The Indian Bank, Ltd. and The Indian Overseas Bank, Ltd.

The Indian Bank was set up with the co-operation of influential Nattukottai Chettiars possessing great financial resources and financial acumen in response to an appeal for the establishment of "a bank run by Indians" made by intellectuals and others in Madras when Arbuthnot & Co. (Madras), a firm which at that time enjoyed extraordinarily good credit in the fields of commerce, agency work and banking, went bankrupt, and when under the influence of this event other influential British commercial companies closed down their financial department and a certain hiatus appeared in the Madras banking world. The subsequent development was undertaken by the late Rajah Sir Annamalai Chettiar and his eldest son, Rajah Sir M. A. Muthiah Chettiar. Now in 1937—and the fact is to be noted in relation to the aims of the present article—another modern bank, The Indian Overseas Bank, Ltd., was set up by a relative (actually by Annamalai Chettiar's elder brother's first son). This fact may appear extraordinary to students on India, who always have the solidarity of the joint family in mind. Among the causes of this disruption we must take account of the previously mentioned traditional family system as being one of the factors.

Today, although there are close blood relations between leaders of the Rajah Sir Muthiah Group, the M. A. Chidambaram Group (the heads of these two groups are brothers), and the M. Ct. Group (the great-grandfather of the head of this group, M. Ct. Muthiah, is the elder brother of Annamalai Chettiar), these three groups are differing entities independent of one another.

Further, M. Ct. Muthiah separated himself from and established himself independently of his only younger brother (actually the elder of the brothers became the adopted son of his uncle), but later these two families amalgamated. In whatever matter the occasion for this amalgamation may have consisted, the objective result of it would appear to have been that this amalgamation rather in defiance of community tradition had the effect of increasing the power of the group.

Looking at the history of the growth of the Karumuthu Group we again come up against some interesting facts.

<sup>16</sup> Regarding such matters as their family backgrounds, the foundation and growth of the modern enterprises, and their economic power, see S. Itō, *op. cit.*

This group owns thirteen cotton textile companies (sixteen mills) in addition to a small bank and insurance companies, and is known by the name of "the textile king." With one exception all these textile companies are run under different Managing Agents or Secretaries and Treasurers, but in fact they are one and the same. Eight of these companies had gone bankrupt or financially embarrassed, and were built up again after being absorbed into the group.

If we examine the yearly balance-sheets of the companies absorbed into this group it emerges that in all cases there was a noticeable improvement in the profitability of these companies in a few years after they had been incorporated in the group, and that in many cases they changed from paying no dividends to paying dividends. Further, if we compare the prices of shares in the same manner we find that all shares rose in price and in a number of cases doubled their value. Since on the average approximately 80 per cent of the shares are owned by the controlling families the capital gains on these shares must be said to amount to an immense sum.

In their case, too, we cannot fail to note the fact that Mr. Thiagaraja Chettiar, his wife, and three 'independent' sons are running the Karumuthu Group jointly as a single group, without such separation among them as was noted in case of Rajah families.

The A.M.M. Group is also owned by a famous group of families. Although it was a petty family three generations ago it made its fortune in the banking business mainly in Burma. Their prosperity in Burma had the contrary effect of delaying their entry into modern industry, and further, since their losses in the 1930's were great, the chief among their enterprises could be set up only under joint arrangements with foreign capital (The Tube Investments). However, their field of activity is not narrow. The total of six nuclear families (consisting of two brothers, their son, and three nephews) are formally separated, but in fact they have built up jointly a group of companies, the A.M.M. Group.

It is unlikely that any of the Nattukottai Chettiar Groups will split up in future, because concentration of capital is increasingly necessary in the face of competition from the big groups of northern India.

#### IV. AN APPRAISAL OF THE CHETTIAR BUSINESS COMBINES

As a community possessing these groups the Nattukottai Chettiars are the business community with the largest economic power in southern India. However, *considering their abilities and financial resources*, we cannot say that their entry into modern industry took place at a very early date. Nor can we say that the expansion of the earliest enterprises was rapid. As we have shown above, the very fact that their traditional institutions were too well adapted to traditional activities retarded their entry into the modern sector of the economy.

The process by which they moved into modern industry and the subse-



quent development have a number of characteristics in common with other Indian business communities. Among the points common to the predecessors of the Indian business communities D.R. Gadgil lists the fact that they were habitually traders and financiers, the fact that demarcation between their trade and finance was never sharp, the fact that they had not engaged in direct productive activities and the fact that they were highly urbanized.<sup>17</sup> Although there are some differences of nuance in regard to the last of these points, urbanization, these characteristics are common to the Nattukottai Chettiars also.

Again, the fact that in many cases the Nattukottai Chettiars entered industry in the first instance by way of textiles is common to the other business communities of northern India. While admittedly they have not entered the field of heavy industry on any large scale as yet, the fact that they own their own banks and insurance companies is a point which they have in common with other influential business communities, and they enjoy a position which is decisively more advantageous than that of any of the other industrial groups in southern India.

The Table gives a rough estimate of the economic power of the Nattukottai Chettiar Groups and comparisons with the famous business combines of northern India, the figures being arrived at by the methods specified in the appended notes. Practically all the figures for the Nattukottai Chettiar Groups are clearly underestimates, and there are great differences in the degree of underestimation. In spite of this it will be clear, for example, that the Rajah Sir Muthiah, M. Ct., and Karumuthu Groups far outstrip the new business combines of Punjab, the Mahindras, in economic power. We may regard the Karumuthu Group as being on a scale similar to that of the Gujarati Walchands (who have interests in sugar, construction, investment, engineering, shipping, etc., in the above order of importance from the point of view of volume of capital invested per industry).<sup>18</sup> The Rajah Sir Muthiah Group does not have sole control directly over any industrial enterprise (although it has great investments in the giant A.F. Harvey's mills), but it has a great amount of its assets invested in banking. In the case of the M. Ct. Group, too, total assets are large because of the banks which the group owns and far exceed even those of the Mafatlals. They outstrip the Mahindras in paid-up capital and net worth even considering only manufacturing business.

The most important activities controlled by the Nattukottai Chettiars as a whole are banking and cotton textiles, in addition to which there are engineering, plantations, fertilizers, rayon, trading, construction, etc., and, in

<sup>17</sup> D.R. Gadgil, "Indian Economic Organisation," in Simon Kuznetz ed., *Economic Growth: Brazil, India, Japan*, Durham, N. C., Duke University Press, 1955, p. 460.

<sup>18</sup> For the types of industry controlled by the business combines of northern India and their relative importance I am principally indebted to the following source. R. K. Hazari, "Ownership and Control—II," *The Economic Weekly*, Bombay, December 3, 1960, pp. 1755 ff.

## NORTH INDIAN AND NATTUKOTTAI CHETTIARS' GROUPS

(Unit: 10 million Rupees)

		Sole & Majority Control (Inner Circle)	50 : 50	Minority Control (Outer Circle)
The Tatas	Number of Companies	57	1	67
	Paid-up Capital	76.07	29.71	
	Net Worth	111.81	0.15	47.71
	Total Assets	303.60	0.69	88.40
The Birlas	Number of Companies	335	1	10
	Paid-up Capital	66.86	2.38	
	Net Worth	102.83	...	2.36
	Total Assets	296.47	...	4.83
The Mafatlals	Number of Companies	17	4	6
	Paid-up Capital	5.95	1.92	
	Net Worth	10.45	0.27	2.70
	Total Assets	23.58	0.43	7.05
The Walchands	Number of Companies	16	4	10
	Paid-up Capital	4.91	14.86	
	Net Worth	9.57	3.02	14.95
	Total Assets	19.81	9.35	49.71
The Mahindras	Number of Companies	8	1	2
	Paid-up Capital	1.77	0.18	
	Net Worth	2.19	0.14	0.5
	Total Assets	15.99	0.22	0.81
The Nattukottai Chettiars				
I. Rajah				
(1) Rajah Sir Muthiah	Number of Companies	(1) 1 [ 0 ]	(1) 1 [ 1 ]	(4) 4 [ 1 ]
	Paid-up Capital	0.83 [ 0 ]	1.75 [ 1.75 ]	1.91 [ 0.47 ]
	Net Worth	1.69 [ 0 ]	6.38 [ 6.38 ]	2.87 [ 0.90 ]
	Total Assets	54.38 [ 0 ]	8.88 [ 8.88 ]	8.83 [ 3.11 ]
(2) M.A. Chidambaram	Number of Companies	(6) 4 [ 4 ]	—	(8) 5 [ 4 ]
	Paid-up Capital	0.87 [ 0.87 ]	—	6.43 [ 6.33 ]
	Net Worth	0.89 [ 0.89 ]	—	8.97 [ 8.82 ]
	Total Assets	3.17 [ 3.17 ]	—	18.00 [ 17.11 ]
(3) M. Ct. Muthiah	Number of Companies	(6) 4 [ 2 ]	—	(3) 2 [ 2 ]
	Paid-up Capital	2.64 [ 1.79 ]	—	0.40 [ 0.40 ]
	Net Worth	4.38 [ 2.76 ]	—	0.85 [ 0.85 ]
	Total Assets	54.28 [ 4.30 ]	—	1.68 [ 1.68 ]

II. A.M.M.	Number of Companies	(9) 2 [ 2 ]	(4) 4 [4 ]	(11) 8 [ 6 ]
	Paid-up Capital	0.64 [ 0.64]	3.01 [3.01]	6.26 [ 6.00]
	Net Worth	1.11 [ 1.11]	5.09 [5.09]	7.11 [ 6.42]
	Total Assets	2.09 [ 2.09]	8.76 [8.76]	14.30 [11.24]
III. Karumuthu	Number of Companies	(15)15 [13 ]	—	—
	Paid-up Capital	3.35 [ 3.11]	—	—
	Net Worth	5.74 [ 5.40]	—	—
	Total Assets	16.22 [11.67]	—	—
IV. Somasundaram	Number of Companies	(14) 7 [ 7 ]	—	—
	Paid-up Capital	0.65 [ 0.65]	—	—
	Net Worth	0.73 [ 0.73]	—	—
	Total Assets	3.05 [ 3.05]	—	—

Notes: (1) The figures from 'The Tatas' to 'The Mahindras' are taken from R. K. Hazari, "Ownership and Control—I," *Economic Weekly* (November 26, 1960), p. 1715, and R. K. Hazari, "Ownership and Control—II," *Economic Weekly* (December 3, 1960), pp. 1756 and 1763. The figures for paid-up capital and net worth (paid-up capital plus free reserves) and for total assets are not in respect of all the companies given in the Table. Particularly in the case of the latter two, these are a summation for 496 companies whose balance-sheets were obtainable (the total number of companies in the five groups being 540). Banks, insurance companies, investment companies, and managing agents are included.

(2) Considering not only shareholdings but also the composition of the managing agencies and boards or directors, Hazari divides the degree of company control into Inner Circle and Outer Circle (he includes 50 : 50 cases among the latter), and he denotes the two taken together as a 'Complex'.

(3) The figures for the Nattukottai Chettiars have been arrived at from the same point of view, figures for the companies for the year 1960 whose balance-sheets were obtainable (that is, for public limited companies only), which will be comparable with the Hazari's figures given above. For the sake of convenience net worth takes the form of paid-up capital *plus* all the reserves.

(4) Since we are unable to obtain knowledge of the figures for firms or private limited companies (or to publish them even if known) except with the direct co-operation of the Government as Hazari got, these are not included in the summations for the Nattukottai Chettiars, which accordingly are underestimates. The degree of the underestimation in the figures for A.M.M. and M. A. Chidambaram is particularly great. The figures for Karumuthu are comparatively accurate.

(5) Figures in round brackets ( ) are for total number of firms or companies in the Group.

Figures in square brackets [ ] are figures excluding financial enterprises (banks and insurance companies), given for reference.

view of this order of importance of industries they control, they are similar to the Mafatlals type (cotton, investments, jute, dyestuffs, sugar, etc., in that order of importance) or still more similar to the Birlas type (banking, cotton, investments, engineering, paper, rayon, jute, sugar, tea, trade, chemicals, cement, etc., in that order of importance).

Now, when the northern Indian groups are called in question as being 'monopolies' or 'business combines' the reasons for it are principally two. The first is the fact that their controlling position in relation to the total Indian economy is firm and unshakeable, and the second is the point that because they are in a controlling position they have been strengthening that controlling position more and more.

The reason why enterprises 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-worthiness, 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 all 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 book-keeping adjustments to a considerable degree when passing goods from one company to another within the group, and it will also be possible, to some extent at least, to make book-keeping adjustments in regard to actual production and sales in enterprises belonging to a single industry 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.

The Nattukottai Chettiar groups share in the enjoyment of these privileges. Even in purely quantitative terms their economic power is great, and they are in no way inferior when compared with the groups of northern India.

## V. THE PROBLEMS RECONSIDERED—CONCLUSIONS

As is a matter of common knowledge, familial occasions play a great part as occasions for the combination of enterprises under the control of the Indian business combines. Helen Lamb has correctly observed that for a

study of the Indian business community one must begin from a study of the family.<sup>19</sup> Consequently, inasmuch as this is so they are similar to the Mitsui and Mitsubishi combines in Japan, and it may be thought permissible for us to designate them as *zaibatsu* or 'financial cliques.' However, it will probably become clear from our studies of the business combines of the Nattukottai Chettiars that it is a mistake to think that it is *because* the original nature of the Indian entrepreneurs contained the pre-capitalist, traditional, and old elements that business combines were formed in India.

While we may suppose that because of the individualistic nature of their entrepreneurship and their peculiar family system the Nattukottai Chettiars might well be expected to have had the choice of starting up enterprises individually and managing separately, we have found a contrary general tendency, a tendency for the familial bonds to be strengthened and consequently, as an objective result, for the group to be strengthened although it is agreed, as we have noted above, that during the early period there were some who did in fact make the former choice (even in the important field of banking). Further, albeit that the allocation among the families of the management of the various enterprises included in the group is more or less fixed, important decisions are made jointly under the leadership of their head, usually the eldest.

We would say that these facts raise a further question. That is, these facts would seem to imply that there has existed in the Indian economy some continuously present but unseen pressure which has obliged Indian entrepreneurs to form business combines if their economic power is to undergo continuous expansion. In other words, it is not that the traditional familial bonds caused the formation of the business combines in India, but some other factors caused both the formation of the business combines and strong survival of the familial bonds. It would seem permissible for us to suppose as a corollary to this that enterprises or groups of enterprises which adjusted themselves in response to this pressure would go on expanding at a more rapid rate than other enterprises, while on the other hand enterprises which prove incapable of responding to it would, relatively, be forced into a decline. In order to answer this greater question, however, a thorough study of the *total* history of the formation of the Indian business combines is required. The present writer emphasizes that the business combines which started late were subject to the influence of the competition from the older great business combines, the Tatas and the Birlas, and further, that the latter in turn developed in a situation of the world monopolistic competition. The fact is that the history of the development of industry in India has also been a history of the failure of enterprises. For example, in the case of textile industry of Bombay, 44 economically weak companies went out of business between 1895 and 1915. This means that as many as two-thirds of the total went out of business.

<sup>19</sup> Helen B. Lamb, *Business Organisation and Leadership in India Today*, Centre for International Studies, MIT, 1956, p. 1.

The studies of the Indian business combines which have been conducted hitherto have gone no further than estimating the economic power of various groups at various points in time in their methodology on the one hand and either lamenting their evergrowing strength and some malpractices among them or praising the successful persons who built it up in their viewpoint on the other. They have been deficient in any pursuit of the fundamental causes which would explain why the principal enterprises have been able to grow *only* in the form of business combines. Although there have been studies of when and how individual combines were started and have grown, there has been a fundamental defect even in those studies that these matters have not been considered in conjunction with another aspect, an aspect which can be expected to come into being only as a response to these matters, namely the aspect that certain enterprises went out of business or declined at certain times and in certain numbers. That is to say, there have as yet been no studies which deal with the process of the formation and growth of the business combines within the framework of the total economic history. If the studies are directed in such way it may be that a further hypothesis that at the present time economic development in the backward capitalist countries cannot take place without the formation of business combines will be firmly substantiated.