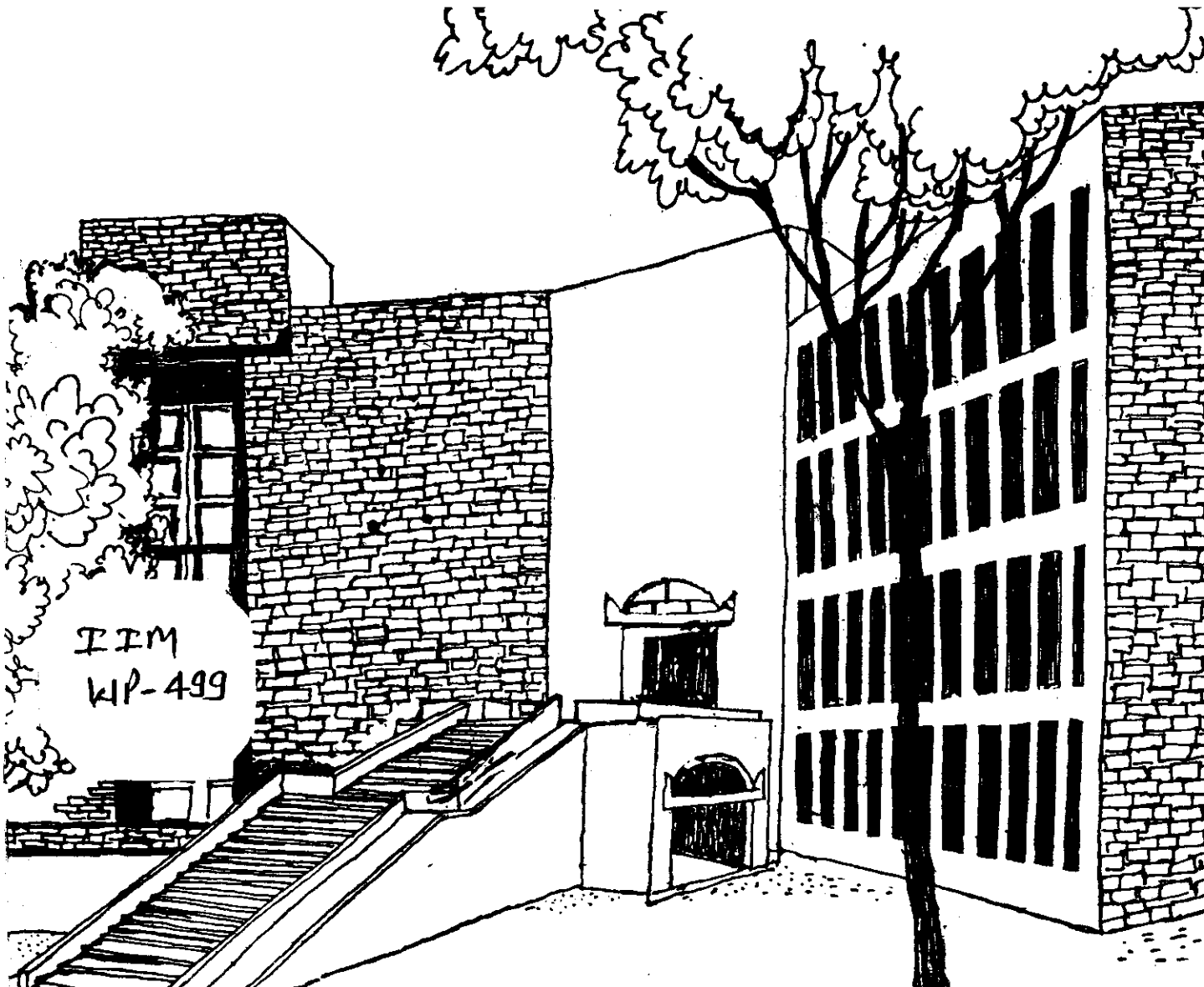




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ENTREPRENEURSHIP AND INDIAN MANAGEMENT:
A HISTORIAN'S GLIMPSE OF THE FUTURE

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ENTREPRENEURSHIP AND INDIAN MANAGEMENT
A Historian's Glimpse of the Future

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ENTREPRENEURSHIP AND INDIAN MANAGEMENT : A HISTORIAN'S GLIMPSE OF THE FUTURE

Before I spell out my views on entrepreneurship in India, I consider it appropriate to briefly clarify the concept of entrepreneurship as I see it. Defining one's terms is a good habit in any kind of presentation; in case of entrepreneurship it is all the more necessary for, it is one of the most misused terms in the academic vocabulary. Though it conveys a vague image of the activities of unconventional nature, not infrequently it is used to refer to this kind of activity in any sphere of life. It is not uncommon to hear such phrases like political entrepreneurship, academic entrepreneurship, and even literary entrepreneurship.

Confusion prevails not only because of the indiscriminately generic sense in which the term is used, but also because even those who use it with reference to business widely differ on its precise connotation. While puritans regard innovation in production function as the hallmark of entrepreneurship, others also include the launching of a manufacturing concern by a newcomer in business among entrepreneurial acts. But this is not the only source of confusions; between these two extremes are myriad shades of meaning attached to the term. Consequently, entrepreneurship has become what a prominent political thinker has said of socialism: a hat which has lost its shape because everybody wears it.

This is not the occasion to resolve the issue nor do I have special competence to do so. For my purpose it will be sufficient if I state my own position. Entrepreneurship, to my way of thinking, consists in a creative response to the constellation of all relevant forces, resulting in the birth and expansion of a productive business enterprise. And by "constellation of forces" I mean an amalgam of factors specific to a decision maker or a group of decision makers - social cultural values; family affiliation and upbringing; nature and level of education and training, both formal and informal; contact

and reference groups, demonstration effect etc. - and the general environment around him such as political situation, economic infrastructure, and the goals and aspirations of a society. The perception of profitable opportunities by an individual or a group of individuals, determined by the constellation of forces may lead to initiating and consolidating a venture and, as the constellation change, expanding it. (A schematic presentation of this model of entrepreneurial process is given on the following page).

If this approach to understanding entrepreneurship is accepted, several popular notions about the Indian entrepreneurship would turn out to be mere misconceptions. One of the most pervasive beliefs is that the Indian religion and culture acted as a serious impediment to entrepreneurial spurt. Propounded first by the German sociologist Max Weber about three quarters of a century ago, the thesis would have us believe that the so-called other-worldly elements in the Hindu thought blunted the edge of business creativity in India and the rigid occupational division of the caste system bolted the door of business career for a large section of the population. Weber went to the extent of suggesting that the Hindu value system and social structure was so potent as to leave an indelible mark on the behaviour of the Muslims, Christians, and other minorities in the country.

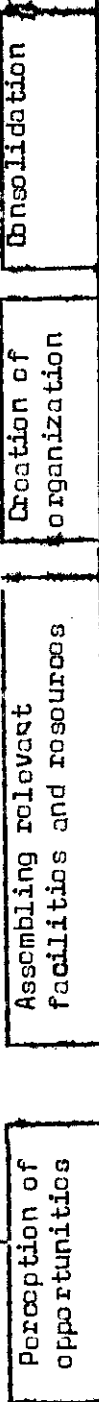
Apart from the fact that it is different to identify a single Hindu value system or accept the proposition that the Hinduism is more other-worldly than many other religion whose followers have made great strides in economic spheres, never in history has a community or people internalized the norms laid down in its holy books. The Indians cannot be credited to have achieved this impossible feat. It is also difficult to believe that the Hinduism, unlike any other religion in the world, remained impervious to change under pressure from the change in the material environment. In spite of these obvious theoretical weakness, the Weberian postulates were widely

ENTREPRENEURIAL PROCESS

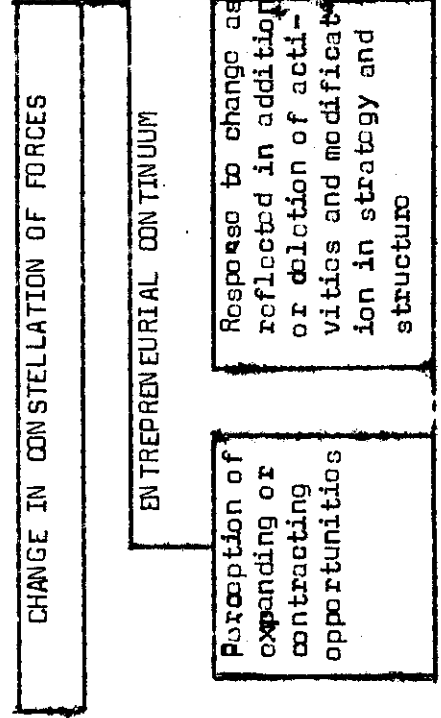
CONSTELLATION OF FORCES

- Major Constituents:
- (a) Social cultural values; religious influences
 - (b) Social-political structure & condition
 - (c) Economic infrastructure & social overheads: communication, transport, education, credit etc.
 - (d) National goals & governmental policies
 - (e) Demonstration effect, contacts & reference groups

ENTREPRENEURIAL INITIATIVE



EXPECTANCY OF REWARD



Indicates that there is no automatic transition from one state to the other. Casualty can occur at any stage.

accepted not only in the West but also in India perhaps because Western enunciations about ourselves have always had an aura of authenticity in our eyes.

The fact is that the religion has never been a greater obstacle to entrepreneurial upsurge in India than it has been anywhere else. It is true that the Vaishya group of castes maintained their dominance on the business horizon of India for a long time and the social subdivision sanctified by the scriptures and usage inhibited the occupational mobility. This is so not because the religious dogmas blocked the entrepreneurial spurt but primarily because the material elements in the constellation of forces, impinging on occupational choices in India, remained too feeble to offer any real stimulus to break the conventional barrier. The result was that for several centuries in our social history, there remained a rough equilibrium between perceivable opportunities on one hand, and business behaviour and social division on the other.

Ironically enough, it was the British ruling presence that disturbed this equilibrium through creating better infrastructural facilities, providing a liberal system of education and bringing India face to face with a superior technology and superior entrepreneurial endeavours. I am not suggesting even for a moment that our alien masters did all this with altruistic motives. On the contrary, the positive impact of the British rule was ^{an} unintended byproduct of the policies formulated and programmes promoted with a view to serving the imperialist ends. But this is beside the point. What is important is that during the raj, both as a result and in spite of it, there were qualitative changes for the better on the entrepreneurial horizons of India. In other words, the constellation of forces radically changed and pointed to new opportunities to be exploited, new avenues of profit. Consequently, scriptural dispensation and seemingly impregnable tradition which had earlier constricted the freedom of

occupational choice began to be either compromised or readapted to break the cake of custom and destroy the monopoly of the Vaishya group of castes of business profession. This is exactly what happened in other societies whose religious systems are considered to have been more conducive to entrepreneurial endeavours, except that the constellation of forces changed somewhat slowly in India and therefore the Indian entrepreneurial cauldron took a longer time to warm up.

The entrepreneurial base in India, thus, had become considerably much wider than ^{at} any time before in its history when our foreign masters left us free to manage our own destiny. The confidence that the advent of freedom generated, the facilities that a national government provided for indigenous ventures, and the qualitative changes that the accent on planned development brought about provided a powerful new push to entrepreneurial upsurge. The result was that while the established groups responded to the new opportunities by diversifying into new and relatively less familiar lines, a large number of newcomers began to make determined forays into business profession of diverse nature. Significantly enough, these new entrants came from all castes and sections of the population. The entrepreneurial firmament of India, as a consequence, became much more variegated not only from the point of view of goods and services produced but also from that of the composition of the business class.

I would have liked to cite data from various stages of our history to substantiate my point regarding the gradual but steady breakdown of occupational immobility under the weight of change in the material environment during the last two centuries. But I would refrain from doing so, aware as I am that history is too shy a horse to carry this audience very far. Perhaps it would be sufficient to point out that on the eve of the British departure from India as many as 9 out of the 18 largest Indian business groups had been developed by families which claim to belong to castes out of the

Vaishya fold. Incidentally, almost all these 9 houses began their career and grew into giant enterprises during the British period of history. A number of studies pertaining to the post-freedom era have established that the entrepreneurial class transcended, more convincingly than ever before, the barriers of caste and religion. In the state of Tamil Nadu itself, as James Berna has concluded, the new industrial entrepreneurs came from "extremely varied economic and social background". Another survey conducted by David McClelland with reference to Andhra Pradesh found little support to the view that value system hampered entrepreneurial motivation. In a study which I have just concluded, I have found that not religion but exposure to new ideas and the understanding of business development in industrially advanced countries was the common facilitating factor behind the entrepreneurial perception of most of those who founded and developed large industrial enterprises in Western India and that the complexity and magnitude of their endeavours corresponded roughly to the appreciation of Western industrial scene and profit potential of ventures based on Western technology. In fact, the families belonging to the Vaishya group of castes or engaged in trading operations were somewhat slow to move into industrial lines perhaps because transferring their resources to unfamiliar and untried fields entailed a certain measure of opportunity loss for them - a factor which did not afflict those who were fattened by no such encumbrances.

My earlier reference to what I have called the business class runs counter to another popular folklore about the Indian entrepreneurial behaviour, and this is that India developed a number of discrete business communities rather than a composite business class. The upholders of this view - and they include such illustrious figures as the late D. R. Gadgil - perhaps imply that this phenomenon differed markedly from the development in Europe and other countries where capitalist enterprises flourished. Frankly speaking I do not know the meaning of the word "community" and if I go by the myriad definitions floating around

I doubt if anybody else does. The proponents of the community theory, in fact, have never cared to explain the implication of the phrase with any degree of precision, but the context in which they have used it indicates that it denotes a group of businessmen who, in addition to their common occupational affiliation, share certain socio-cultural characteristics inherited from birth, and thanks to this accident the business interests pursued and strategies adopted by one community are clearly distinguishable from those of the other.

If that is so, and there possibly can be no other meaning, the community approach smacks of the same kind of cultural determinism which I have tried to combat earlier. But this is not my only objection to ^{this} approach. The fact is that if we review the history of these so-called communities, practically each one of them appears to have been a mini-business class at the early stages of its evolution. As the country was politically fragmented and communication between one region and the other scanty, businessmen in one region could not have made common cause with their counterparts in the other parts of the country. But within their own region, they represented a variety of socio-cultural groups which became even more varied as the traditional barriers to occupational choices began to crumble, and made common cause to safeguard their purely business interests as distinct from cultural concerns. In other words, what bound them together were not their cultural, but economic concerns. And this, I submit, is the basic characteristic of a class. Each business community, thus, to my way of thinking was a class in making if we look at it in the context of the region in which it emerged or the linguistic group to which it belonged. These proto-business classes eventually merged their separateness into an all-India entity as the country became more united and communication between one region and the other more easy. By the time India became free, an Indian business class had already emerged which has achieved a much greater cohesiveness after independence. Nothing illustrates it better than the rise of various

trade associations, encompassing the whole country, in the early 20th century and the continued augmentation in their respectability and strength in recent years. ^{And} ~~can~~ anyone maintain today that there is any intrinsic difference between the strategies and structures of Gujarati business and Maharashtrian business houses or between Sindhi and Marwari business houses?

The process through which the Indian business class emerged was very much similar to those through which business classes developed in other capitalistic societies. A number of clearly distinguishable socio-cultural groups are active in the American business today but nobody calls them business communities. I do not understand why there is so much stress on this aspect of Indian situation except that we are so much used to drawing circles around us that we cannot dispense with this pastime in any sphere of life.

Another folklore about the Indian entrepreneurship is that it has been adaptive or secondary in character rather than "creative" or "primary". This belief stems from a conceptual confusion which views entrepreneurial efforts in this dichotomous fashion. It is believed by some theorists that the processes leading to the development and general application of a new production or managerial device at the first instance constitute primary entrepreneurship whereas the adoption of the same device with or without modification by societies other than the one where it first originated is a case of secondary entrepreneurship. But in as much as the adaptation of a new production function to a milieu different from the one which demonstrated its validity is an act of innovation, the distinction between the primary and secondary entrepreneurs is meaningless. If we look at their experience in a proper context, the early entrepreneurs of the colonial societies in embracing the technological process developed in the west exposed themselves to hazards which for them were no less daunting than the risks that the entrepreneurs of the mother countries took

in perfecting those devices in the first instance. After all an entrepreneurial endeavour cannot be evaluated in isolation; the will to innovate cannot be separated from the capacity to innovate.

Besides, the view that the Indians entrepreneurial manifestation was adaptive rather than creative is based purely on technological ground for, both before and after freedom the Indian industries have remained heavily dependent on the technical know-how borrowed from more advanced countries. This was so because conditions in India have not been conducive to development of indigenous manufacturing devices. If the colonial syndrome militated against technological breakthrough during the British rule, collaboration with industrially advanced world was considered a more effective instrument of rapid economic development in the post-freedom phase, as developing indigenous devices would involve a heavy financial outlay and a long gestation period. But if we do not confine our search for Indian entrepreneurial expression to the technological sphere alone, we would find several areas where the innovative genius of the Indians manifested itself.

Two examples will suffice. One, as far as the form of ownership was concerned, the joint stock principle was accepted by the Indians with much greater alacrity than by the English entrepreneurs. For, it is well-known that while most of the British companies in the 19th and the early 20th centuries were partnership firms, most of the Indian manufacturing concerns were either born as joint stock firms or converted as such in due course of time even though the examples of the reverse process are not entirely wanting. Likewise, the Indian approach to management structure differed radically from that in vogue in Britain when industrial entrepreneurship took shape in India. While the British companies were managed by salaried directors under the overall control of the boards of directors, the Indians perfected a system of management which was almost unique to India. This was the

managing agency system about which so much has been written that I consider it unnecessary to discuss it in any great detail.

This is not the occasion to discuss the merits and demerits of these managerial innovations in India. But it is necessary to point out that they were consistent with our environment and our needs. In a country where industrial capital was shy and capital market was yet to develop, the joint stock principle was the most effective and relatively safer method to generate resources for unconventional ventures. And the managing agency structure flourished because, among other things, it entailed little or no threat to the authority of the family in managing the industrial undertakings floated by it. In a society where the joint family system has been the most dominant social institution until very recently and where the head of the extended family has had the decisive voice in everything affecting the family, the managing agency system was nothing but an adaptation of the family management system for managing industrial undertakings. In other words, the business management structure being almost co-terminous with the family management structure did not mark a break from but ensured the continuity of a time-honoured tradition. True, the system was open to serious abuses, and a large number of managing agents actually did abuse their powers and privileges, but it is almost undeniable at the same time that no other system perhaps would have been more effective in promoting industrial undertakings in the Indian milieu.

I could have cited, if I had time, some examples of Indian innovativeness in the functional areas of management. But let me simply plead with you not to seek the evidence of the entrepreneurial genius of a people in the realm of production techniques alone. For, technology is not the only index of innovation and the innovative ability of a community cannot be properly assessed without reference ^{to} the possibilities of innovation inhering a given constellation of forces. The fact of

the matter is that the entrepreneurial endeavours of many other societies at the earlier stages of industrialization have been based on borrowed technology. The American entrepreneurs of the 19th century, by and large, depended on the production processes developed in Europe with suitable modification and laid the foundation for the great heights achieved in subsequent years. Likewise, the Japanese have drawn on the American know-how with such astounding success. In fact, their entrepreneurial genius has blossomed fully in adaptation rather than creation of a new technology. And yet, nobody ever refers to the American or Japanese experience as an essay in adaptive entrepreneurship. What these examples indicate is that the so-called adaptive entrepreneurship may be an intermediate stage in the development of the entrepreneurial spirit of a people, or, in some cases, the ability of a society to modify the technical processes developed elsewhere and use them effectively may constitute the essence of its entrepreneurial ability. The Indian experience must be seen in this perspective.

Let me pause for a moment at this stage to recapitulate what I have been trying to drive at so far. If the Indian entrepreneurship grew at a slow pace in the past, it was not due to our religious or cultural ethos but ^{due} to the lack of sufficient stimuli. In fact, what we witness in the broad sweep of Indian history is the steady retreat of traditional dogmas in the face of advancing frontiers of infrastructural changes in the constellation of forces. This, on one hand, opened up new business opportunities, and, on the other hand, lured a large number of people away from their prescribed occupational roles into the business profession, widening the social base of Indian entrepreneurship and creating a more cohesive business class in the process. And the entrepreneurial manifestation of this class has been a judicious blend of creative and adaptive endeavours, consistent with our social and economic realities. This process of change, I submit, has been more or less similar to what has been experienced by other societies in the course of their rise in entrepreneurial ladder.

What does all this mean for the future of Indian entrepreneurship? I must concede at the very outset that I am neither^a futurologist nor a soothsayer; by training and interest I am more comfortable with analysing the past. But history being, the only link between the past and the future, must provide suggestion for the shape of things to come or else it would be worse than cowdung. And what I have said earlier does provide some glimpse of the future.

First, the social composition of the Indian business class will expand further, inspite of the so-called negative elements in our culture on which the Western critics and some of our own countrymen continue to harp. Of course, I assume that whatever may be the character and ideological posture of the government, the environment would continue to offer sufficient scope and inducement for the private initiative to flourish. It may be pertinent to recall that notwithstanding its bitter complaints against the governmental policies, the private sector has made considerable progress in the post-freedom era. I believe that this partnership between the government and the private sector in economic reconstruction will continue, though it may, on occasions, become uneasy.

The reason which will bring new entrants into business and thus make the Indian business class more heterogenous socially, will also lead to the gradual disintegration of family business. With the growing urbanization and industrialization, the joint family system has been on the defensive for sometime. As the process of social change is going to continue unabated, the age-old Indian family system is going to experience severe pressure. We may recall that the primary reason for the consolidation of the managing agency system in India was that it was consistant^e with the family structure in the country. I do not see the possibility of the joint family system holding on to it for a long time. I, therefore, feel that the business edifices built on this foundation will not endure. In fact, the recent history bears this

out. In the last few years, a number of family groups, which appeared to be too solid empires to be buffeted by the wind of social change have broken down. When the Dalmia group broke in the early 50s, it was seen as an aberration. In retrospect, it seems that the event was the messenger of the future rather than a mere accident. Who would have imagined that such impregnable fortresses as the Sarabhais, Mafatlals, Amins, Khataus, Piramals, Morarji Gokaldas, to mention only a few, would so easily succumb to the challenge of times till they actually did so. And a careful listener can overhear the echo of tensions behind the inner walls of several other empires. In fact, as I see it, few family groups would be able to retain their unity beyond the third generation.

One may be tempted to attribute this phenomenon to the abolition of managing agency system. I think that the truth is the other way round. The death of the managing agency system was natural and not artificial because the system had ceased to be consistent with the social realities of the country or else it would not have been allowed to go unwept and unsung. The private enterprise would have succeeded in devising a substitute consistent with the law. If this did not happen, or some clever moves made in a few quarters failed to win converts or set a trend, it was because when the managing agency system was abolished, it had more or less become an anachronism.

The disintegration of family groups should provide some hopes to the supporters of professional management - but only some. An unmistakable trend in the business families during the last fifty years or so has been to ensure that the younger generation was professionally trained to handle the affairs of business efficiently and intelligently. It is this generation of owner-managers who are now taking charge whether a group has broken or remained intact. It has also been observed that the distance between the younger members of the business families and their managers is much less than in the previous generation. These young owner-managers will be more willing to share the responsibility

of management with professional executives than their forbears but not surrender their discretion entirely to them. The managerial structure that is going to emerge in the immediate future, therefore, would be a partnership between the professional executive and the younger generation of owner-manager who is coming to the helm of affairs.

The young owner-manager in the private sector, however, represents a transition. It seems to me that as the managerial competence would grow in the society and shrink in the business families simply because there may not be enough persons to take charge, professional manager, as a consequence, would assert himself. The financial stakes of most of the business families in the enterprises controlled by them are much less than what is required to retain control over them; the financial institutions controlled by the government hold the reins in their hands. It seems to me that with the growth of managerial manpower in the country, the financial institutions may be tempted to dilute their holdings in these enterprises, resulting in a much wider dispersal of ownership. What I visualize eventually is the separation of management and control. And if that happens, it would not be, let me assure you, because of the Swaraj Pauls and the Datta Samants but perhaps in spite of them.

Would that herald an era of less authoritarian air in Indian management? My answer to this million-dollar question is "not necessarily". The authoritarian atmosphere is due not only because of the ownership pattern in the private sector, but also because both owner-manager and his executives are the product of a social system which nurtures a certain kind of attitude towards superior-subordinate relationship. A society based on hierarchical relationship creates a personality which is at once prone to command as well as subverse - depending on the position occupied by an individual. There is no doubt that our social system cannot remain immune to the pressure for change as democratic values take roots in our society

but I see a long time-lag between the establishment of a democratic polity and the emergence of a democratic society. I, therefore, feel that authoritarianism is going to remain a significant element of our managerial style at least in the foreseeable future irrespective of who occupies the leadership position in an enterprise - an owner-manager or a professional executive.

Whatever may happen to the managerial structure and style, I have no doubt that as far as production techniques are concerned, the Indian management would continue with its tradition of adapting borrowed know-how; the possibility of our organizations embarking on basic research at a significant scale to develop new process in near future is remote indeed. This is because in a world without borders, access of a nation to technology developed in another society is far easier than at any time in the past. One can conceive of a vast 'republic of technology' of which every nation is a constituent part. Under such a situation consideration of the economy of scale would, to a large extent, determine whether to develop a new production device from the scratch, demanding a huge investment of time and money, or draw on the technological reservoir of the world. Going by the attitude of the Indian management during the last half a century, particularly after freedom, I believe that we would continue to prefer a collaborative rather than inventive route to technology. Incidentally, this approach would conform to the nation's goal to self-sustained economic growth within the shortest possible time. It seems to me that India - and perhaps the developing world in general - would choose the Japanese road to industrialization in preference to the method followed by Europe and the United States. Whether the Indian entrepreneurial spirit will remain content with perfecting the adaptive approach, or we would use this as a base to embark on a more ambitious phase can be anybody's guess.

These are a few glimpses of the future entrepreneurial behaviour in India which I get as I survey the past. But before concluding I must remind you once again that history offers only suggestions for the future - neither lessons nor conclusions. - ~~And a suggestion, by its very nature,~~ represents the starting point of one's thinking rather than the finality.