

OCCUPATIONAL MOBILITY AND INDUSTRIAL ENTREPRENEURSHIP IN INDIA: A HISTORICAL ANALYSIS

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I

THERE is no dearth of literature on industrial development in India. The theme has attracted a large number of scholars and some excellent studies have come out in recent years.¹ None, or practically none, of the existing works, however, has sought to analyze the industrialization process in the context of entrepreneurial behavior which in the growth theories today has come to occupy a place at least equal to that of capital [4, p. 28] [14, pp. 30–38] [7, p. 1]. Admittedly, a few have paid attention, albeit indirect and insufficient, to the entrepreneurial process. Most of these have blamed the policies of an alien government for retarding entrepreneurial initiative in India, and some have stressed the unwholesome effect of sociological factors like caste and religion.²

Conceptually speaking, both these explanations suffer from the same weakness; they have adopted what I would call a uni-factor approach. While none will deny that the policies of the British government did affect adversely the economic development of India, a censure of these policies without taking none of the

¹ For a comprehensive review of literature, see Dharma Kumar, "Economic History of Modern India," *Indian Economic and Social History Review*, Vol. 9, No. 1 (March 1972); N. Benjamin, "Economic History of India (1526–1900): A Bibliographical Essay," *Artha Vijanan*, Vol. 12, No. 4 (December 1970).

² See Max Weber, *Religion of India: The Sociology of Hinduism and Buddhism*, trans. and ed. H. H. Gerth and D. Martindale (Glencoe, Ill.: Free Press, 1958); idem, *The Protestant Ethic and the Spirit of Capitalism* (New York: Charles Scribner and Sons, 1958); idem, "India: The Brahman and the Caste," in *From Max Weber: Essays in Sociology*, ed. N. H. Gerth and C. Wright Mills (New York: Oxford University Press, 1958); V. V. Bhatt, *Aspects of Economic Change and Policy in India, 1800–1960* (Bombay: Allied Publishers, 1963), Chap. 2; Phiroze B. Modhora, "Entrepreneurship in India," *Political Science Quarterly*, Vol. 80, No. 4 (December 1965); Helen B. Lamb, "The Indian Business Communities and the Evolution of an Industrial Class," *Pacific Affairs*, Vol. 18, No. 2 (June 1955); D. P. Pandit, "Creative Response in Indian Economy: A Regional Analysis," *Economic Weekly*, Vol. 9, Nos. 8 & 9 (February 23 & March 2, 1957); idem, "A Century of Gestation: Relevance of Non-Economic Factors in Development Studies," *Economic Weekly*, Vol. 14, No. 38 (September 22, 1962); H. N. Pathak, "Small Scale Industries in Ludhiana," *Economic and Political Weekly*, Vol. 5, No. 28 (July 11, 1970); A. K. Bagchi, *Private Investment in India, 1900–1939* (Cambridge: At the University Press, 1972); and Vinod K. Agarwala, *Initiative, Enterprise and Economic Choices in India* (New Delhi: Munshiram Manoharlal, 1975).

positive influences of the British rule on the entrepreneurial behavior of the Indian people has yielded a rather unbalanced picture. Likewise, overemphasis on the sociological factors has failed to take into account the reinterpretation and re-adaptation of cultural norms which the weight of material changes during the British rule forced on the Indian society. What I wish to stress is that a uni-factor analysis cannot explain a complex phenomenon like entrepreneurship; what is required is a multi-factor approach based on an enquiry into the changing constellation of all relevant forces which impinge on economic choices. These forces include not only the general, political, economic, and social environment, but also the value systems of an individual as conditioned by his family affiliation, nature and level of his education, knowledge and impact of the activities of others in or out of his own society, and a host of other complex factors. In other words, the multi-factor approach encompasses not only the environment external to an enterprise but also the influences operating within the enterprise as also within the individuals or the group of individuals responsible for strategic decisions from time to time.

An enquiry into the antecedents and developments of industrial entrepreneurship in modern India in the context of a changing constellation of forces would need a more intensive exercise than is possible in this paper, and a great deal of empirical research. The purpose of this paper therefore, is not to come to any definitive conclusion but to emphasize the need for a new line of investigation. For, the available data, though admittedly scanty, analyzed properly, point to directions and hypotheses different from those suggested by most of the existing studies.

II

Describing the attributes of an entrepreneur Edwin F. Gay once declared that his "disruptive innovative energy" breaks the "cake of custom" at a given point in the "rhythm of History."³ Occupational immobility in Indian society, sanctified by the caste system, was one of the hardest cakes of custom. In the long rhythm of Indian history, it would be difficult to spot the propitious moments when this cake was soft enough to be broken. Whatever little we know of the economic institutions and activities in ancient and medieval India suggests that the occupational division among the Hindus remained more or less intact. As a result, commercial activities remained a monopoly of the Vaisya (merchant) section. There is nothing to suggest that members of the other three Hindu varnas—the Brahman (priestly castes), the Kshatriya (the martial castes), and the Shudra (the servile castes)—were ever drawn to trade and commerce during the ancient and medieval periods of Indian history.

The beginning of European commercial enterprise in India in 1600 did not

³ Quoted in Arthur H. Cole, "An Approach to the Study of Entrepreneurship: A Tribute to Edwin F. Gay," in *Explorations in Enterprise*, ed. G. H. Aitken (Cambridge, Mass.: Harvard University Press, 1965), p. 31.

disturb to any substantial degree the occupational basis of Indian society, nor did it effect any qualitative change in the activities of the commercial classes. By all accounts, the demand for Indian goods in Europe was great in the seventeenth century, and the exploits of the European companies in India, particularly those of the English East India Company, further augmented these demands. Since the Indians had little use for European goods, the balance of trade always remained in favor of India. In spite of the restrictions imposed by several European governments against the export of bullion from their respective countries, these companies had to import treasures into India to finance their operations. That the British government had to revise its customs regulations twice in twenty years—once in 1700 and then in 1720—to discourage use of Indian textile goods in Britain testifies to the fact that the activities of the Europeans resulted in the net economic gain to India, at least up to the War of Plassey in 1757 when the British occupied a part of Bengal.⁴

A large portion of these gains went to the mercantile classes. The weavers, who manufactured the textile goods in which the Europeans were mainly interested, were too poor to finance their operations. For capital they depended on the mercantile communities who advanced funds under the so-called putting-out system which precluded the accrual of any profits resulting from market fluctuations to the manufacturers. The mercantile communities used their gains to finance their traditional activities, viz., trade and moneylending. More empirical studies would be necessary to confirm this impression, but we have some data which lend support to this view.

Virji Vora was a seventeenth-century merchant prince of Surat, Gujarat. He had enormous liquid capital and dealt in goods of various descriptions. His mercantile operations were spread far and wide. Whenever the English East India Company needed loans, it approached Vora who gladly advanced funds at extortionate rates of interest. His position in the market was unassailable, but there is nothing to suggest that he attempted to effect any innovation in prevailing business methods or activities with the help of his financial resources. Our information on the House of Malyas of Pulicat in the present state of Tamil Nadu is more limited. But it appears that the Malyas, who came into prominence a little later, also limited themselves to the kind of activities in which the Surat merchant prince was interested. The Jagat Seths, who flourished in the early half of the eighteenth century in the eastern part of India, depended mainly on moneylending and amassed a huge wealth. They supported the English in their economic and political activities and were a decisive factor in the turn of events which gave Bengal to the British following the latter's victory at Plassey in 1757. The Seths were the collectors of revenue to the Nawab of Bengal during the pre-Plassey days. They lent their support to the British probably without realizing that the emergence of the British

⁴ For detailed discussions, see S. A. Khan, *The East India Trade in the Seventeenth Century in Political and Economic Aspects* (London: Oxford University Press, 1923); Bal Krishna, *Commercial Relations between India and England* (London: Oxford University Press, 1924); and C. J. Hamilton, *The Trade Relations between England and India* (Calcutta: Thacker, Spink & Co., 1919).

as a territorial power would end their main source of profit.⁵

These similar data seem to point to the conclusion that the traditional mercantile classes dominated the business and commercial activities almost till the onset of the nineteenth century, that they introduced no qualitative change in the business practices of their forefathers, and that they remained unduly wedded to liquidity preference.⁶ Also there is no evidence to suggest that occupational division, as sanctified by the caste system, underwent any change.

The proponents of the sociological school have explained this phenomenon by pointing to the so-called negative elements in the Hindu value system. This approach presupposes that (i) there is a single system of Hindu values, (ii) that this was all-pervasive and influenced the behavior and values of the followers of other Indian religions including Islam, (iii) that the Indian community internalized these values and translated them into day to day behavior, and (iv) that these values remained immune to, and insulated against, external pressure and change.⁷

However, it is difficult to identify a single Hindu value system. Hinduism, as a matter of fact, is a collective name for so many sects and sub-sects, embracing so many beliefs—sometimes contradictory and sometimes complimentary—that the Hindu value system as a frame of reference is neither meaningful nor convenient. Expressions like “spiritualism” and “otherworldliness” to signify the essence of Hinduism do injustice to Hinduism by ignoring the materialistic content of it (after all, ancient Hindu scriptures placed equal stress on *dharma* or virtue, *artha* or material well-being, *kama* or worldly pleasures, and *moksha* or ultimate salvation), and to other religions including Christianity by implying that they lacked spiritual values. Again, it is doubtful whether the Hindu influence was so powerful and pervasive. If it was, one wonders how Jain ethics escaped it, which, according to the sociological school, generated a spirit of enterprise. A study of whether the success of the Jain businessmen preceded or followed their conversion to the new faith may throw some interesting light on the sociological interpretation. One thing is certain, however, Jainism, with its stress on *aparigraha* (non-attachment), *ahimsa* (non-violence) *aasteya* (non-stealing), and *brahacharya* (desirelessness for sensuous pleasure), is neither less ascetic nor less otherworldly than Hinduism. The fact that the business behavior of the Jains in India was at

⁵ Brief accounts of Virji Vora and the Malyas are available in [10, pp. 145–85]. For Jagat Seths, S. Bhattacharya, *The East India Company and the Economy of Bengal, 1704–1740* (London: Luzac & Co., 1954), pp. 108–10 and P. Sinha, *Jagat Seth aur Bengal me Angreji rajya ki niv* [Jagat Seth and beginning of the British rule in Bengal] (Prayag: Hindi Sahitya Sammelan, 1950), passim.

⁶ According to a competent authority, both exaggerated expectations and liquidity preference are hindrances to entrepreneurial activities. See [7, pp. 20–24].

⁷ For a critique of this approach, see Morris D. Morris, “Values as an Obstacle to Economic Growth in South Asia: An Historical Survey,” *Journal of Economic History*, Vol. 27, No. 4 (December 1967) and Hemlata Acharya, “Creative Response in Indian Economy: A Comment,” *Economic Weekly*, Vol. 9, No. 17 (April 27, 1957). Also see Milton Singer, “Cultural Values in India’s Economic Development,” *Annals of the American Academy*, May 1958; Singer’s views have been examined by several authorities in “India’s Cultural Values and Economic Development: A Discussion,” *Economic Development and Cultural Change*, Vol. 7, No. 1 (October 1958).

variance with the essence of their faith might indicate that they did not practice in relation to their business activities the values which Jainism stressed. As a matter of fact, the behavior of businessmen throughout the world justifies the impression that their business ethics and values do not necessarily conform to their personal ethics or religious values.⁸

This was certainly true of the medieval Indian businessmen about whom we have data. The ruthless business practices of the Jain Virji Vora and Jagat Seths, and Hindu Malya would find little support in their religious values. The European travellers have testified that Indian merchants were as shrewd as the devil, that they possessed in plenty business acumen and judgement, and that they were in no way inferior to their Western counterparts.⁹ Their practices and attitudes find sanction neither in Hinduism nor in Jainism. Obviously, these men, while clinging to religious rituals in their personal lives, either deviated from the spirit of their faiths or interpreted them anew to suit their business practices and activities. In other words, there was substantial difference between the formal expression of ideas as contained in the scriptures and the practices of these men. This may also be true for the rest of the society. Thus, if the behavior of the mercantile communities was not very entrepreneurial in the modern sense, and the non-mercantile communities did not break the occupational barriers as imposed by the caste system and sanctified in the scriptures, the explanation must lie not so much in the religious and cultural factors as in some other factor.

III

A clue to the factor can be found by reference to the climate for enterprise. Such a climate can be explained more in terms of the material environment than in terms of religious and cultural factors. Environmental changes in a society may force reinterpretations and readaptations of religious and cultural beliefs. This is exactly what happened in Japan and in Western societies of today, wedded as they were to religions which, after all, were neither less otherworldly nor less spiritualistic than Hinduism. Was this material environment in pre-1800 India conducive to the growth of entrepreneurial behavior? In other words, did the climate for enterprise exist?

⁸ A few examples may underscore this point. John D. Rockefeller in his personal life was an extremely religious man, but utterly ruthless in his business dealings (Allen Nevins, *Study in Power: John D. Rockefeller, Industrialist and Philanthropist* [New York: Charles Scribner's & Sons, 1953]). Andrew Carnegie, well known for his charities, adopted dubious means to deal with the labor strikes in his Homestead Works (Buston J. Hendrick, *The Life of Andrew Carnegie* [London: William Heinemann, 1933]). An Indian industrialist, Ramkrishna Dalmia, has himself confessed to the contradiction between his personal beliefs and business practices. See Seth Ramkrishna Dalmia, *A Short Sketch of the Beginning of My Life and a Guide to Bliss* (Delhi: National Printing Works, 1962); idem, *Some Notes and Reminiscences* (Delhi: National Printing Works, 1959).

⁹ For a general description of the methods of Indian businessmen, see [10, pp. 145-85] and S. Arasaratham, "Indian Merchants and Their Trading Methods, Circa 1700," *Indian Economic and Social History Review*, Vol. 3, No. 1 (March 1966).

The lack of political unity has always been the bane of Indian history. Morris's phrase, "from chaos to chaos in three generations," may be too strong, but his basic observation, that at no time in Indian history over any large region did political unity survive for more than a century or a century and a half, is substantially correct [11]. Whether the short-lived imperial unities led to any qualitative and quantitative change in economic behavior is a matter of more intensive research, but our present knowledge suggests that they did not. For political unity is not enough for an entrepreneurial spurt. An effective communications system is an obvious prerequisite, and India lacked it. The pre-British rulers did build some roads, but they were mainly for military purposes, and modes of transport remained primitive and slow. Movement of goods and people was thus never very secure, and conditions became worse during the later Moghuls, partly as a result of the frequent Maratha raids (particularly in Western and central-South India), and the rise of the Pindaris and the Thugs.

Another disincentive to movement was a network of customs barriers. According to Moreland, these barriers—or chowkies as they were called—existed in 1600 and later. Most likely, they existed even earlier. As a result, the cost of transportation over a distance of two hundred or three hundred miles doubled the price of the commodity. The harassing and corrupt practices of the customs authorities added to the trials and tribulations of the situation.

The existence of innumerable systems of currency was yet another adverse factor. At the turn of the nineteenth century, there were about a thousand currencies in circulation in India—probably the legacies of frequent political fragmentation. Some of these depreciated in value every two or three years and, in the absence of any effective and clearcut system of exchange, bankers and money-lenders fixed their own arbitrary exchange rates. True, there was a system of *hundi*, the time-honored system of remitting money, but this must have offered little protection against the frequently fluctuating exchange rates, and certainly involved heavy remittance charges.

These political and economic factors led to the development of regional markets—each limited to two to three hundred miles—and the so-called village self-sufficient economy. Both were detrimental to the growth of any large-scale commercial undertaking. But even the regional markets were plagued by unpredictable and arbitrary interference by the political authorities. Since far-flung regions were hard to govern from the seat of the imperial government, their governors were left relatively free in matters of administration. Some of these governors, particularly in the seventeenth and eighteenth centuries, were interested in their own commercial enterprises and, on several occasions in many coastal cities, monopolized for themselves the trade in certain profitable commodities without prior notice.¹⁰

While these factors reduced investment opportunities, the taxation policy adversely affected the generation of capital. It is difficult to generalize about the

¹⁰ There is a good discussion on communication systems and chowkies in [2, Chap. 1]. For currency chaos, see K. N. S. Nambudiripad, *A Short History of Indian Currency* (Poona: Continental Prakashan, 1955), pp. 1–15, also [10, pp. 145–85].

Hindu taxation structure in the absence of more reliable data, but taxation under the Moghuls amounted to nearly half the produce of the land. A large part of the taxes, spent on the palace luxuries, were lost for productive purposes. Heavy taxation coupled with the low yield of Indian agriculture brought cultivation to the subsistence level. The ability of the community to invest was very low indeed as manifested in the poverty of the Indian masses.¹¹

Two more factors of relatively less importance must be mentioned. First, the religious system of education which prevailed through the years before 1800 emphasized the importance of a man's calling. Commenting on Hindu education in about 1000 A.D., Al-Beruni said that the Hindu people kept themselves aloof from the outer world and were ignorant of the arts and sciences of the West. The situation was still the same eight hundred years later [8]. The educational system reinforced the occupational structure as it was sanctified in the caste system. Secondly, business was held in low esteem in India throughout the period. Kautilya's belief that a businessman was a thief but was not so called seemed to have become a commonly held view in later years.¹²

The above description of the material environment in pre-British India is rather generalized. The state of a society over such a long span of time cannot be compressed in a few paragraphs, and any generalization about such a complex society as India could be misleading. It is quite possible that intensive researches in regional or local history would indicate variations and it is not suggested that all these factors existed in all parts of India or in every single period of history. Allowing for such variations, however, the conditions described here would approximate the picture of the climate which conditioned and influenced business behavior in pre-1800 India.

Obviously, the climate was not very favorable. It will be agreed that a weak economic infrastructure, like the one that prevailed in pre-1800 India, was capable of offering little or no inducement for a major entrepreneurial breakthrough to those who were already in business. Again, it was not tempting enough for non-commercial classes to give up their traditional professions. Probably, it would be fair to say that the business castes under the prevailing conditions pre-empted the business opportunities that could be perceived. According to McClelland, entrepreneurial response, as distinct from adventure or gambling, consists in moderate risk engendered by a combination of achievement motivation and expectancy of reward [9, Chap. 6]. It is the low expectancy of reward, more than anything else, which explains the business behavior and occupational structure in pre-British India. In other words, there was a rough equilibrium between the

¹¹ For a discussion of the Moghul tax structure, see D. Pant, *The Commercial Policy of the Moghuls* (Bombay: D. B. Tarporewala & Sons, 1930). For the poverty of Indian masses, Tara Chand, *Society and the State in the Moghul Period* (New Delhi: Government of India, Publications Division, 1961), pp. 43-72.

¹² As late as the close of the nineteenth century, there was a proverb popular in Rajasthan which said that the Jain Bania drank filtered water to avoid the killing of insects, but did not hesitate to suck unfiltered blood of the poor. The proverb gives an idea of the popular image of businessmen in India.

perceivable opportunities on one hand, and business behavior and occupational division on the other.

IV

Around the beginning of the nineteenth century a disequilibrium situation began to emerge. There were two major factors behind this development: (i) the commercial activities of the Europeans in India, particularly the British who soon overshadowed others, and (ii) the changes in the material environment wrought by the British rule.

European companies for Indian trade came to be established after 1600 A.D. In the beginning, their fields of operation and their contact with the native population were limited, and their familiarity with the country was inadequate. Lack of purchasing power plagued their operations. These conditions naturally reduced their ability to have any major impact on the behavior of Indian businessmen. The British occupation of Bengal in 1757, however, changed the situation. For one thing, it facilitated the operations of British free merchants and the entry of the company's servants into mercantile activities. In other words, beginning with the Battle of Plassey, business horizons of the British expanded with the expansion of British rule in India. Their methods were dubious, exploitative, and arbitrary, but there is no doubt that the British displayed greater aggressiveness, drive, and imagination in their business tactics—perhaps because the British environment in which they had grown up had endowed them with a superior entrepreneurial initiative.

Whether the East India Company played any innovative role is debatable, but the agency houses certainly did. These houses were established in the presidency cities of Calcutta, Bombay, and Madras during the last decades of the eighteenth century. Adjuncts of London-based British firms, the agency houses were set up in India either by the free merchants or by the servants of the company who resigned their positions to engage in agency business. The original purpose of these establishments was to facilitate remittances of money to England by Englishmen residing in India. But since this in itself would yield little profit, these houses entered trade and commerce and added new lines such as European banking and steamshipping. The number of such houses increased, and their activities expanded after the East India Company lost its monopoly of the India trade in 1813. In the wake of the Industrial Revolution in Britain, the agency houses and the free merchants opened up new vistas for business by indicating that India had vast untapped natural resources waiting for exploitation. They financed and promoted indigo plantations, participated in the risky business of coal mining, established leather manufacturing, and at least one Englishman wrestled unsuccessfully with the impossible task of steel-making in Madras.¹³

Admittedly, the demonstration effect alone has limited value for generating an

¹³ For a comprehensive account of the activities of the agency houses, see S. B. Singh, *European Agency Houses in Bengal* (Calcutta: Firma K. L. Mukhopadhyaya & Co., 1966) and [3, *passim*].

entrepreneurial spurt, but the impact of the superior business outlook of the foreigners on the Indians must be analyzed in the context of the material changes in the constellation of forces. Among these were the beginnings of secular education and the spread of Western ideas. Although a formal declaration introducing English education was not made until 1835, the process of secularization had been initiated much earlier so that by 1830 the effect of Western ideas and new education was noticeable, at least in Bengal. The tight grip of religious and traditional ideas and practices became loose, and dogmas and superstitions lost the hold they had earlier. In a sense, a new "Protestant ethic" began to emerge which reflected itself in the establishment of the Brahmo Samaj in the cultural field. In the economic field, it encouraged the non-commercial classes to look at the opportunities for gain more sympathetically and meaningfully [8, pp. 31-70].

Viewed in this light, the business activities of Dwarkanath Tagore, a Brahman, would appear to lie in the logic of history. Tagore had great sympathy for Western ideas and culture. He welcomed the British rule as a great blessing. He was a supporter of the Brahmo Samaj movement. After the fall of the agency houses in Bengal, as a result of the depression of 1829, Tagore proceeded to fill the vacuum. He founded the Carr Tagore Company jointly with William Carr, an Englishman, to participate in the same kind of activities which earlier were in the hands of the agency houses. He established a bank, steamship company, and a colliery, and promoted a host of minor ventures. Tagore belonged to a big landlord family, and the permanent land settlement, introduced in Bengal during the closing decades of the eighteenth century, had improved his financial position to enable him to promote his business ventures.

According to Tagore's biographer, Dwarkanath was the first high-caste Hindu to enter business.¹⁴ Another member of the Tagore family, Prasanna Kumar Tagore, was one of the directors of the Union Bank, and another Brahman, Radha Madhab Banerjee, also appears on the list. These were not the only high caste Hindus to enter the demeaning world of business. More importantly, between 1834 and 1847, a host of partnership ventures were started jointly by Bengalis and Englishmen—an entirely new phenomenon in Indian business life—of which Carr Tagore, Union Bank, Oswald Seal, and Rustomji Turner, were more prominent. It is also certain that, those who participated in these ventures were ideologically and culturally close to the English—either by personal contact or by education. Probably safe in their traditional lines of moneylending and trade, the traditional business classes, with little contact with new values, refrained from entering the more challenging fields. The Indo-British partnerships disappeared in 1847 as a result of mismanagement, but their appearance was certainly a breakthrough in the Indian entrepreneurial pattern [12].

These partnerships remained confined to the lines made relatively familiar by the agency houses or free merchants. Even the Indians with relatively greater

¹⁴ James W. Furrell, *The Tagore Family: A Memoir* (Calcutta: T. C. Bose & Co., 1892) and Kissory Chand Mittra, *Memoir of Dwarkanath Tagore* (Calcutta: T. C. Bose & Co., 1870), passim. For a recent and detailed study of Dwarkanath Tagore and his business ventures, see Blaire B. Kling, *Partner in Empire: Dwarkanath Tagore and the Age of Enterprise in Eastern India* (Berkeley: University of California Press, 1976).

propensity for risk taking viewed unfamiliar ventures with caution. Tea plantation is one such instance. The officials of the English East India Company had begun the search for tea plants in the Assam hills in the 1820s. In the early 1830s, the company established tea gardens in Assam to demonstrate the capability of India to produce tea and with the declared intention that the gardens would be handed over to private enterprise in due course. In 1837, the company was ready to fulfill this promise, but Bengali businessmen felt reluctant to take advantage. Dwarkanath Tagore and a few of his associates made some attempts to form the Bengal Tea Association, but uncertain about the future they gladly stepped aside when some Englishmen established the Assam Company in 1838 in London to exploit the tea resources of Assam. It was, thus, left to the Assam Company, whose determination for success survived many frustrations and enormous losses for almost twenty years, to establish tea plantation on a sound footing [1, pp. 12–47]. Likewise, coffee plantations and jute manufacturing were developed almost entirely by British enterprise.

Not in all cases did the founders of British enterprises in India have access to sufficient capital. As a matter of fact, most of them were people of moderate or meager means, and a large number of firms which later developed into huge empires had humble beginnings. Their success, however, was the result of two major factors: (i) the use of superior European technology, and (ii) their managerial skills which were reflected in their success in floating one enterprise after another by ploughing back profits and in cooperation with other ambitious individuals.¹⁵ In the process of doing the latter, they developed, if not originated, an almost unique system of business management—the managing agency system.¹⁶

Thus, the activities of the British entrepreneurs in India pointed to increasing business opportunities, gave the Indians a form of corporate management, brought them face-to-face with superior technology, and contributed to their capacity to use it by ensuring the availability of personnel to handle the new machines.

¹⁵ The careers of Bird and Heilgers, Andrew Yule, British India Navigation, Parry, Binny and Bata, among many others, illustrate this point. For details, see Godfrey Harrison, *Bird and Company of Calcutta* (Calcutta: Bird and Company, 1964); Andrew Yule and Co., *Andrew Yule and Company Ltd., 1863–1963* (Calcutta: Andrew Yule and Co., 1963); George Blake, *B.I. Centenary, 1856–1956* (London: Collins, 1956); [3]; Binny Ltd., *The House of Binny* (Madras: Binny Ltd., 1969); and Anthony Cekota, *Entrepreneur Extraordinary: The Biography of Thomas Bata* (Pro Deo: Edizioni Internazionali Social, 1968).

¹⁶ The origin of the managing agency system is a matter of controversy. While most writers on the subject trace it to the British enterprise, Blair B. Kling holds that Carr Tagore was the first example of a managing agency firm. In a recent study Radhey Shyam Rungta has tried, somewhat unconvincingly, to connect the early insurance companies with the managing agency system. For detailed discussions, see P. S. Lokanathan, *Industrial Organisation in India* (London: George Allen & Unwin, 1935); Raj K. Nigam, *Managing Agencies in India* (Delhi: Government of India, Publications Division, 1957); S. K. Basu, *The Managing Agency System* (Calcutta: World Press, 1958); Radhey Shyam Rungta, *Rise of Business Corporations in India, 1850–1900* (Cambridge: At the University Press, 1970); Vera Anstey, *Economic Development of India* (London: Longman's Green & Co., 1924); Andrew F. Brimmer, "The Setting of Entrepreneurship in India," *Quarterly Journal of Economics*, Vol. 119, No. 4 (November 1955); and Blair B. Kling, "The Origin of the Managing Agency System in India," *Journal of Asian Studies*, Vol. 26, No. 1 (November 1966).

V

There were other changes in the constellation of forces in the meantime. During the nineteenth century the spread of Western ideas and secularization of education made considerable progress and led India from the medieval to modern age [8, pp. 89–155]. The critical and questioning attitude toward religion and society, which in the 1830s had brought new entrepreneurs to the fore in Bengal, touched the western parts of India after 1840, and manifested itself in the establishment of the Prarthana Samaj and a little later, the Arya Samaj. Both these were reformist sects like the Brahmo Samaj in Bengal. During the same period, political unity and stability was more firmly established; the irksome customs barriers were abolished; security of movement was improved as a result of the extermination of the Thugs and the Pindaris; a unified currency for the entire British dominion came into existence; and credit and banking facilities were developed on modern lines. During the latter half of the nineteenth century, the establishment of the post and telegraph system and the construction of roads and railways considerably improved transportation [2, Chaps. II and III] [13]. These changes served to expand the market and, with that, the horizons of business.

However, the Bengalis who had burnt their fingers in early partnerships remained cautious and Indians in other parts, still inexperienced in industrial ventures, refrained from entering those fields which the British had already monopolized—the plantation and extractive industries. With large and well-developed industries at home, the British were probably not interested in cotton textiles and steel and it was in these fields that the emerging Indian entrepreneurial spirit manifested itself.

The first cotton textile mill, as is well known, was established in 1854 by a Parsee, Gomasjee Nanabhoy Davar, in the fast developing city of Bombay. He imported machinery and technicians from Lancashire and entrusted the management to his own managing agency firm.¹⁷ Although many in Bombay seemed doubtful about the future of Davar's venture, the Bombay Cotton Spinning and Weaving Mill became an instant success, and the pattern under which it developed became the model for the establishment and management of new mills. In spite of adverse circumstances, opposition from the Manchester lobby of Britain, and unhelpful governmental policies, the Indian cotton textile industry made enormous progress and was firmly established by 1875, primarily in response to external demands in eastern markets and rising internal consumption of cotton goods. Although others entered the Bombay cotton textile industry, the pioneering role was undoubtedly played by the Parsees.¹⁸

¹⁷ S. D. Mehta, *Cotton Mills of India* (Bombay: Textile Association, 1954), pp. 13–22. For a fuller account of the Parsee enterprise, see D. F. Karaka, *History of the Parsis* (London: Macmillan & Co., 1884), Vol. 2, pp. 1–145, 242–95.

¹⁸ It is noteworthy that while the British textile industry developed within the framework of partnership, the Indians from the very beginning employed the joint stock concept to develop this industry.

Again, a member of this community played a pioneering role in the development of iron and steel. J. N. Tata was attracted to the field as early as the last quarter of the nineteenth century in spite of the failure of many an early effort. How Tata was hampered by irksome and complicated prospecting laws, how he later won the support and encouragement of the British government, how he recruited his technicians and imported his machinery from the United States, and how his efforts finally fructified in the establishment of the Tata Iron and Steel Co. in the early years of the present century is well known. Tata, by any standard, was a towering entrepreneur whose vision and imagination, determination and perseverance, and faith and trust in his own ability and mission, survived many a frustration and many a failure [5] [15].

To assume, however, that the participation of the Parsee pioneers in industrial ventures was due to their religion and culture would be misleading. For, the founder of the Ahmedabad textile industry, the second largest in the country, belonged to a non-business caste. Born in a family of Nagar Brahmans, who were the first in Gujarat to come under the impact of Western ideas, Ranchhodlal Chhotalal was educated in Sanskrit, English, and Persian. As a civil servant, he came into close contact with Englishmen. A few years before Davar floated his cotton mill in Bombay, the possibility of starting a mill in Ahmedabad had attracted Ranchhodlal's fancy and he had carried on extensive correspondence with several Englishmen and an American at Broach. Hampered by the lack of capital, however, he had to wait for more than a decade before he could establish his mill company in 1861.¹⁹ Becharadas Laskri, who followed Ranchhodlal in establishing a cotton mill in Ahmedabad, was a Kanbi, a land-holding community. Other non-Vaisya Gujaratis who entered modern industrial ventures included N. M. Tripathi, who founded a publishing firm after his own name. In other parts of India, Rajendra Nath Mookerjee, a Brahman, played a leading role in expanding the operations of the Martin Burn, which eventually took possession of the iron works of the Bengal government and later developed into a reputable engineering firm. In Maharashtra, a Bhatia family from Kutch, the Khataus, entered the textile industry and a few years later, Laxman Rao Kirloskar, a Brahman, with technical educational background, founded a company for the manufacture of agricultural machines.²⁰

Not religion but exposure to new ideas and values was the common factor

¹⁹ Bhagwanlal R. Badshah, *Rao Bahadur Ranchhodlal Chhotalal C.I.E.* (Ahmedabad: Aryodaya Press, 1899); S. M. Edwardes, *Memoir of Rao Bahadur Ranchhodlal Chhotalal C.I.E.* (Exter: William Pollard & Co., 1920); Howard Spodek, "Manchesterization of Ahmedabad," *Economic Weekly*, Vol. 17, No. 11 (March 13, 1965); and M. J. Mehta, "Ranchhodlal Chhotalal and the Ahmedabad Cotton Textile Industry: A Study in Entrepreneurial History" (Ph.D. diss., Gujarat University, 1979), present an excellent analytical study of the Nagar businessman.

²⁰ Information on Becharadas Laskari, N. M. Tripathi, and Rajendranath Mookerjee and Khataus are based on discussion with informed persons and company executives. For Kirloskar, see S. V. Kirloskar, *Yantrikanchi Yatra* [The pilgrim's journey] (Kirloskarvadi: Kirloskar Brothers, 1958) and Kirloskar Brothers Ltd., *The Professor As a Ploughman* (Kirloskarvadi: Kirloskar Brothers, n.d.).

between the Parsees and non-Vaisya Hindu entrepreneurs. The Parsees, from the very beginning, were close to the British as their middlemen. They adopted the Western ways of life and imbibed Western culture. Business had been their traditional occupation but the contact with the new ideas and new business techniques led them to appreciate the significance of the changing environment and emerging new opportunities in the industrial field.²¹ The same was true of the Hindu entrepreneurs, although business was a new experience for them. In most of these cases, while moving away from their traditional occupation, they retained their traditional ways and rituals in their personal lives. Neither they nor their contemporaries saw any contradiction between their personal faith and their new occupation.²²

Educational and environmental factors may also explain the behavior of the Vaisyas and the Jains who lagged behind the entrepreneurial initiative throughout the nineteenth century. The Jains of Ahmedabad and Baroda refused to have anything to do with the cotton industry when the Nagar pioneer approached them for funds. The Jains and other Vaisya groups actually entered the textile field about two decades after the establishment of the first cotton mill in their city by which time the profitability of the field had been clearly demonstrated. The Marwaris, who had a strong hold on the money market of Calcutta, remained content with their trade and moneylending, and so was the case with the Chettiars in South India.²³ Late in taking advantage of the new educational opportunities and slow in coming into contact with new ideas, these classes needed greater and more concrete inducements to grasp the significance of the changing business horizons.

It was the First World War and the conditions following it that offered these groups the necessary inducements. The war stopped imports of several essential commodities and created huge internal demands. Indian industrialists reaped large profits. After the war, the government changed its free trade policy to offer discriminatory protection to Indian industries. The currency situation, which was fluid and uncertain during the closing year of the nineteenth century and the beginning of the twentieth century, became stable at long last. The Swadeshi movement gave a new fillip to the demand for Indian goods and augured well for industrial ventures. These developments made investments in modern ventures a much less risky proposition and the Vaisyas—the Jains, the Marwaris, and the Chettiars—with enormous capital at their disposal, entered the field with a bang.

²¹ Everett E. Hagen in *On the Theory of Social Change* (Homewood, Ill.: Dorsey Press, 1962) has put forward the thesis of "deviance" from the general cultural pattern as a casual factor in entrepreneurship. It is tempting to apply this thesis to the Parsee. But in view of the fact that Hagen's thesis fails to explain the lack of entrepreneurship in several "deviant" groups like the American negroes, it will be fallacious to accept it as the basis to explain the business behavior of the Parsees. For a masterly critique of Hagen's thesis, see Alexander Gerschenkron, *Continuity in History and Other Essays* (Cambridge, Mass.: Belknap Press of Harvard University Press, 1968), pp. 368-74

²² Ranchhodlal Chhotalal, for instance, remained an orthodox Nagar Brahman till the end of his life who would not eat food cooked by a non-Brahman.

²³ The Jains of Ahmedabad entered the textile field only in the late 1870s. Other Vaisya groups who dominate the Ahmedabad textile industry today did not enter the field till the 1890s. For a good treatment of the Chettiars, see Shōji Itō, "A Note on the 'Business Combine' in India—with Special Reference to the Nattukottai Chettiars—," *Developing Economies*, Vol. 4, No. 3 (September 1966).

Some of the famous business houses of today—the Birlas, the Dalmias, the Goenkas, Juggilal Kamalapati, Walchand Hirachand—really developed during the inter-war years. They entered sugar, cement, textiles, construction, chemicals, newspapers and publishing, and a host of other fields. Simultaneously, non-Vaisya ventures continued to be established. Gujaratis of all castes started a host of firms in a variety of lines, the Patidars, a landholding community, being the most prominent. The members of this community established Amin and Mafatlal enterprises which are among the most important business groups today. Likewise, the Thapars started paper and sugar mills in the north and the Mahindra family went into the manufacture of various engineering products. The founders of these groups were Khatri who trace their descent from the ancient Kshatriyas. At the same time, Indra Singh, a Sikh, launched several enterprises in the engineering and textile fields, and far down in the south, the Seshasayees, Brahman by caste, established their reputable firm of electrical engineering.²⁴

The infrastructural changes, and more particularly the demands for indigenous products created in the wake of the Second World War, led to the emergence of new opportunities. Consequently, by the time India attained freedom, religious inhibitions against business activities had been considerably weakened, the backbone of occupational immobility had been broken, and the outlook of the so-called business communities had broadened. India, thus, was ready for a new leap forward into entrepreneurship.

The new confidence which independence generated, the facilities which the national government provided for indigenous ventures, and the qualitative changes which the planned economy brought about gave a further push to entrepreneurial upsurge. It is noteworthy that, notwithstanding its bitter complaints against the governmental policies, the private sector made considerable progress in the years after independence. While the established business groups responded to the new opportunities by diversifying their activities and entering into foreign collaboration to exploit the relatively less familiar fields, others, till then little interested in such activities, began to make forays into business undertakings of a diverse nature.²⁵ Several researches related with different regions of India have indicated that during

²⁴ Some data on the development of such firms can be had from [6]. Also see G. D. Khanolkar, *Walchand Hirachand* (Bombay: Walchand & Co., 1968) and B. D. Amin, *The Rise and Growth of the Alambic Chemical Works: A History* (Baroda: Alambic Printing Press, 1939). The author is grateful to Seshasayee Brothers for information on their firm. For other communities including Marwaris, see Thomas A. Timberg, "Industrial Entrepreneurship among the Trading Communities of India: How the Pattern Differs," mimeographed, Harvard University Development Advisory Service, Report No. 136 (Cambridge, Mass., 1969) and Thomas A. Timberg, *The Marwaris* (New Delhi: Vikas Publishing House, 1977).

²⁵ Though a few firms had entered into foreign collaboration even before freedom, it was only after the launching of the Second Five-Year Plan, that collaboration became a marked phenomenon in Indian industry. This is evidenced by the fact that whereas the number of agreements was limited to 20 in the financial year 1956-57, it increased to 338 in 1963-64 (P. K. Shrivastava, *Foreign Collaboration in Indian Industry* [Agra: Shivlal Agrawal & Co., 1967], pp. 17-23). *Economic Times*, November 30, 1964, taking the calendar year for reference, gave slightly different figures. For several related issues, see R. K. Hazari, ed., *Foreign Collaboration: Report and Proceedings of the Seminar Held by the Centre for Advanced Studies* (Bombay: University of Bombay, 1967), *passim*.

the post-freedom era, the entrepreneurial class transcended, more convincingly than ever, the barriers of caste.²⁶ It is significant that out of the eighteen largest Indian business groups during the 1950s (excluding two foreign groups) as mentioned by R. K. Hazari, as many as nine were developed by people who did not belong to the so-called business castes.²⁷

VI

The above survey presents a somewhat simplistic application of what I have called the multi-factor approach. This line of reasoning and the available data, which admittedly are scanty and fragmentary, suggest the following three hypotheses which seem to be at a variance with the commonly held views.

First, the British rule, on balance, had a positive influence on the Indian entrepreneurial behavior. Under the impact of the changes in the material constellation, and as a result of the contact with the superior entrepreneurial activities of the British, the Indians started enterprises covering far greater risks than ever in the past, and displaying a keener sense of entrepreneurial initiative. Also, as the environment became more and more favorable, the enterprises which had made humble beginnings expanded themselves into sizeable industrial empires by taking advantage of new opportunities—an exercise in entrepreneurial continuum. I do not suggest that the policies of the British government deliberately encouraged

²⁶ James J. Berna S. J., for instance, has concluded that industrial entrepreneurs in Madras State, during the period of his study (1957–58), came from “extremely varied economic and social backgrounds” (James J. Berna S. J., *Industrial Entrepreneurship in Madras State* [Bombay: Asia Publishing House, 1960, p. 212 and Chap. 6]). David C. McClelland and David G. Winter in the course of running a training program in achievement motivation at Kakinada, Andhra Pradesh, found little support to the view that value systems hampered entrepreneurial motivation (D. C. McClelland and D. G. Winter, *Motivating Economic Achievement* [New York: Free Press, 1969], pp. 289–93). Taking the Umar caste of U.P. as a case study, Richard B. Fox has concluded that caste organizations succumbed to social and material changes (R. B. Fox, “Resiliency and Change in the Indian Caste System: The Umar of U.P.,” *Journal of Asian Studies*, Vol. 27, No. 4 [August 1967]). A case study of Malabar suggests that in the face of feeble growth stimuli, occupational immobility would act as a formidable barrier to development (Thomas W. Shea, Jr., “Barriers to Economic Development in Traditional Societies: Malabar, A Case Study,” *Journal of Economic History*, Vol. 19, No. 4 [December 1959] and James T. McCrory, *Small Industry in the North Indian Town: Case Studies in Latent Industrial Potential* [New Delhi: Government of India, Ministry of Commerce and Industry, 1956]).

²⁷ See [6, p. 17] for the list. Out of the twenty groups that Hazari has listed, two—Bird Heilger, and Andrew Yule—were promoted and developed by the British. The Martin Burn was also promoted by the British, but an Indian, R. N. Mookerjee, played a significant role in its development. I have, therefore, included this among the Indian groups for the purpose of this analysis. Out of these eighteen groups, while Tata, Birla, Dalmia and Sahu Jain, Shri Ram, J. K., Kasturbhai, Walchand, Bangur, and Shapoorji belong to the so-called business castes or communities, the remaining nine—Martin Burn (because of Mookerjee’s involvement who was a Brahman), Thapar (Khatri), Mafatlal (Patidar), Ramkrishna (Kamma, a landowning community), Indra Singh (Sikh), Mahindra (Khatri), Seshasayees (Brahman), and Khatau (Bhatia) belong to the so-called non-business castes or communities.

Indian entrepreneurship. On the contrary, many of the positive influences were unintended by-products of the policies formulated and the activities undertaken with a view to achieving the imperialistic end of the rulers. But this is beside the point. What is important is that during the raj, both as a result and in spite of it, there were qualitative changes for the better on the entrepreneurial horizons of India. What would have happened if the British had not ruled the country for so many decades is one of those complex questions which cannot be answered without accomplishing the impossible task of making the course of history rerun.

The second hypothesis which this paper suggests is that the religion and culture of India did not inhibit the entrepreneurial activities as much as it is commonly believed. Exactly as it happened in other societies, the cultural and religious values of India were constantly reinterpreted to suit the changes in the material environment, and the strength or weakness of these values to prevent entrepreneurial evolution was in direct proportion to the strength or weakness of the material environment to create a disequilibrium situation. In other words, as the infrastructural changes pointed to the new avenues of profits, the religious inhibitions and the value systems sanctified by the scriptures and traditions were either compromised or readapted to break the occupational immobility. That it happened very gradually and the traditionally non-business groups were slow to partake of entrepreneurial ventures is no evidence in favor of the sociological theorist. What it proves is that the constellation of forces changed but slowly and therefore the entrepreneurial cauldron took a long time to warm up.

The third and a natural corollary of the second hypothesis is that the so-called business communities of India lagged behind the non-business groups in the field of entrepreneurial initiative. The Parsis were a notable exception. But their superior entrepreneurial behavior was, as suggested earlier, more a consequence of their exposure to new ideas and their contact with the British entrepreneurs than an outcome of their community background. On the whole the available data indicate that at practically every watershed of Indian industrial history the groups or individuals, which according to the Hindu caste system ought not to have indulged into business activities, plunged into entrepreneurial waves more readily than those who were already settled in traditional lines. It is true that some of the early initiators of industrial ventures or their descendants, belonging to the so-called non-business groups, lost their hold or interest in their enterprises at later stages. Why it happened is a question which can be answered only after more searching enquiry in each case than is possible at the present state of our knowledge.

This paper has attempted to raise questions about the existing approaches rather than sought to provide definitive answers. It is not improbable that a more intensive search into the industrial past of India may lead to the modification of my hypotheses. But the misgivings I have raised with regard to the existing approaches to the study of Indian entrepreneurship are, it seems to me, sufficient reasons to embark on a new line of enquiry—informed by multi-factor analysis.

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