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Transfer of Economic Power in Corporate Calcutta 1950-1970

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Abstract

Between 1950 and 1970, the ownership of some of the largest business conglomerates in India changed from British to Indian hands. Almost without exception, the firms formerly under the management of the conglomerates saw bankruptcy, nationalization, and fall in corporate ranking. In Indian business history scholarship, this episode is under-researched, even though hypotheses on the transfer-cum-decline exist. Combining new sources with conventional ones, the paper revisits the episode, and suggests revisions to the current hypotheses.

Keywords: Colonial India, Development Policy, Managing Agency, Industrialization, Deindustrialization,

JEL Codes: N80, N85, N95, O14

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I. INTRODUCTION

In 1947, when India gained independence from British colonial rule, the corporate world was dominated by twenty odd British firms. Although mainly British owned, these firms were not like "multinational" corporations or MNCs. Unlike the MNCs, they were wholly dependent on their Indian operations. They raised capital and hired top managers from Britain, and sold or re-exported Indian goods in partnership with British firms, but were not directed by a head office located outside India. In business history scholarship, these firms have been referred to as "free standing" company, "trading companies", and perhaps more commonly, as managing agencies, after the legal practice wherein one firm (usually a partnership) managed other firms (usually publicly held) by means of a contract.[1] I prefer to use the term Indo-British companies. With a few exceptions, the Indo-British companies were highly diversified conglomerates, with interests in manufacturing, services, plantations, and commerce. These interests included tea, jute, paper, mining, engineering, inland transport, international shipping, financial services, real estate, agriculture, and trade. With a few exceptions, the firms were based in Calcutta city in eastern India.[2] Most had originated in Indo-European trade of an earlier time, and retained a mercantile interest, or were export oriented and formed partnerships with mercantile firms overseas.

By 1969, these British firms had experienced a transfer of control and ownership to Indians. The transfer of control also coincided with a long-term decline among the firms taken over, sometimes in as short a time as a decade. The whole process seemingly contained two stages, a relative decline in the 1950s and the 1960s, when the firms in question retreated from lists of large conglomerates, and an absolute

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[1] On the history of the British managing agencies, the authoritative history is Maria Misra, *Business, Race and Politics in British India*, Oxford: Clarendon Press, 1998. Important aspects of the context of their emergence are explored in B.R. Tomlinson, "British Business in India 1860-1970", in R.P.T. Davenport-Hines and Geoffrey Jones, eds., *British Business in Asia since 1860*, Cambridge: Cambridge University Press, 2003, pp. 92-116, Geoffrey Jones, *Merchants to Multinationals: British Trading Companies in the Nineteenth and Twentieth Centuries*, Oxford: Oxford University Press, 2000, and from a different regional angle, A.K. Bagchi, *Private Investment in India 1900-1939*, Cambridge: Cambridge University Press, 1972, and Dwijendra Tripathi, *The Oxford History of Indian Business*, Delhi: Oxford University Press, 2004. The co-development of Indian and British firms, especially in industry, is explored in M.D. Morris, 'South Asian Entrepreneurship and the Rashomon Effect, 1800-1947', *Explorations in Economic History*, 16(4), 1979, pp. 341-61; and Bishnupriya Gupta, 'Discrimination or Social Networks? Industrial Investment in Colonial India', *Journal of Economic History*, 74(1), 2014, pp. 141-68.

[2] The city was renamed Kolkata in 2001. I retain the former name (and use Bombay for Mumbai) to make the historical references to these cities and my own references consistent.

decline when the majority of the companies that they controlled or managed became bankrupt. Table 1 below shows that the firms in question lost their dominant position among top conglomerates between 1939 and 1969, and practically became invisible in the following thirty years. There are other figures that tell the same story. Well over two-thirds of the diversified business groups in India around 1955 were British owned and had originated in the nineteenth century.[3] By 2010, the surviving private sector companies that originated in British enterprise did not figure in standard lists of top 500 Indian companies. Two of the largest conglomerates in the 1950s (Bird and Heilgers and Andrew Yule) were nationalized after sustained losses. A number of individual companies were nationalized too. Some were liquidated. Some survive today as little more than an office building in Calcutta. A leading business historian calls the decline "spectacular," referring to the scale and speed with which solvent companies became bankrupt.[4] This dual transition, transfer and fall, is the subject of the present paper.

At the outset, it is necessary to distinguish the Indo-British firms from British MNCs, and clarify that this paper is mainly about the former set, with some references to the second set where the two experiences overlapped. There were a number of British MNCs at work in India during the time-span studied. The majority of the MNCs had Calcutta as their main operational centre. Prominent examples will include Imperial Chemical Industries, Guest Keen and Williams (GKW), Mather and Platt, British American Tobacco (BAT), Dunlop Rubber, and Metal Box.[5] The two decades immediately after independence were not as traumatic for these companies as they were for some of the Indo-British firms. However, in the 1970s, most Calcutta-based British MNCs suffered sustained losses. Between 1978 and 2000, these companies divested their interests in India (GKW), became bankrupt (Metal Box), sold to other multinational firms (ICI and Mather and Platt), and relocated outside the Calcutta region (BAT). In almost all cases, their Calcutta manufacturing units closed down. When we consider the 1970s, the decline of the Indo-British firms and these MNCs

[3] British capital in India was estimated at £300 million, 80 per cent of total foreign business assets in India (1956). S. Garvin, *A Survey for British Industrial Firms*, London: Federation of British Industries, 1956. See also, M.M. Mehta, "Recent Trends in the Managerial, Administrative and Financial Integration of Industrial Enterprizes in India," *Indian Economic Review*, 2(1), 1954, pp. 21-36.
[4] B.R. Tomlinson, "Colonial Firms and the Decline of Colonialism in Eastern India 1914-47," *Modern Asian Studies*, 15(3), 1981, pp. 455-86.
[5] I have drawn on a number of internet resources, including Grace's Guide to British Industrial History, http://www.gracesguide.co.uk/Main_Page (accessed 16 January 2016).

present some similarities. Both sets, for example, suffered due to an unusually violent trade union activity in Calcutta. However, the two processes also differed. The Indo-British firms and the MNCs differed in the nature of their business, the former being more export-oriented and the latter more domestic-market-oriented. Further, the problems the former faced had begun earlier and apparently originated in transfer of control. A possible link between transfer of control and performance is of direct interest to the present paper. It is likely that the decline of the Indo-British firms contributed to trade union violence of the later years, and spilled over into the decline of the British MNCs in Calcutta. But this is only a plausible speculation.

Interest in the subject derives from five larger issues concerning post-independence economic transition in India, Britain, and Asia. First, the occurrence of transfer and decline together raises the question, was there a causal connection between transfer and decline? In corporate folklore of Calcutta it is often said that transfer of control led to asset-stripping and drain of cash resources from otherwise healthy companies. The court case evidence presents credible suggestions that this did happen, though the scale of the process cannot be established. The paper, however, argues that even without outright and deliberate mismanagement, the firms became vulnerable because the transfer process increased uncertainty about the future in all sorts of ways.

Secondly, the episode formed part of a dramatic change in the composition of industrial entrepreneurship in India after independence, raising the question: did business culture change as a result of reconfiguration of capital, and did that influence performance? The transfer process offered an extraordinary chance for mobility to eastern India's largest commercial group, the Marwari traders and bankers. "Marwari" applies to a loose group of capitalists who came to Calcutta from western India (the Marwar region to be precise).[6] Their main business was banking. From this foundation they diversified into commodity trade and share broking around the turn of the twentieth century.[7] With exceptions like Ghanshyamdas Birla, Badridas Goenka, Ramkrishna Dalmia, and Lakshmipat Singhania, few Marwari houses had either become industrial houses or showed an inclination to move in that direction before independence. By 1965, however, over a third of the industrial conglomerates of India

[6] Thomas Timberg, *The Marwaris*, New Delhi: Vikas, 1973; Tirthankar Roy, "Diaspora: Marwari," Oxford Handbooks Online, http://www.oxfordhandbooks.com/ (accessed 20 October 2015).
[7] R.S. Rungta, *The Rise of Business Corporations in India 1851-1900*, Cambridge: Cambridge University Press, 1970.

was Marwari-owned and based in Calcutta. Two of these (Bangur and Surajmull Nagarmull) had risen to prominence almost entirely owing to acquisitions of British firms, and a third (Singhania of Calcutta and Kanpur) had taken significant part in the transfer process.[8] A yet fourth Marwari group from western India, Dalmia Jain, had greatly added to their assets through acquisitions.[9] That these changes wrought a deep transformation in Calcutta's business culture cannot be disputed, but the exact nature of the change and its effects on firm performance have not been researched at all.

Thirdly, could the state do more the safeguard shareholder capital in these firms? More broadly, what role if any did politics play? Indeed, the transfer-cum-decline process should figure in assessments of the developmental state that took shape in the 1950s, because there was a serious attempt by the state to create a new capitalistic order. Because the new business environment was political in origin, a systematic study of this episode offers insight into the effort to remodel capitalism by a new nation state. In other words, the state may have been biased in its treatment of capitalists, favouring some and leaving other exposed to a new challenges with fewer means left at their disposal. Regulatory law may have fallen behind these upheavals. I suggest that both these syndromes materialized.

Fourth, the transfer process changed the complexion of the premier business city of India in 1950, namely Calcutta. Once a major hub of international business, Calcutta experienced a fall of the top companies based in the city, and with the attrition of foreign firms, the city de-globalized, "Indianized," and de-industrialized after 1947. That there was a costly deindustrialization in Calcutta is a well-established fact within a large scholarship that explores the economic decline of West Bengal state.[10] The scholarship does not sufficiently acknowledge the role of corporate enterprise in the process, and underestimates the opportunity cost of the transfer of corporate control in the city. Calcutta failed to play any worthwhile role in the re-emergent Asian trade, as it had done a century before. Between 1950 and 1970,

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[8] Raymond Woollen Mills of Bombay was acquired between 1944 and 1946. Attempts were made to enter at least one Calcutta company.

[9] In 1964, the list of ten "monopoly houses" according to the Monopolies Inquiry Commission 1965-66 included Tata, Birla, Martin Burn, Thapar, Bangur, Sahu Jain, Shriram, Bird Heilgers, JK Singhania and Sarabhai.

[10] A.K. Bagchi, "Studies on the Economy of West Bengal since Independence", *Economic and Political Weekly* (*EPW*), 33(47/48), 1998: 2973-2978, A. Sarkar, "Political Economy of West Bengal: A Puzzle and a Hypothesis", *EPW*, 41(4), 2006: 341-348; D. Banerjee, "Industrial Stagnation in Eastern India: A Statistical Investigation", *EPW*, 17 (8-9): 286-98, 334-40; A. Banerjee, A.S. Guha, K. Basu, M. Ghatak, M. Datta Chaudhuri, and P. Bardhan, "Strategy for Economic Reform in West Bengal", *EPW*, 38(41), 2000: .

Singapore and Hong Kong attracted a great deal of the mobile international capital in trade and services working in the region. The retreat of international business ruled Calcutta out as a potential destination for mobile capital. The impression is confirmed when we see that some of the firms that left Calcutta invested money elsewhere. The expansion of the tea industry in East Africa, for example, was helped by firms contracting their Calcutta operations.

Table 1. Assets of Indo-British Companies as Share of Assets in Top 25 Business Groups (%)

Year	1939	1969	1997
Indo-British group companies	47	14 (27)	0 (2)
Indo-British group companies of Calcutta	37	14 (27)	0 (2)
Firms of Calcutta in top 25 firms of India	39 (including Birla)	30-33 (depending on allocation of Birla assets)	9
Names of groups	Martin Burn, Bird, Andrew Yule, Inchcape, Sassoon, Begg, Jardine, Wallace, Duncan, Finlay, Killick, Kilburn, Brady, Steel, McLeod	*Martin Burn*, *Bird Heilgers*, Macneill Barry, Andrew Yule (Surajmal-Nagarmal/McLeod, *Bangur/Kettlewell Bullen*, Mehta/Jardine Henderson, Goenka/Duncan and Octavius Steel, Killick/Ruia)	(Williamson Magor/Khaitan)

Notes: In brackets, including Indian owned groups whose asset mainly consisted of the assets of formerly Indo-British firms. Italicized indicates enlisted as "monopoly" in 1965-6 Monopolies Enquiry Committee. The Birla group, which was the most industrialized and diversified before independence, and possibly gained the most from the industrial licensing system introduced in post-1947 India, was formally united in 1969 with its base in Calcutta. However, the group was expanding mainly outside Calcutta between 1939 and 1969. It divided into three separate groups by 1997. 1969 figure treats the group as Calcutta-based. In 1997, the Calcutta branch was small in relation to the rest of the group and in general corporate ranking. Raw data taken from Tarun Khanna and Krishna G. Palepu, "The Evolution of Concentrated Ownership in India: Broad Patterns and a History of the Indian Software Industry", in Randall K. Morck, ed., *A History of Corporate Governance around the World: Family Business Groups to Professional Managers*, Chicago: University of Chicago Press, 2005.

The fifth point of significance concerns global history. Forced exodus and dispersal of capitalists was a common phenomenon in the mid-twentieth century. Dutch plantation capital in Indonesia saw their firms taken over by the state (December 1957) after independence became effective, and some moved towards Latin America and Africa. Dutch trading firms relocated to Europe and North America.[11] There was divestment in tea in Sri Lanka after independence in 1948.[12] The effect upon the industry had parallels with the Indian counterpart. "An outcome of this transfer of control from sterling companies to Ceylonese ownership has often been a fall in their agricultural condition and output per acre."[13] Overseas Chinese merchants and bankers, who had either lost assets (such as tea land) in China or lost status in China after the revolution, were a factor in the emergence of Singapore as a business hub.[14] During the Chinese civil war entrepreneurs and bankers migrated to Hong Kong.[15] These and other examples like the dispersal of Burmese Indians in 1962 and Ugandan Indians in 1972 suggest that dispersal of business under pressure were an integral part of mid-twentieth century ethnic nationalisms in Asia, and that these episodes influenced the trajectory of capitalism both in the countries of origin and in the regions of destination of fugitive capital. To one interested in these dispersal processes, as well as one interested in the effect of the attrition on the subsequent evolution of capitalism in the "home" countries, the paper may have some interest.

The paper addresses the first of these four issues, was there a causal connection between transfer and decline? The main obstacle to researching the episode so far has been the scarcity of documentary sources. The parties who took over control of transferred firms left little paper trail.[16] Oral history can be of little use now, because the generation of Indian and British managers who were senior enough in the 1950s to have a ringside view has passed. Sponsored company histories

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[11] Wytze Gorter, "Adaptable Capitalists: The Dutch in Indonesia," *Social and Economic Studies*, 13(3), 1964, pp. 377-382.
[12] N. Ramachandran, *Foreign Plantation Investment in Ceylon 1889-1958*, Colombo: Central Bank of Ceylon, 1963.
[13] Ibid., p. 169.
[14] Jason Lim, *Linking an Asian Transregional Commerce in Tea. Overseas Chinese Merchants in the Fujian-Singapore Trade, 1920-1960*, Leiden and Boston: Brill, 2010, pp. 154-8.
[15] Catherine Schenk, "The Economic History of Hong Kong", EH-Net. https://eh.net/encyclopedia/economic-history-of-hong-kong/ (accessed on 21 October 2015).
[16] The websites of the surviving firms offer little or no information on their heritage. A pleasant exception is the Assam Company, see http://www.assamco.com/.

normally end around 1960, and talk about the process if the transfer was negotiated, and then in a sanitized way. The obstacle can be overcome to some extent by making a systematic use of the business papers stored in the British archives. The task is daunting in itself. Further, the coverage therein of the 1950s and 1960s is uneven. The confidential reports and proceedings of chambers of commerce representing the interests of British firms, and reports published in newspapers and business journals of the time, are also promising and remain little used for the purpose. But these are more informative on the environment than on the firms themselves.

Pending a future project to use all available material to the fullest extent possible, the present article makes use of another resource, judgments of Indian High Courts in cases concerning transferred firms. The judicial cases are useful first because these often did outline a narrative history of the firms. Given the fact that there was little either in the public or the private domain describing the mechanism or the intention behind transfers, the judges and lawyers were constrained to reconstruct a story from witness statements. In the judgments, therefore, we come as close to contemporary testimony as we possibly can today. The court cases are also valuable to show where law stopped short. They show the border between legality and illegality in the actions of the parties, and acceptable behaviour and malfeasance in the conduct of the state officers in charge of protecting shareholder interests. The cases show that in many instances the border was drawn *after* transfers had occurred.

It is useful to begin with a statement of the main conclusions of the paper. I make two broad generalizations based on the material surveyed. First, whereas business historians have sometimes projected the transfer-cum-decline as a failure of the foreign capitalists to adapt to new India, I will suggest that post-independence India created a business environment that was incompatible with their survival. A key element in their operation, open factor markets, was more or less destroyed by the Indian state; and scope for opportunistic capture of assets was created by failure of law, adverse regulation, and political sentiment. My second generalization is offered in partial qualification of the above. I suggest that the manner of transfer and subsequent restructuring reveals differentiation between firms and groups. One story does not fit all firms. In particular, there were significant if exceptional cases of positive adaptation after transfer, which should alert us against taking a “decline” narrative for granted.

The rest of the paper is divided into four sections. The next section discusses historiography and the sources used for the present paper. The two sections that follow present a chronological account of the cases of transfer of control and show differences between industry and time. The fourth section interprets the evidence, with particular reference to the major factor – state policy – external to the firms. The last section concludes with a few remarks on how factors internal to firms and factors external to them interacted in the process of transfer and led to a varied outcome

2. HISTORIOGRAPHY

In business history scholarship, the retreat-cum-decline of Indo-British firms has been explained with reference to two types of causes. One of these can be called internal, that is, specific to the firms and the people who managed them, and another external, or specific to the environment. Furthermore, there are three varieties of internal explanations, which refer to managerial conservatism, loss of market power due to the Great Depression, and transfer of ownership of industrial firms from manufacturers to traders.

The first set of explanations blames the managers and owners for not being adaptable enough. "The continuing social conservatism of the managing agency firms," Misra writes, "was combined with their traditional investment strategy [to make them] generally less innovative than Indian firms."[17] Authors of the magisterial *Oxford History of Contemporary Indian Business* too suggest that the transfer-cum-decline was an inevitable outcome of endogenous failings. "[T]he expatriates ..had become something like an anachronism in free India .. their end lay in the logic of history."[18]

A second set of explanations builds upon the hypothesis that specific episodes exposed structural weaknesses in entrepreneurship. Criticising "ossifying entrepreneurial attitudes," Tomlinson stresses the problem of resource. Because of growing shortage of capital in the interwar period, which turned into a short-term crisis during the Depression, the "formal" corporate firms were forced to rely more on informal indigenous banking capital, bringing the two sets of actors closer. The induction of Marwaris in the board was consistent with that tendency. Timberg points

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[17] Misra, *Business, Race, and Politics*, p. 204; and Michael Kidron, *Foreign Investment in India*, Oxford: Oxford University Press, 1965, p. 60.

[18] Dwijendra Tripathi and Jyoti Jumani, *Oxford History of Contemporary Indian Business*, New Delhi: Oxford University Press, 2012.

out that the Marwaris were bankers, and had access to large volumes of liquid wealth, which made some of them readier than others to make quick predatory moves in the share market.[19] For the European managers of the firms targeted, cash resources were limited, tied up in corporate banks, and defensive action in the stock market would have required a slower and more complicated action plan.

Goswami combines endogenous inefficiency with the increasing threat of takeover from within to hint at a reason for eventual decline. About half a dozen Marwari individuals were present in the boards of a number of Indo-British companies about 1940, whereas a generation before, the boards had tended to be wholly European. A browsing of large jute- and tea-based conglomerates around 1940 shows that six names figured in the boards of a number of these, which were Gokulchand Bangur, Onkarmal Jatia, Champalal Jatia, K.P. Goenka, Radha Kisen Kanoria, and C.L. Kanoria.[20] What their presence in the boards meant remains open to interpretation. According to Goswami's own interpretation, the dependence upon indigenous financiers and the induction of Marwaris in the boards grew because the foreign firms, or at least some of them, had become "inefficient, cash-strapped managing agencies that had lost the battle."[21] In other words, Indians in the boards represented an unstoppable fall of the companies.

The endogenous decline explanation takes on a larger dimension in the hint that these firms were too dependent for their survival and wellbeing upon imperialism, and their economic power in fact derived from political patronage in a crucial way.[22] When India gained independence, their fall was inevitable.

A third set of explanations focuses on the new owners. In the majority of instances, control went from British to Marwari hands. Why might that lead to porr performance of firms? Rungta, the author of a well-known business history book on India and a Marwari himself, believes that the community as a whole is characterized by "proverbial love for speculation."[23] Industrial management was not the core competence of the community until then. Another leading historian writes that "most

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[19] Timberg, *The Marwaris*.

[20] Based on "Jute Reports" prepared by the Calcutta broking firm J. Thomas and Co for internal circulation; I am grateful to J. Thomas and Co for access to these reports.

[21] Omkar Goswami, "Sahibs, Babus, and Banias: Changes in Industrial Control in Eastern India, 1918-50," *Journal of Asian Studies*, 48(2), 1989, pp. 289-309.

[22] The role of racialist sympathy in business success is emphasized in A.K. Bagchi, "Introduction: Money, Banking and Finance in India", in A.K. Bagchi, ed., *Money and Credit in Indian History*, Delhi: Tulika Books, 2002, pp. ix-xli.

[23] Rungta, *Rise of Business Corporations*, p. 166.

of the new Indian owners had been speculators and traders, with little experience of the running of large manufacturing plants, and few of them seem to have put in a major effort to learn the production side of the business."[24] The statement echoes the Marxist class analysis that was common in business and economic history scholarship in India in the 1970s. The long shadow of the class approach is illustrated in a more recently written article, which suggests that the decline had owed to control passing on to "industrialists possessing characteristics that reflected their background of engagement in non-industrial activities."[25] Without quite mentioning "Marwari", statements like these hint at who might be responsible.

As for external or environmental factors, several authors note that independence and a new policy setup made many of these houses apprehensive and possibly more willing to divest.[26] Tripathi and Jumani believe that a new Company Act (instituted in 1956, implemented in 1960) and a new industrial policy affected the expatriate firms adversely.[27]

Neither the endogenous decline nor the external inducement thesis is completely satisfactory, however. To begin with, none of the studies cited above presents a systematic account covering the years when the transfer-cum-decline peaked - the 1950s and 1960s – using evidence specific to these times and the firms in question. Secondly, problems exist with all of these explanations. Take managerial conservatism. Conservative is a strange epithet to apply to firms that had been around for over a century, and which started their enterprise at a time when trade, agency and information costs were very high.[28] Moreover, British conservatism would be acceptable as a theory of transfer if after transfer to Indians, the firms improved performance. In fact, they went bankrupt quickly after transfer.

Episodic explanations – by which I mean attribution of decline to two things, the Depression and/or independence – do not convince either. The British Empire was no doubt a crucial factor to the profitability of these firms because the empire held

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[24] Bagchi, "Studies on the Economy of West Bengal".
[25] Nasir Tyabji, "The Politics of Industry in Nehru's India," unpublished conference paper, Nehru Memorial Museum and Library, New Delhi, 2015.
[26] Misra, *Business, Race, and Politics*, p. 204. Misra's main focus is on the colonial era, not the postcolonial one.
[27] Tripathi and Jumani, *Oxford History of Contemporary Indian Business*.
[28] A recent work explores the complex and differentiated institutional response to these costs in the mid-nineteenth century, Michael Aldous, "Avoiding 'negligence and profusion': Ownership and organization in Anglo Indian trading firms, 1813 – 1870," PhD dissertation, London School of Economics and Political Science, 2015.

together an open market for commodities, capital, and skills. In principle, openness has nothing to do with the empire as such, and can be maintained without it. Did the empire also help these firms with direct patronage or distribution of privileged access to markets and resources? This is a harder claim to sustain. No study exists to show how race and empire were institutionalized to give expatriate industry a competitive advantage over Indian rivals. The company histories that exist do not suggest that the colonial government distributed favours. The experience of industrialization in Bombay or Ahmedabad would show that race and empire did not pose obstacles for Indians.[29] Tomlinson argues that the evidence to show that the firms prepared to leave early when independence became an accomplished fact is thin.[30]

The connection between a shift in business strategy around 1930 to tide over shortages of cash and eventual bankruptcy is tenuous. There is no compelling evidence to suggest that the cash shortage could not be overcome. The relevance of induction of leading Marwari capitalists into the boards has never been established. In principle, proximity and convergence between two groups of entrepreneurs bringing in distinct expertise can explain partnership; it does not explain either transfer of control or adverse performance of firms. Proximity between Indians and Europeans can be an asset rather than a threat or a burden for a corporate firm trying to adapt to new conditions. If it led to distrust and opportunism, that turn of the events needs to be explained. The presence of Marwari names like Kanoria, Jatia or Bangur in the boards as such does not suggest a definite pattern of relationship between Indian and European capitalists, let alone a dysfunctional relationship. Their presence in the boards of a diverse set of companies may as well as suggest the start of a strategic partnership rather than an unwanted dependence forced by circumstances, as Goswami seems to suggest.

Whereas a Marxist-type class-based approach renders a detailed study of companies and entrepreneurs redundant, this paper will show that in fact the new owners were too differentiated to be clubbed together into a class. A further problem with the approach is its theoretical assumption, which has little more basis than Karl Marx's own assertions, that traders would be poor industrialists. For that matter, most Indo-British firms emerged from a foundation of trading.

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[29] On how the environment made a difference to capitalist evolution, see Gijsbert Oonk, "The Emergence of Indigenous Industrialists in Calcutta, Bombay, and Ahmedabad, 1850–1947," *Business History Review*, 88 (Special Issue 01), 2014, pp. 43-71.
[30] Tomlinson, "British Business."

There is much truth in the view that the corporate crisis was in part induced by external forces. Stories of adverse changes in business environment abound also in the large scholarship on deindustrialization of West Bengal. These stories identify a variety of factors that had adverse effect on Calcutta's industrial firms, from leftist trade union politics, to a central government policy known as "freight equalization", to the discovery of polymer packaging to replace jute sacks, to the silting of Calcutta port.[31] In political discourse, New Delhi's "step-motherly" treatment of West Bengal is blamed for the latter's deindustrialization.[32] Some of these theories (such as freight equalization) are popular among Bengali economists who wonder at Calcutta's staggering fall in the corporate world of India, and whose leftist sympathies make them shy of blaming violent trade unions for the fall. The agency of these external shocks has not been seriously tested with business history evidence, however. I have not come across a single statement made by a company representative that its reason for leaving Calcutta or closing down plants there was the freight equalization policy.

Whatever else these factors explain they do not supply a sufficient account of either transfer of corporate control or of corporate decline. Inferring corporate decline from changes in markets or resource costs is problematical because neither history nor theory suggests that the two things are necessarily and causally connected. When markets turn bad, companies do not necessarily turn bad. A number of alternative scenarios exist, variously called "strategic flexibility", "turnaround and strategic restructuring", "endgame" scenario, or "creative destruction".[33] If shocks do lead to mass attrition of capital, the causal chain needs to be established rather than presumed.

Furthermore, leaning on either factors internal to the firm (conservatism, anxiety over 1947) or factors external to the firm (Company Act, industrial policy) leaves unanswered the question of how these two sets of factors became interdependent. Settling that point requires us to develop a chronological account of firms caught up in the transition. The chronological narrative begins with a set of

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[31] The freight equalization policy (1952-1993) offered compensatory subsidies to factories for different transport costs on minerals. Eastern India produced some of these minerals.

[32] "The Left Front [the ruling coalition in West Bengal state between 1977 and 2011] has consistently argued that the 'de-industrialization' of Bengal .. is a consequence of the step-motherly treatment meted out to the state by hostile governments in New Delhi." Paranjoy Guha Thakurta and Shankar Raghuraman, *Divided We Stand: India in a Time of Coalitions*, New Delhi: Sage Publications, 407.

[33] Igor Filatotchev and Steve Toms, "Corporate Governance, Strategy and Survival in a Declining Industry: A Study of UK Cotton Textile Companies", *Journal of Management Studies*, 44(2), 2003: 896-920.

episodes that are best described as shock acquisitions, a type of transfer which left the owners, managers, the state, and the judicial system unprepared to cope.

II. 1943-60: SHOCK ACQUISITIONS

The Great Depression left most trading firms in a weaker position than before. The Partition of India was again bad news for the jute industry, because the jute cultivation zone went to East Pakistan. Inland navigation was affected adversely. An illustrative case is the Rivers Steam Navigation Company managed by Macneill and Barry (see Appendix for details on selected managing agency houses). The company saw a great deal of its custom and some of its assets lost, first due to the Partition, and later, the India-Pakistan war of 1965.[34]

Along with these specific problems, there was a more general one. The Government of India wanted the companies to do more to Indianize both shareholding and senior managerial cadre. Exchange control policy announced in 1947 directed foreign firms to divest up to 25 per cent of the shareholding. The order induced some firms to recruit Indian partners, and others to look for ways to reduce Indian operations. The process was carried out in a hurry, and rather like a forced marriage, may have pushed some owners towards making alliances with individuals they did not totally trust. In this scenario, the border between friendly partnership and predatory takeover was not distinct. Some companies did become defunct because of the Partition and the World War.[35] More generally, all had their defences down.

There were a series of high profile takeover bids. The firms targeted consisted of two segments, a managing agency company usually formed of a partnership, and a string of companies managed by the agency, where the agency firm had varying stake.

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[34] The company came into the Inchcape group in 1960, with which the Government of India entered an agreement. The Government purchased shares in the company, but already the crisis had driven the managing agent Macneill and Barry into a financial crisis.

[35] A telling case is that of the British Burma Petroleum Co. Ltd. The company carried on the business of prospecting for, refining, producing and dealing in petroleum and other mineral oils in Burma from its inception in 1910 to 1942. In the beginning of March 1942, the British pulled out of Burma and Japanese forces occupied the territory. Before pulling out the British army blew up and destroyed the installations of the company as a part of its scorched earth policy. The company claimed compensation for the loss from the British Government. But before any money was paid, the British Parliament passed the War Damage Act, 1965, abolishing the right to compensation. Between 1942 and 1965 the company carried on no business. In 1965, one Jagdish Kapadia, shareholder, gathered a number of proxies and ousted the owners from the board. With the cash reserves of the company, the Kapadia group acquired the shares of National Rayon Corporation Ltd. and Killick Industries Ltd. The Killick Industries Ltd., in turn, were the managing agents of about seven other companies and had a few more companies as subsidiaries. British Burma, however, was a special case. Rajan Nagindas Doshi and another. vs British Burma Petroleum Co. Ltd. 30 June 1971.

Since the agency contract ensured control, the agency firm did not usually worry about the level of stake. There were two common strategies in the takeover process. An individual would buy shares to become the director of a managing agency firm, thus gaining indirect control of firms managed by the agency. The more common strategy was to buy a controlling stake in a managed company, and then influence the board to change the managing agency contract in favour of a firm controlled by the new owner. Both of these routes required the person taking over to have close ties with stock-brokers.

The spate of acquisitions in this time had five other features that deserve notice: (1) not all transfers were hostile; (2) all transfers required the transferee to command liquid wealth or substantial credit in the informal money market, which made the Calcutta's Marwaris well placed; (3) when hostile, transfers generated conflicts within the board, and among rival shareholders or rival bidders; (4) whether hostile or mutual, transfers in the 1950s tended to involve firms that were already vulnerable by the war and/or showed signs of a lack of resolve to carry on in India; and (5) there was no documentary evidence of change in business policy after the transfer of control, but hints towards that effect abound. The visible effect of transfer was movement of cash wealth from one firm to another. This strengthens the hypothesis that the decline owed to developments *after* transfer, and had no prehistory.

The stock market side of the transaction played an important role in Calcutta. In almost all cases, the acquisition was done via front companies that did share-broking, so that the transaction itself could be made to look like a routine investment by a broker firm rather than a takeover bid. On several occasions, the purchase was done at above market price, and the sale to the person instigating the takeover was done at below the market price. The resultant loss was shown as a capital loss by the broking firm. This procedure drew the adverse attention of the income tax commissioners. The judicial process disallowed the tax credit but let the broking firm off.[36] Seemingly, the law could not challenge ties between stock market insiders and

[36] This mechanism was first debated in the court in the 1950s when Ramnarain and Sons, a share broking firm of Bombay acquired the controlling stake in Dawn Mills, owned and managed by the David Sassoon group during a planned move by the latter to leave India. The difference in the purchase and sale price was shown as a loss, successfully challenged by the tax commissioner. M/S. Ramnarain Sons Private Ltd. vs Commissioner of Income Tax. 5 December 1960.

industry raiders. This can be seen as a failure of law or as a structural feature of Indian industrialization that British Indian law did not keep up with.

The first cluster of examples relate to the Dalmia Jain house. Ramkrishna Dalmia was the group's head. But control in the acquired companies was shared and sometimes passed on to the relations and associates known as the Jains, mainly Shanti Prasad (S.P.) Jain. Dalmia in the 1930s had emerged as the head of a conglomerate with interest in sugar in north India, but which included cement, textiles, and insurance businesses. The acquisition drive may have begun within the core areas of the group, sugar, with the British owned Pursa Ltd.. Pursa had existed in Bihar from 1905. Dalmia Jain group had conversation in 1942 with the directors of Pursa who lived in England about sale of shares. In December 1943 the sale was effected. The deal went sour because the company's warehouse had a quantity of unsold sugar, the ownership of which was not clearly specified in the contract. It was believed that Pursa had not been running its machines for several months before the deal, nor was it working in the sugarcane crushing season of 1943. Perhaps the war more than impending independence was the immediate motivation to sell.

The next move went in a novel direction. In October 1944, "some persons called the Dalmia-Jain Group acquired more than half the number of ordinary shares" of Lothian Jute Mills Company Ltd., a company under the managing agency of a big Calcutta firm Andrew Yule. In March 1945, in a meeting of the board of directors, the pro-Yule director David Ezra was defeated and removed from the board by the shareholders. He was replaced by Rameshwar Prasad Bajoria, the nominee of the new owners. The move had followed a concerted attempt to stall the Dalmia Jain takeover by the four pro-Yule directors, one Cumberbatch, Ezra, Satya Charan Law, and Champalal Jatia, and it led to a High Court suit and an appeals suit seeking to reverse the decision. The appeal was dismissed in 1949.

In May 1945, S.P. Jain, director of Shri Krishna Gyanoday Sugar Ltd. which owned factories in Bihar, advanced a loan of Rs. 3.1 million to Dalmia Cement and Paper Marketing Ltd. for purchasing shares of New Central Jute Mills Co. Ltd. The latter purchased the first lot of shares of the jute company at Rs. 675, against the market rate of Rs. 603. Between May and November, sufficient quantity of shares had been purchased for Jain to enter the board of directors of the jute company. By August 1947, these shares were transferred to the sugar company, which sold these in June

1948 to Dalmia Investment Ltd., which resold these to Jain.[37] By then the market price of the jute company's share had fallen more than 20 per cent, so that the sugar company had made a loss. The process of transfer came to light because the tax commissioner refused to accept the loss as a revenue loss. Between 1945 and 1947, Jain had acquired also the Albion Jute Company. Like Lothian, New Central and Albion were Andrew Yule concerns.

The managing agency Begg Dunlop was taken over in July 1947 through stock market raids, and in 1948-49 was wound up, possibly merged with the related agency, Begg Sutherland. Two months after the takeover, while the old board still functioned, H.G.G. Mackay, director of the firm, was discharged from service with an unusually large severance payment. This was done by the old board in the backdrop of moves made by the new owners to insert their own people in the board.[38] The payment was shown as a business expenditure, which the tax authorities challenged. There were several more examples of such payment, which were seemingly instances of capital flight. In 1947, Dalmia acquired controlling stake in Bennett, Coleman Ltd, the company that owned the *Times of India*, India's leading English language newspaper, using cash reserves of the insurance business. The transaction became infamous, but the acquisition was not challenged. Dalmia, however, had to transfer control to the Jains a few years later.

Lothian showed how takeovers could lead to conflicts among rival shareholding groups, which did not always form of Europeans. In another takeover case from the early-1950s, we see this rivalry come out in the open. One of the earliest instances of a large-scale transfer of control occurred between Kettlewell Bullen and Magneeram Bangur and Co. in 1952. Kettlewell Bullen had managing agency contracts in Fort Gloster Jute Manufacturing, Bowreach Cotton Mills, Fort William Jute, Dunbar Mills, Mothola Co., and Joonktollee Co., the last two being tea companies. It resigned as the agent of the Fort William Jute Co. in 1952, on a sale of the firm to Mugneeram Bangur & Co. It is not clear whether the transfer was mutual or the result of a hostile takeover. Having taken control of Fort William, Bangur, through share brokers working for him, started buying up shares of Fort Gloster Jute. The Company, however, already had some holding by a rival, Lakshmipat Singhania.

[37] Commissioner Of Income-Tax vs Shri Krishna Gyanoday Sugar Ltd. 17 October 1963
[38] Liquidators, Begg Dunlop and Co vs Commissioner of Income-Tax, 3 April 1962.

The battle ended up as one between two rival claimants to the control of a company more or less abandoned by the Europeans.[39]

Unlike Ramkrishna Dalmia, Haridas Mundhra was an unknown entity when he started acquisitions.[40] The manner of these acquisitions remains shadowy, except that most of these were done between 1947 and 1956. In 1956, the major group companies included a pharmaceutical company Smith Stanistreet, the structural engineering firm, Richardson and Cruddas, and the shipping firm Turner. The firms went bankrupt in a short time. Richardson and Cruddas was nationalized. The British India Corporation of Kanpur, where Mundhra and Dalmia Jain shared control, collapsed in the late-1950s.

Turner Morrison illustrates the lessons this section began with quite well. Turner Morrison was a Calcutta managing agency engaged in inland shipping. Between 1951 and 1953, when it was still owned by the Turner family (John Geoffrey Turner and Nigel Frederic Turner), the company made large payments to four of its senior directors ostensibly to retire them (that is, before expiry of contracts) and bring in young blood into the management. The company charged these as business expenditure. The prosecution, the tax authority, alleged that "the payment of compensation to the manager was being made not for the purposes of the expedient conduct of the business of the assessee but for the winding up of that business. The assessee was going to close down the business." In short the payments were a form of capital flight.[41] Be that as it may, Turner Morrison did not yet seem eager to leave India. More likely, it was trying to recruit an Indian partner. The decisive move was taken in 1955 to sell 49 per cent stake in the company to Mundhra, with an option that Mundhra could buy the remaining 51 per cent five years later. A dispute between the Turners and Mundhra started soon after, and Mundhra filed a suit seeking injunction upon the exercise of voting rights by the owners of the 51 per cent. This was granted, according to a subsequent judgment, with "serious consequences". The consequence was that he came into full control of the company without having to buy more shares.

Turner Morrison was the managing agent of Alcock Ashdown of Bombay, manufacturing and repairing heavy structural, transmission line towers, marine diesel

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[39] Mahaliram Santhalia v Fort Gloster Jute Manufacturing Company Limited and others. 1 April 1954.
[40] A good discussion of the Mundhra episode can be found in G. Balachandran, *The Reserve Bank of India, 1951-1967*, Mumbai: Reserve Bank of India and New Delhi: Oxford University Press, 1998.
[41] For other similar payments and tax cases, see Begg Sutherland above, and Gordon Woodroffe Leather vs The Commissioner of Income-Tax. 20 December 1961, and Commissioner of Income-Tax vs Anderson Wright Ltd. 20 March 1962.

engines, ships and boats. Eight years after the takeover, Alcock Ashdown stopped production completely. A suit filed by some of the employees alleged that Mundhra and his associate, one K.C. Lakhotia, "have mismanaged the affairs of the company for their own personal gain and misappropriated the funds of the company in various ways." The allegation could not be proven, because the owner of the company had instructed the executives to act on oral instructions of Lakhotia alone, so that the procedures left little documentation.[42] The subsequent history of Turner Morrison is marked by a sordid fight between two Indian claimants for control, Mindhra and one Nirmal Hoon, to the detriment of the company.

One of the last targets of Mundhra was Jessop and Company, a structural engineering firm of Calcutta. Having become a director of the company (c. 1956), it was alleged, Mundhra along with his brother in law Rameshwar Daga, also share broker working for him, and an executive of the firm G.M. Robins, used the funds of Jessop to buy shares of British India Corporation, where he had previously bought his way into directorship. Mundhra then had Jessop sell these shares to one Sohalnlal and Company, which was allegedly another front company working for him.[43]

By then the allegation that Mundhra drained the cash reserves of one company to buy up another recurred too often. In one of these cases, it turned out, that shares of a group company were pledged to the Life Insurance Corporation of India against large loans. The shares were fictitious. In another instance, cash in hand of a group company was transferred to the managing agent on account of a payment by a buyer company that was fictitious.[44] In yet another instance, allegedly fictitious shares of a group company were transferred to another group company against loan. Mundhra faced prosecution on these counts and was briefly jailed. The same fate befell Dalmia for similar offences. But the Dalmia prosecution was complicated by the fact that he, by then a newspaper magnate, did not get along with Prime Minister Jawaharlal Nehru. There was a suspicion that the prosecution case had political weight behind it. In May 1958, the Government of India took over the management of Jessop and Co. Ltd. In 1963, the Government decided to purchase shares of Jessop & Co. Ltd. to obtain a controlling interest, the controlling stake was then vested with two share

[42] Bhalchandra Dharmajee Makaji and other vs Alcock, Ashdown & Co. Ltd. and others. 20 July 1971. The judge ordered an enquiry. Nothing is known about the enquiry from public sources.
[43] Rameshwar Daga vs The State of West Bengal. 5 May 1964.
[44] Legal Remembrancer of Govt. of India vs Haridas Mundhra. 9 December 1975. The group company was Richardson and Cruddas, the payer was Indian Machine Tools Co., the managing agency was S.B. Industrial Development, and the transaction took place in 1955.

broker agencies, Sohanlal Pachisia, and Mahadeo Ramkumar. It is not clear what role if any these firms had in running Jessop.

The third major episode of shock acquisition involved the group known as Surajmull Nagarmull. Surajmull Jalan and Nagarmull Bajoria were related by marriage. Both were traders of Calcutta in the 1930s, and owned extensive real estate. In the 1940s, the combined group appears to have moved into jute manufacturing. Family owned managing agency firm Howrah Trading managed Naskarpara Jute Mill near Calcutta. Between 1948 and 1951, the combined group attracted the attention of the income tax authorities for tax evasion. They were among several jute trading firms that had allegedly over-invoiced imports of raw jute from East Pakistan.[45] Chiranji Lal Bajoria, son of Nagarmull, was the head of the estate then.[46] Despite an attempt at an enquiry, the suspicious death and disappearance of two close associates, and a discussion of the case in the Parliament, nothing came of the allegations.

Around 1952-53, Surajmull Nagarmull front companies bought up jute companies under the control of McLeod and Co.. McLeod at the time managed and owned ten jute mills, sixteen tea companies, and light railways. Other affiliated companies included Marshall, an engineering firm making tea machinery, and a smaller managing agency J.F. Low. The circumstances of the takeover are not available. It appears that in 1952, C.L. Kanoria (related by marriage to Bajoria) and one J.R. Walker ran McLeod, when both were investigated for tax fraud. During the investigation, Surajmull Nagarmull took control of the firm, through an arrangement with Kanoria. Subsequent to the takeover, McLeod board was left more or less unchanged (three of the four members were from the old board), but the boards of some of the group companies were reconstituted by inducting members of the immediate family and individuals from Ratangarh in Rajasthan. In 1955-56, C.L. Bajoria also acquired the controlling stake in India Jute Company, then managed by Mackinnon Mackenzie, an Inchcape group company, through the broking firm Bharat Luxmi owned by S.L. Kanoria. The deal was projected to be an agreed transfer of control, but this fact cannot be confirmed.[47]

An investigative book published in 1972 alleged, citing purported balance sheets of 1965 (the author held shares in some of the group companies), that four

[45] For another case pertaining to 1952-3, see Commissioner of Income-Tax, West vs Mahabir Commercial Co. Ltd. 15 November 1967.
[46] Surajmull Nagarmull and others vs The Commissioner of Income Tax. 28 April 1961.
[47] Commissioner of Income-Tax vs Bharat Luxmi Co. Ltd. 24 May 1982.

group companies used their cash advances made up of bank loans and McLeod worker provident fund provisions to buy up shares in Davenport, a smaller managing agency interested in tea, the Kanpur-based European firm British India Corporation, two jute companies, Britannia Engineering Company, and a group firm, Hanuman Sugar mill.[48] In turn, Davenport purchased debentures floated by Kanoria Industries, owned by C.L. Bajoria's sister's family, and an affiliated company invested a large sum of money in a cotton mill that went into liquidation.

Nothing in any of these transactions was illegal. Two rounds of investigation of the group (in 1948-51 and again in 1956) occurred in relation to tax evasion and foreign exchange rules violation, in the backdrop of a regime that had raised taxes and introduced draconian foreign exchange controls. Two things nevertheless did appear from the Surajmull Nagarmull transactions. As in the Dalmia Jain and Mundhra episodes, one company's cash reserves, including dues to workers, were credibly believed to have been used to buy up other companies. In a few cases the money trail may have ended up in obscure firms that were liquidated without anyone noticing that they had existed at all.[49]

The facts of some of the other shock acquisitions in the 1950s are merely suggestive. These involved smaller managing agencies whose business built around one or two factories. One of these cases occurred in 1950-51, when one Kedia family of Calcutta acquired control of Anderson Wright, which had a medium sized jute mill under its ownership and management. The majority shareholder of the mill, Khardah Jute, was one Flora Meyer. Meyer was said to be interested in selling her stake. Kedia ensured that Anderson Wright raised the required sum (Rs. 10 million) as loans, to purchase her holding at a price that was higher than the market price.[50] An income tax appeal regarding the share transaction failed in 1970. Not a lot is known about Khardah between then and 1983, when it was nationalized in a bankrupt state.

[48] N.C. Roy, *Mystery of the Bajoria-Jalan House*, Calcutta: Alpha Publishing, 1972. The book takes inspiration from another similarly titled book which deals with allegations of business-politicians alliance, but has nothing to do with acquisitions. Debajyoti Barman, *Mystery of Birla House*, Calcutta: Jugabani Sahitya Chakra, 1950.

[49] In 1975 the official liquidator of a firm known as International Shipping Ltd. on inspection of the company's premises discovered that the firm existed as a name-plate, and nothing else. It was also discovered that around 1961, it had transferred its entire paidup capital and reserves to another firm Chandpur Jute Co. Ltd. The former was owned by the Surajmull-Nagarmull group and the latter was managed by the same group.

[50] Commissioner of Income-Tax, West vs East Coast Commercial Co. Ltd. 12 February 1969.

The firm George Henderson, which managed Bally and Barnagar Jute Mills, incorporated as Jardine Henderson in 1946. Giridharilal Mehta sold the controlling stake of Bally Jute in the same year to Jardine Skinner, which merged with George Henderson to form the new company. From a remark of the tax authorities that "the respondent and the transferee were directly connected," it appears that Mehta was already in control of Jardine Skinner. Later history of the factory remains unclear. Jardine Henderson is still with the Mehta family, but specializes in pest control.

Whether because of the adverse publicity that the shock acquisitions received in press or more resolve on the part of the larger managing agency groups to continue in India, the 1960s saw fewer predatory takeovers. But this was also the decade when manufacturing industry as a whole faced difficulties.[51]

III. 1960-1970: DIVERGENT PATHS

Even in the 1960s, there were cases of predatory takeovers, usually involving isolated groups and firms. The threat was never far away, and was a factor behind restructuring in some of the major firms. An actual takeover involved the Calcutta Landing and Shipping Company Ltd., which ran a stevedore business. Its managing agents were Gladstone, Lyall. It appears that around 1960, a Marwari family named Mohta part owned the company, and that this was the result of an understanding between the British managing agents and the Mohtas. A High Court appeals suit filed by these two parties alleged that another group, Jatia, had acquired shares in the late 1950s in order to take control of the company, that they eventually entered the board, depressed the dividend payment in order to reduce share value and acquire more shares, and having taken a significant interest, raised dividends to reward themselves. The appellants also alleged that the directors raised expenses even as incomes fell, and siphoned off assets. None of the allegations could be substantiated and the appeal was dismissed. The court concluded that "the petition was the result of rivalry between two groups of shareholders in the matter of administration of the company's affairs."[52]

Many tea companies were registered in London, but those that were not, faced takeover threat. For one example, Hari Krishna Lohia and "friends and relations"

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[51] The "industrial stagnation" of the late 1960s and the early 1970s formed the subject of a substantial scholarship, which more or less completely overlooked business history. See Deepak Nayyar, ed., *Industrial Growth and Stagnation: The Debate in India*, New Delhi: Oxford University Press, 1994.

[52] Mohta Bros. (P.) Ltd. and others. vs Calcutta Landing And Shipping Co. 7 March 1969.

bought up 10 per cent of the shares of Hoolunguri Tea Company managed by Andrew Yule, and demanded takeover of the management in 1968. The company's response to the threat was an extraordinary resolution passed to amalgamate the company with three others. Lohia and company filed a suit trying to prevent this and lost. Similar cases came up with other firms too, as we shall see. There was, however, a difference in the level of the threat. Unlike jute or coal, wherein production was organized in large employment units, the production of tea was split up into many gardens, and companies that owned these could lose a few or sell a few of these, while still remaining in the business.

Industry in general was depressed between 1965 and 1975.[53] Jute mills saw the demand for jute stagnating, collieries, insurance, and banks were nationalized, industrial relations were not friendly in the wake of a leftist trade union movement in Calcutta. But even as the decade as a whole was bad for industry, there was divergence in the experiences of firms. Two distinct trajectories in the Indo-British firms unfolded. First, in tea there was a smoother and less disruptive transition. Second, in firms engaged in the troubled combination of jute and coal, there was rapid worsening of profitability and performance.

None of the Indo-British firms with a significant interest in tea seemed to be in the mood to withdraw from India in 1947. The War itself had imposed human cost on the tea business, because some managers had died, been wounded, or retired. The London Tea Auctions had been suspended during the War and did not restart until 1951. The Partition closed river routes of cargo movement. But these were temporary setbacks at best. The demand for tea was robust in the 1950s and 1960s. Calcutta remained a major hub of the global trade. Tea, in short, offered better prospect to foreign firms to hold on to their Indian business interest. Not many foreign firms survived the difficult 1970s, when tea was in mild or deep depression. Further, the transfer of control occurred in a more graduated way in tea than in the other industries. Two examples of a graduated transfer of control were the two agencies that specialized in tea, Duncan Brothers and Williamson Magor.

The Partition was bad news for Duncan Brothers. They had gardens in Sylhet, which went to East Pakistan, and in India. Duncans started a company to look after its Pakistan property. Around 1950, Octavius Steel, an engineering firm that supplied

[53] See essays in Deepak Nayyar, ed., *Industrial Growth and Stagnation: The Debate in India*, New Delhi: Oxford University Press, 1994.

electric lighting system for cities, and Duncan, both had deals with the Marwari industrialist Badridas Goenka on divestment. These were friendly deals, and were not expected to introduce sudden changes in management. Badridas' nephew D.P. Goenka became the owner of Octavius Steel in 1958, after some of the electrical units were nationalized. Octavius Steel had tea as well, but not the best quality gardens. Badridas' son Keshav Prasad (K.P.) Goenka came into ownership and control of Duncan around 1960, after further divestment induced by the Companies Act of 1956. The group had also taken over an Indian-owned jute mill.The tea and the jute assets of Duncan Brothers were split again in 1982, when K.P. Goenka's son Rama Prasad (R.P.) divided these between his sons. The Duncan family interest in India by then was over. R.P. Goenka himself had started career as an assistant in the Duncan group.[54]

In 1965, members of one Bhalotia family acquired a quantity of shares of Patrakola Tea Company, under the managing agency of Duncan Brothers. Patrakola, "for long one of the most prosperous" arms of the managing agency had been divided up into Pakistan gardens and Indian gardens in the late 1950s.[55] As in other takeover cases, "it may be possible to draw the conclusion that Duncan Brothers and Co. Ltd., have perhaps sold their shares to Munnalal Bhalotia and Co., at high prices and now the purchaser of Duncan's shares is offering to buy the other shares in the company at a ridiculously low figure." Bhalotia and brothers entered the board of the company and appeared to have tried to influence the board to write the managing agency agreement in their favour. A number of directors, including G.D. Jatia and P.D. Bangur, resigned their positions in 1965. In 1966, Duncan Brothers resigned from the agency. An anonymous shareholder filed a suit challenging "the ability of Messrs. Munnalal Bhalotia and Co., to have the financial capacity to acquire the shares they did without the backing of some secret agency."[56] The name of the secret backer was not revealed.

Independence did not bring any immediate change to Williamson Magor either - "after the excitement of Independence, life on the tea estate continued much as

[54] This account is based on W.W., *The Duncan Group*, London: William Clowes, 1959; and Stephanie Jones, *Merchants of the Raj*, Basingstoke: Macmillan, 1992.
[55] W.W., *Duncan Group*, p. 135.
[56] Patrakola Tea Co. Ltd. vs Unknown. 23 June 1966.

before."[57] The entry of B.M. Khaitan into Williamson Magor in Calcutta, like K.P. Goenka vis-à-vis Duncans, was one of the few stories of an informal partnership between Indians and Europeans evolving into Indian corporate control. Khaitan supplied fertilizers and tea chests to gardens in Assam managed by Williamson Magor. He was socially close to the Calcutta partners, thanks in part to a shared interest in racing and shared ownership of race horses, and trusted by the partners. Still, Khaitan would not have been inducted into the partnership, except for the growing threat of predatory raids on publicly held companies in Calcutta.

A discussion was going on in Williamson Magor over the advantages and disadvantages of converting from a partnership to a company. By 1954, when this was effected 49 per cent stake was taken by Gladstone Lyall. It was another matter with the already publicly held tea companies of which Williamson Magor was the agent. The shareholders had mixed feelings about India, and if not in 1947, by the early 1950s, some of them were willing to sell their stakes. The London firm instructed Williamson Magor to sell its stake in some of the companies, whereas Williamson Magor had shown an inclination to increase its own stake in some of its managed companies. One particular sale, Tukvar Tea Company, where Williamson Magor had 51 per cent stake, caused anxiety because if the news had spread in Calcutta stock markets that the company was selling, it could both provoke a predatory raid and lead to sale of shares in other firms managed by the company. In the end the sale was done quietly.

In 1954, Lingia and Soom company stakes were sold, and again the same anxiety reappeared. On this occasion Khaitan bought the stakes. This move ensured that the managing agency contract was left intact in these cases. In 1961, a more serious attack came from B. Bajoria who purchased 25 per cent of the stake in Bishnauth Tea Company, the flagship of the Williamson Magor companies, and a company in which Williamson Magor had 26 per cent stake. This was a crisis, and one that could not be solved by means available to the British partners in Calcutta or London. Khaitan raised the money to buy out Bajoria, and in return he was invited to join the board. Gladstone Lyall resisted the move, and an acrimonious exchange followed. But Khaitan came in with a significant shareholding.

[57] Peter Pugh, *Williamson Magor Stuck to Tea*, Cambridge: Cambridge Business Publishing, 1991, p. 107.

Williamson Magor continued in this way, part-managed by Khaitan and managers sent by London, where the world tea trade was still concentrated. But predatory attacks on some of the companies it managed in India raised the prospect of a stronger multinational organization. In the first half of the 1970s, a merger between Macneill and Barry and Williamson Magor was discussed, and the merger was effected in 1975. The former company had tea interests in India and Africa. The company had links with its parent Inchcape group, but was Indian-controlled in the 1970s. The partnership did not succeed. The directors of Macneill and Barry and the directors of Williamson Magor clashed constantly, which Khaitan put down to "personality problems." In particular, Inchcape group directors and Khaitan, who now held 34 per cent of Williamson Magor, did not get along. Further, Macneill and Barry's jute interests had started losing so much money as to threaten all other interests of the firm.

In 1982, a negotiation was reached. Williamson Tea Holdings bought up the Inchcape interest. Williamson Tea Holdings was incorporated in London in 1964, and had fully-owned or almost fully-owned subsidiaries in Assam and East Africa. George Williamson, which had become a company in 1983, consolidated its control on Williamson Tea Holdings in 1984. In 1987, McLeod Russell, a London group with tea, rubber, and oil interests in India, Malaysia and Indonesia, decided to sell a recent acquisition, Warrens. In 1987, with the sale to Williamson Magor, the group ended up as one of the largest tea producers in the world. George Williamson's own interests were confined to East Africa.

Jute had a different history. Jute, the world's fibre of choice for packaging commodities for trade, faced a difficult market in the last quarter of the twentieth century because of competition from synthetic substitutes. In India the industry was supported by government orders on mandatory use of jute. The decline of the jute producing firms, however, did not start only *after* but *before* the competition of substitutes set in. In fact, even in the 1970s, when the rate of growth of the market fell, the absolute size of the world market of jute continued to grow. Further, the fall of jute as a fibre does not fully explain the fall of the companies that had a part of their capital tied up in jute.[58]

[58] On a recent work on the history of world jute, Jim Tomlinson, Carlo Morelli, Valerie Wright, *The Decline of Jute: Managing Industrial Change*, London: Pickering and Chatto, 2011.

In the mid-1960s, the jute companies were universally in crisis. Two large conglomerates, Andrew Yule and Bird and Heilgers, were pushed towards bankruptcy sometime in the 1960s. Although both were diversified firms, their exposure to jute became a burden. The immediate cause of the crisis probably came from the supply side, including poor management, shortage of funds, and suspected frauds. A committee on “rationalisation in the jute industry” made a number of recommendations on specific mills, but if there was a common managerial failure, it escaped public discussion. A spate of bankruptcy and forced transfer saw the substantial jute interests of Andrew Yule and Bird and Heilgers being disposed of. In both cases, the nationalization of coal added to their difficulty.

Furthermore, stringent import licensing system was beginning to hurt the older industries - cotton textile mills and jute textile mills in particular - which were in need of modernization. After independence, import of fresh technology was permitted on the basis of approved technical collaboration, or licensed import. The regulatory framework did not work well in the case of modernization of the textile industries. There was an implicit bias for “new” technologies that India was thought to need the most. Cotton and jute textiles did not meet that criterion. One example is illustrative of the difficulty the older businesses would face procuring machinery. In 1964, Anglo-India Jute Mills received a license to import jute mill machinery from a firm in Dundee. About a year later, orders were placed, but by the time the order was ready, Indian rupee was devalued (June 1966) and the value of the order had gone up 60 per cent. Another year later the Reserve Bank of India grudgingly approved an application to increase foreign exchange entitlement, but by then the original import license had expired.[59] Examples of this kind show how similar the two stories, jute and cotton, were. Between 1965 and 1975, the cotton textile mills of Bombay suffered precipitous decline as technological modernization in this old industry stopped.[60]

The transition to the 1970s was traumatic for jute. By 1975, the Foreign Exchange Regulation Act (FERA) was in operation and made it mandatory for all foreign firm to become minority shareholders. The major episodes of transfer of control in Indo-British firms were over by then. But a few prominent cases did occur after FERA. The Gourepore Company was a jute mill complex that belonged to the

[59] Commissioner Of Income-Tax vs Anglo India Jute Mills Co. Ltd. 9 June 1980.
[60] A discussion of the literature can be found in Shuji Uchikawa, *Indian Textile Industry: State Policy, Liberalization and Growth*, Delhi: Manohar, 1998.

Macneill and Barry group. It was purchased by Hemraj Mahabir Prasad Poddar in 1976-77. The company declined thereafter, was closed, and was approved for liquidation by High Court in 1997.[61] As late as 2014, a number of obscure small firms competed for control offering revival packages that the courts considered dubious and motivated, possibly by prospects of inflation in real estate.

In 1948 Thomas Duff had divested a part of their stake to Giridharilal Mehta, but retained control over its three jute mills.[62] In 1969, Victoria Jute Factory, one of the three jute mills managed by it, was merged with the Samnuggur Jute Factory and the Titaghur Jute Factory Co Ltd with the latter as the parent company, and the Angus Company Ltd as a subsidiary of the group. In 1976 changes to the articles of association were adopted, reorganising the capital of the company and transferring its residence to India, passing management and control of the company from Dundee to Calcutta. The ownership of Thomas Duff, however, changed a number of times, which, together with FERA, explains why the progressive bankruptcy of its factories in Calcutta did not lead to an action plan. In 1978 Titaghur Jute Factory sold 51 per cent of its interest in A & S Henry & Co (Dundee) Ltd (and its subsidiaries) to Asiatic Jute Co Boston, and the following year new articles of association were adopted by the Company. The Company changed its name to Titghur Plc in 1989. Later the Company changed its name to Azmara Plc in 2000, a Scottish company that had interest in jute.

While Thomas Duff watched the jute crisis of Calcutta from a distance, the Board of Industrial Finance and Reconstruction (BIFR, the government body dealing with bankrupt firms), formed an arrangement whereby the management of Samnugger and Titagurh was handed over to two firms, Aditya Translink (1985) and RBD Textiles (1995). These firms had interests in raw jute trade and were parts of groups known as Podar and Oswal respectively. The firms became the "licensees," akin to the managing agent. They made changes in the boards. Meanwhile, India's economic liberalization began, the value of the real estate owned by the companies rapidly increased. Azmara refloated Titaghur in the 1990s in a bid to pay off dues and take control of the companies from the licensees. The company's representative James Avery came to India with this mission, but was arrested on an unpaid Provident Fund dues case. He was released upon intervention by British diplomatic offices and left

[61] Gourepore Co. Ltd vs Unknown. 14 July 2014.
[62] Misra, *Business, Race, and Politics*, p. 193.

India never to return. It is alleged that Avery's arrest was managed by the government authorities in league with the two licensees. The corruption case remains in court and unsolved.[63] In 2001, the regional provident fund recovery officer attached and took over the title deeds of immovable and movable assets, including share certificates, of the Titagurh group companies, and then sold these shares to what were alleged as front companies of the Podars and Oswals.[64] Sale of foreign companies without permission of the Reserve Bank of India was illegal. A case was filed by Titagurh to challenge the sale in 2002, but it was withdrawn by Avery in 2004. One of the brokers through whose firm the sale was effected later purchased a part of the real estate sold by Angus Jute.

Although not a direct focus of the present paper, the British MNC experience deserves a brief comment at this point because from the late-1960s, the growing difficulties of the MNCs and Indo-British firms stemmed from similar causes. With the entry of British MNCs in the early twentieth century, the business world of Calcutta had bifurcated into two spheres, Indo-British firms, and new manufacturing firms. Although the former was better organized, they were companies with principal interest in India. If their Indian interest became vulnerable, the firm would die. The latter had smaller presence in the Chambers of Commerce, but they were sterling companies with only a part of their operation located in India. "By the mid-1950s MNCs had entered almost all major industries: chemicals, pharmaceuticals, .. baby food, toothpaste, soap, cosmetics, cooking medium, cigarettes, tea, coffee, petroleum and its by-products, chemicals, gases, engineering, and the like."[65]

Among the prominent examples, the following deserve mention. One of the four constituent companies of the speciality chemicals manufacturer Imperial Chemical Industries or ICI, Brunner Mond, opened a trading office in India in 1911, and converted into a manufacturing firm in the 1950s, with its main plant located near Calcutta. The packaging manufacturer Metal Box Company (incorporated in 1930) started an Indian subsidiary in 1933, with its main plant near Calcutta. The Birmingham engineering firm Guest, Keen and Nettlefolds started a subsidiary in India, with its main manufacturing unit located in and near Calcutta, known as Guest

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[63] Vikas Dhoot, "The Great Jute Mill Robbery," *Business World*, 30 May 2005, http://in.rediff.com/money/2005/may/30jute.htm (accessed on 13 October 2015).
[64] Smart Technologies, Chick Commodities, and York Holdings.
[65] Goswami, "Sahibs, Babus."

Keen Williams. The Manchester engineering firm Mather and Platt started an Indian subsidiary in 1913, with a plant manufacturing electrical pumps in Calcutta.

These MNCs performed better than the Indo-British firms in the 1950s and the 1960s; though in the long run, the depressing and troubled industrial scene in Calcutta affected both, in a number of cases with disastrous consequences. Around 2008, ICI was bought up by Akzo Nobel, and its Indian subsidiaries merged to form Akzo Nobel India. By then, the manufacturing capacity had shifted almost completely out of Calcutta. Metal Box had a steady good run until the early-1970s, but faced difficulties thereafter, compounded by a crippling labour dispute in 1984-5. The firm sold some of its assets to Tata and other companies, stopped production and wound up in the early-2000s. The GKW factories suffered steady losses and labour disputes in the 1990s, and closed down. GKN divested from the Indian subsidiary in 1994. The Indian company, GKW, exists as a small consultancy firm based in Bombay. In 1978, the parent company of Mather and Platt divested its interests. Mather and Platt India is now a subsidiary of Wilo AG. Its main manufacturing centres are Pune and Kolhapur in western India, no information is available on the Calcutta plant in the company's website. The Birmingham company Dunlop Rubber had a rather similar history to some of the older managing agencies. Its main manufacturing facility was based in Calcutta. It experienced a transfer of control to Indian owners, and suffered a rapid downfall thereafter. Allegations of wilful mismanagement have been made against some of the past owners of the firm.

British multinationals that had stayed away from Calcutta or divested from the city in time fared much better. The transformers maker Crompton Parkinson sold its Indian subsidiary to the Thapar group, the company being renamed as Crompton Greaves. The ITC Limited, which originated as a subsidiary of the British American Tobacco company and is still owned by BAT, is a diversified firm registered in Calcutta but assets located elsewhere in India. The Indian subsidiary of the food processing firm Unilever survived. The pharmaceutical and baby-food firm Glaxo (now GlaxoSmithKline) started a trading unit in India in 1924, became a manufacturer, and now continues as a subsidiary of the multinational. The household chemicals firm Reckitt and Colman started a trading unit in India in the 1920s. Its manufacturing subsidiary in India is now known as RB, and a unit of the global firm formed of Reckitt and Colman, and Benckiser. These firms were left relatively unscathed by the deindustrialization of Calcutta because their manufacturing facility

was located elsewhere in India. In the 1990s, liberalization of foreign investment rules allowed some of these firms to strengthen their bonds with the parent multinational.

Despite the similarity in their stories, the Indo-British firms were distinctive on two points, the transfer of control that many of them underwent, and their particular vulnerability to the closed economic system adopted by the Indian state after 1947. Why did *closure* matter to the Indo-British firms in particular?

IV. BUSINESS AND POLITICS 1950-1970

The business environment in these two decades was dominated by the nationalist state. Policy directives, legal reforms, and public discourse on policy did not discriminate foreign firms too much, even welcomed their entry. The new MNC entrants that had scaled the tariff wall to do business with Indian consumers profited from the environment. The announced policy and explanations by Ministers were positive towards foreign capital. Prime Minister Nehru had a known antipathy towards Dalmia, and dealt with Mundhra sternly. Direct restraints on existing foreign firms could not in any case be either strict or sustained in the 1950s because of repeated shortages of foreign exchange.[66] These features of the time tend to reinforce the hypothesis that the older exporting firms declined of their own failings, that while the newer firms profited from their adaptability to the Indian conditions, the older firms went bankrupt because they failed to adapt to these conditions.[67]

That inference is not a satisfactory one for three reasons. First, the suggestion that the older firms had a structural or inherited inability to adapt to India is not compelling given their 100-150 years history of doing business in the region. Second, whether foreigners were welcomed or not, there was pronounced Indianization of the corporate sector in the 1950s and the 1960s. Foreign direct investment as a proportion of capital stock was nearer 10 per cent before World War II, dropped to 2 per cent after independence, remained depressed, and regained the interwar level as late as 2002 or 2003.[68] Third, there was continuous divestment among older firms. A confidential report by a London association for rupee companies estimated Rs. 58 crores or £44 million had been divested in India between 1947 and 1953 in the form

[66] Kamal Mitra Chinoy, "Industrial Policy and Multinationals in India," *Social Scientist*, 13(3), 1985, pp. 15-31.
[67] Goswami, "Sahibs, Babus," comes closest to a statement of this contrast.
[68] M. Twomey, *A Century of Foreign Investment in the Third World*, Abingdon: Routledge, 2000, p 118 for the earlier estimates.

of sale of shares, liquidation of interests and assets, and retirement of saving instruments. The figure amounted to 12 per cent of total British assets in 1948, estimated by this report at £266 m. The raw data on which these figures were based were first presented in a British Parliamentary session. The new inflow of foreign investment in the same period was £6 million.[69] The proportion of divestment was probably rising in the 1960s.

In short, the intended effect and the real effect of the political order upon corporate firms were different, which should lead us to investigate closely why they were different, and what the real effects consisted of. A clue to this gap can be found in the otherwise positive statements on foreign investors that sometimes added "conditions." The Industrial Policy Statement of the Government of India 1948, for example, wrote that "[w]hile it should be recognised that participation of foreign capital and enterprise .. will be of value to the rapid industrialisation of the country, it is necessary that the conditions under which they may participate in Indian industry should be carefully regulated." T.T. Krishnamachari, Commerce Minister, declared before the Parliament on 4 April 1953, that "We want [foreign capital] on terms which we consider reasonable."[70] What were "reasonable terms" was not spelt out, which left it open for regulatory instruments to be used with discrimination and, where no explicit political support was available, used harshly.

The Capital Issues (Control) Act, 1947 was more damaging, which restricted any firm from raising capital abroad without government permission. Steep rise in personal income tax in 1955 made India "the most highly taxed country in the world."[71] Taxation of perquisites like home leave allowance or education allowance worried the expatriate community. These moves were seen by them as a push for Indianization of top management. There was trade repression in general, that is, a near-consensus of view on reducing the freedom of private trade, especially in fields where foreign capital was involved. Starting with the Essential Commodities Act, 1955, restrictions were added on movement of goods across India, and on private storage. "It has been made abundantly clear that further foreign capital for employment in purely trading activities .. will not be given right of entry into India."[72]

[69] The India, Pakistan and Burma Association, *A Note on Foreign Investment in India*, London, c. 1956, p. 2.
[70] Ibid., p. 13.
[71] Garvin, *Survey*, p. 36.
[72] The India, Pakistan and Burma Association, *Note*, p. 4.

The Companies Act 1956 introduced a number of regulations concerning managing agency, which were regarded as restrictive. The Act limited the number of companies an agency could manage. The Managing Agency could of course shed its identity as an agency and become a holding company by owning controlling stakes in the other companies, which many in fact did. But this was a difficult transition that entailed raising the risk of stock market raid.

A major concern was the closure of factor markets. It was becoming difficult, almost impossible, to buy machines and hire engineers, managers or scientists from the world market, which was easy enough to do around 1900. Approved technical collaboration agreement was more or less the only way that technology was allowed to come in, but jute mill machinery or tea machinery would not qualify as the kind of technologies the new nation prioritized. Regulatory orders were proclaimed in banking, insurance and shipping. For example, a certain percentage of tea exports had to be carried in Indian-owned ships. Coastal trade was reserved for Indian shipping. "[N]on-Indian business concerns are periodically urged by ministerial pronouncement to place a part of their banking, shipping and insurance business with Indian bankers, shipping companies and insurers."[73] Whenever these matters were discussed in forums for negotiation, "Government spokesmen make it known that they expect more of the receipts from 'invisibles' to flow in the direction of the domestic operator."[74] There was forced Indianization of management. Work permit applications by foreign technicians were often refused, leading to complaints about "the Government's unprincipled – the word is hardly too strong a one – attitude towards foreign technicians."[75] If they were hired for less than two years on a foreign scale of salary they were exempt from tax, but those residents in India, and there were a number of them in steel and engineering, were subject to a steep rise in tax. It is entirely plausible that the Indo-British firms were forced to recruit top managers from their Indian officers cadre with a speed that compromised efficiency.

Along with adverse regulation there was the issue of the political mood. A key ingredient shaping the mood was the politically connected industrialist. A journalist for the *New York Times*, Herbert Matthews visited Calcutta in 1942, and in January next year published an article in the newspaper on the challenges faced by British

[73] The India, Pakistan and Burma Association, *Note*, p. 5.
[74] Ibid.
[75] Garvin, *Survey*, p. 37.

capitalists in soon-to-be-independent India.[76] He spoke to prominent Indian business leaders, including B.M. Birla, Badridas Goenka and J.C. Mahindra, heads of chambers of commerce, directors of Bird and Co and Mackinnon Mackenzie, editor of the newspaper *Capital*, and government officials. Matthews believed that Indian capitalism had become a battlefield, and predicted that the battle would intensify after independence. He found the British directors "greatly worried" about "the fact that big Indian firms like the Birla Brothers .. finance the All India Congress .. the Congress will have a debt to pay to them .. and that the payment will result in the elimination of British business interests." His interviews with the Indian industrialists confirmed these prospects. "Mr. Birla wants to use India's sterling credits .. to acquire the British holdings." Matthews found universal animosity towards foreign capital among the Indians he interviewed. The Indians were worried about Nehru's socialist leanings, but claimed that Nehru had a choice, either to help Indian capital against foreign capital or have a combined front defeat him. "Patriotism and financial interests," Matthews concluded, "run parallel leading them to the logical conclusion that the British must get out." No matter the stated policy, no major political figure is known to have disputed this sentiment among Indian capitalists.

The sentiment produced reaction in British business circles in London and Calcutta. In a report on India prepared in 1956, the leading chamber of commerce in Britain praised the Indian Government for pursuing socialism without discriminating against private enterprise, and then criticised India's politicians for using "socialist pattern of society" as a "shibboleth" to justify every expansion of the state and for a "pejorative, and frequently downright hostile" stance towards foreign firms. "It should be easy," the report went, "for foreign observers to receive the impression that India was a thoroughly unsuitable field for investment."[77] The report preserved the most strident attack with respect to the older industries and trading firms. "By and large, since Indian independence, the previously established British mercantile community have been fighting a rearguard action against an encroaching Government, rising

[76] Herbert L. Matthews, "India Challenges British Finance," *Current History (pre-1986),* 3, 1943, pp. 496-8.

[77] Garvin, *Survey*, p. 32. To some extent, foreign opinion on business-politics relation was coloured by three major acts of nationalisation after independence – Indian Airlines, life insurance, and Imperial Bank of India. The three steps did not form parts of a concerted socialist programme. Indian Airlines was nationalized because its expansion would have required large government support anyway. Life insurance was nationalized because of a series of scandals in Indian-owned insurance companies. Imperial Bank was nationalised to facilitate supply of rural credit.

labour costs, and diminishing personal returns. Where they have not been doing this, they have been disinvesting."[78] There was neither conservatism nor disinterest on the part of the firms themselves that could account for the readiness to disinvest. "This attitude is not .. owing to any failure on their part to achieve the mental re-orientation required in the new India. .. Their attitude is rooted rather in the economic facts of the situation."[79]

In 1956, a British chamber of commerce could hope to influence Indian policy with respect to British capital in India and push for an alternative. The report did just that. It admitted that the older firms' growth had reached a saturation point, whereas the MNCs brought in specialist marketing and technological capability and that these did move into new growth fields. But then the older industries were not exactly starved of cash. "In the future it must be expected that these two spheres of British enterprise in India will come closer together, as there are signs that some of the old-established British business houses may extend their interest to new manufacturing projects."[80]

Mild to deep pessimism about Indian politics was gathering force among British MNCs as well from the late 1960s. A confidential and unpublished survey conducted by a faculty member of the University of Glasgow is revealing.[81] Fourteen large British firms were approached for feedbacks for this survey, about six responded.[82] The tone of the responses was one of uncertainty, not over stated policy, over the potential use of tax, exchange, and work permit rules as deterrent, in short, the use of regulatory instruments against foreign firms. "Although Government's policy, as repeatedly stated," the response from Dunlop went, "is to encourage foreign investment, in practice numerous conditions and controls become major irritants to the would-be investor.." The response stressed "the aversion of the Indian Government to foreign investors holding a majority interest in any undertaking." In

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[78] Ibid. p. 35.
[79] Ibid.
[80] Ibid., p. 36.
[81] British Library (Mss Eur D982), "Papers compiled by John R Castree, .. concerning the attitudes of British Companies with investments in India, their opinions on Indian economic and industrial policy, and an analysis of aid/trade relationships," 1967-68.
[82] The firms approached were Tube Investments, Associated Electrical Industries Ltd., Imperial Chemical Industries, The Metal Box Company Overseas Ltd., Reckitt and Coleman Overseas, British India Steam Navigation, The English Card Clothing Co. Ltd., Glaxo International Ltd., The Dunlop Company Ltd., Chloride Overseas Ltd. Leyland Motors Ltd., and Turner and Newall Ltd. British India Steam Navigation had a long history of business in India, Turner Newall had an affiliated company in India that had an unfortunate history after independence, as we have seen, the others had entered India more recently.

the response from English Card Clothing, the point of emphasis was "distrust." The "Indian government's distrust of the foreigner breeds a mutual distrust of the Indian government by the foreigner." The response also mentioned that the prospect of "communism on Burmese and Ceylonese models" was a deterrant to further investment in India. J. and P. Coats stressed indirect restraints through taxation, remittance of dividends, and employment of foreign nationals. Other responses brought up more or less the same issues.

Concerns like these were publicly discussed in a conference organized by the Indian Government in 1968, apparently to mollify foreign investors in the wake of an exchange crisis. Bitter complaints were raised about taxation, and mixed feelings were expressed about the Indianization thrust upon foreign corporates. The foreign firms complained that Indianization, while necessary and acceptable, did not help skill formation in an isolationist environment where trade and investment were restricted too. "Restrictions on foreign travel have tended to insulate people from contacts with foreigners and thereby denied the .. realisation of their truly cosmopolitan outlook. This in turn limited and impaired the availability of suitable candidates for recruitment to the higher posts," one delegate stated.[83]

V. CONCLUSION

The paper described an episode of mass decline and bankruptcy of Indo-British firms of Calcutta after they underwent a change of ownership and control. It is argued here that the transfer did contribute to decline, directly by making opportunistic use of internal resources more likely, and indirectly by making continuity in business strategy difficult to maintain due to threats of takeover and adverse government policy.

The economic policy of the Nehru era exposed the Indo-British firms to an unprecedented set of challenges. These firms were highly reliant on sourcing capital and managerial labour from the international markets, which routes were cut off. Against increasing vulnerability, opportunistic takeover bids became more likely, and Marwari capitalists played a bigger role than before in the management of these firms. These two things, Marwari enterprise and opportunism were sometimes connected, but not always connected. The nature of Marwari involvement was complex. Some

[83] India Investment Centre, "Seminar on International Investment", New Delhi: India Investment Centre, 1968, p. 25.

cases of outright transfer of control plausibly led to depletion of assets, at any rate, led to the use of cash wealth in further acquisitions. But not all transfers were hostile or draining. In a number of cases, the Company law forced hasty induction of an Indian partner. Transfer could cause poor performance in other ways too. Increased uncertainty over retaining control and in some cases open battles for control surely made making long-term plans much more difficult for many firms. Whatever the precise mechanism relating transfer with poor performance, the result was disastrous for business in Calcutta. Few of the affected companies could sustain profits, and shareholder interest was compromised on a large scale.

Did the poor protection of shareholder interest represent a failure of law? When discussing cases of transfer, the judges in the highest courts sometimes rued that law had failed to protect capital from predation and opportunism. Where precisely did law fall short? Two ideas seem to emerge from the legal sources. First, the managing agency system allowed an owner to manipulate the agency contract in such a way that it became impossible for minority shareholders to intervene. Secondly, a rapid burst of company formation around Indian independence created a particular environment of opportunism that legal reform was unable to keep up with. Between two companies acts, 1913 and 1952, "in many cases conventional methods of Company management were discarded in favour of less orthodox and more venture-some technique which the existing Company law was unable to control adequately. .. The lacunae in the Act left the way open to some businessmen misuse and at times to pervert the provisions of the law to serve their private ends. So long as the Second World War lasted, the pull of war economy on domestic production masked these mal-practices."[84]

We may infer from the statement that India's independence delivered a particular form of market power to the politically connected capitalists, some of whom did not see the law as a significant deterrent. The chaotic nature of the transfer of economic power had owed, partly, to this lawlessness.

[84] New Central Jute Mills Co. Ltd. vs Deputy Secretary, Ministry Of Law. 4 August 1965.

Appendix: Selected British Conglomerates, Brief Account of Origin and Transfer

Name	Started	Ended as a European company or as a private enterprise
Andrew Yule	Andrew Yule (1834-1902), merchant and industrialist, Managing agent of jute, coal and tea companies in Calcutta, c. 1870. Public limited in 1948. Counterpart in Britain, George Yule and Co.; after 1920, Yule, Catto and Co.; main shareholder Morgan Grenfell.	Nationalized in 1974. Cluster of jute mills (Cheviot, Budge Budge) transferred in 1967 to Kanoria group. New Central Jute Mill was an early target of takeover by Sahu Jain. Andrew Yule managed Hastings Jute Mill, established in 1876 by Adam Birkmyer. Hastings Jute acquired by Bangur Brothers in 1946, became bankrupt, and was sold to Kajaria group (Murlidhar Ratanlal Exports) in Calcutta.
Bird and Heilgers	Bird and Co, started 1863 in labour contract business; growth in jute and coal after Ernest Cable (1859-1927) became a partner in 1886. F.W Heilgers, a German managing agency with interest in paper, jute, and coal. Major Heilgers companies were Kinnison Jute and Naihati Jute. Heilgers acquired by Bird in 1917. Around 1947, Bird and Heilgers was headed by Cable's son-in-law and partner Edward Benthall.	Part nationalized in 1971-72 (coal companies). In 1970 Auckland Jute Co acquired by Harakh Chand Kankaria. In 1980 remaining mineral companies and Kinnison Jute Mill nationalized. Northbrook Jute Company, of Heilgers, owned by Ganeriwal until 2005, since 2005, by Choraria. Dalhousie Jute now with Modi, and Naihati Jute with J.K. Bhagat.
Kettelwell Bullen	No details found	Acquired by Mugneeram Bangur c. 1952-3. The Bangur group later split. Fort Gloster Jute Mill now part of Gloster Ltd. of Calcutta, and a Bangur company. Kettlewell Bullen now a small finance company.
Gillanders, Arbuthnot	Founded in Calcutta in 1833 by John Gladstone, trading in textiles and indigo. In 1843, Gladstone, Wyllie (after James Wyllie) and later Gladstone, Lyall were leading Calcutta trading and insurance firm of the nineteenth century. Grandson Henry Gladstone led diversification into jute around 1880.	Tea, textiles and engineering divisions are with the Calcutta-based Kothari group (there are other unrelated Kothari groups). Gondalpara Jute Mills acquired by one branch of Bajoria family. Hooghly Jute first acquired by Bajoria, now with Sarda group.
James Finlay	Around 1770, a textile trading firm set up by the merchant James Finlay, the firm moved into jute (Calcutta), cotton (Bombay), shipping (Chittagong and Burma), water supply, and tea (South India) under Finlay's descendant John Muir, c. 1875. Counterparts in Britain, a number of Glasgow firms.	1970-71, Swan Mills Ltd., Finlay Mills Ltd., and Gold Mohur Mills Ltd. were under sale to Mathuradas Mulji and family, in 1983 management taken over by the National Textile Corporation. In 1983, Tata Tea Co. purchased tea estates from James Finlay. These were resold in 2005 to an employee-run company. Chittagong interests formed the business of James Finlay (Bangladesh) Co. in 2004, not part of the James Finlay group. Champdany Jute is now owned by Wadhwa group.
British India Corporation	Product of collaboration between five Kanpur residents and merchants, George Allen, W.E. Cooper, Bevan Petman, J. Condon and Gavin S. Jones, who, between 1876 and 1894, started woollen mills, cotton mills and leather factories in the city.	Acquired by Haridas Mundhra around 1952, British India Corporation was the centre of the so-called Mundhra scandal of 1956. It was under government management from the late-1950s and nationalized in 1981.
Mackinnon Mackenzie	British India Steam Navigation established by William Mackinnon, shipping entrepreneur in 1856. George Mackenzie, merchant and shipping entrepreneur in west Asia, was later associated. James Mackay, Ear of Inchcape, joined in 1874 and was in charge c. 1900.	British India Steam Navigation merged with P and O in 1971. India Jute Mill now a Bajoria company. Mackinnon Mackenzie exists as a small property company in Bombay.

	Under Mackay, diversified into jute.	
McLeod	Founded by Charles McLeod in the 1880s. McLeod was a jute trading firm that started to own and manage Soorah Jute, Kelvin Jute and Empire Jute between 1907 and 1914.	Acquired by C.L. Bajoria. Empire Jute, Kelvin Jute and Soorah were sold off recently
Anderson Wright	Started as a merchant house in Calcutta, and owned/managed jute mills, coal mining company, insurance, trading, and shipping line to Natal. London counterpart Clarke, Wilson and Co.	Khardah Jute Mill nationalized in 1983, when it was with the Kedia group.
Jardine Skinner/ George Henderson/ Jardine Henderson	Jardine Skinner formed in Bombay in 1825, and reconstituted in Calcutta in 1844. Common ancestry with Jardine Matheson, founded by China traders William Jardine and James Matheson, who had links with Indian opium trade. Jardine Skinner started in jute with Kamarhatty Company in 1877 and Kanknarra Company in 1882. Later diversified to tea. George Henderson was a Calcutta merchant who founded the Baranagar Jute Factory in 1857, one of the earliest jute mills in the neighbourhood of Calcutta.	Acquired by Giridharilal Mehta around 1946. Bally Jute now a unit of Lohia group. Jardine Henderson and Co continues mainly as a pest management company. Kamarhatty Jute forms the nucleus in a diversified group under S.K. Agarwal. Kanknarrah Jute belongs to B.C. Jain group since 1988.
Duncan Brothers	Founded by Walter Duncan in the 1850s.	Indian assets transferred to K.P. Goenka around 1960, consisting of tea and jute companies. After split in the R.P. Goenka house c. 1982, tea to G.P. Goenka, Anglo India Jute to J.P. Goenka, later Kankaria, see above. The tea trading arm merged with Goodricke, founded by Charles Goodricke, in 1949, and with Alex Lawrie, co-founder of Balmer Lawrie, engineering company in Calcutta with marginal interest in tea. The tea trading arm exists as Camelia Plc.
Williamson Magor	London counterpart firm George Williamson.	Continues as a Khaitan company
Begg Dunlop/Begg Sutherland	Founded c. 1850 by David Begg, indigo trader and planter, in Calcutta. Diversification in jute during the headship of George Sutherland around 1900. Sutherland involvement led to the formation of Begg Sutherland to manage six Kanpur cotton mills. The principal company Alliance was a multi-unit jute mill.	Acquired by Sahu Jain group in the 1950s. British India Corporation took over Begg Sutherland in 1961-62. Alexandra Jute nationalized in 1983. Alliance Jute now with Lohia group.
Thomas Duff	Thomas Duff came to Calcutta after a stint with the Borneo Company in the 1870s, and founded two jute companies, Samnuggur Jute Factory Co (1873), and Titaghur Jute Factory Co (1883). Thomas Duff and Co took on the agency of the Victoria Jute Factory Co in 1888 and that of the Angus Company in 1933. It was a Sterling company until 1949, when it registered in India. The holding company was still based in Dundee.	Initially divested to Giridharilal Mehta. Jute mills came under government management, and control was licensed to Podar and Oswal groups in 1985
Macneill Barry	General merchants Duncan Macneill and John Mackinnon established Macneill and Co in 1876. Joined Inchcape group in 1914, and partnered with Williamson Magor (1975-82). Owned and managed tea, jute, inland navigation, and Ganges Rope Co. Later merged with Kilburn, see below.	Gourepore company (and possibly Ganges Jute) was acquired by Hemraj Poddar in 1976-77.

Turner Morrison	Established by Alfred Turner c. 1860 as extension of the Liverpool trading house Turner and Co. A Colonel Morrison was associated. Main business shipping. Managed Asiatic Steam Navigation Company.	Acquired by Haridas Mundhra c. 1947. Asiatic Steam Navigation acquired by British India Steam Navigation in 1934, merged with P and O.
Kilburn	Founded in 1842 by C.E. Schoene, Calcutta merchant in indigo. E.D. Kilburn, with family history in silk trading, joined him in 1847 as partner. Diversified into shipping, engineering and tea. Managed the Assam Company, the oldest tea company in India, from 1867. In the 1890s, managed and part-owned Calcutta Electric Supply Company (CESC).	Assam Company owned by Jajodia group of Calcutta. CESC a Goenka company.

Notes

Some of the jute companies named in the table were under High Court liquidation orders as of June 2013. https://junksharesindia.wordpress.com/tag/gourepore-co-ltd/ (accessed 18 October 2015).

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