The State, Industrialization and Competition: A reassessment of India’s Leading Business Enterprises under Dirigisme

Mazumdar, Surajit

December 2011

Online at https://mpra.ub.uni-muenchen.de/47810/
MPRA Paper No. 47810, posted 25 Jun 2013 08:47 UTC
The State, Industrialization and Competition: A reassessment of India's Leading Business Enterprises under Dirigisme

Surajit Mazumdar

"This is an Author's Accepted Manuscript of an article published in Economic History of Developing Regions, 26:2, 33-54, 2011 [copyright Taylor & Francis], available online at: http://www.tandfonline.com/10.1080/20780389.2011.625239." [Please note that the published article, the version on record, differs in some respects from this manuscript]

Abstract: For over four decades after independence in 1947, India's industrialization took place under a regime with an extensive system of controls over private capital. It is commonly believed that during this period of dirigisme, established dominant business families successfully manipulated the system to block competition from new firms and thereby perpetuated their dominance. This paper presents evidence to show that this perception conceals as much as it reveals. The process of industrialization between independence and the onset of liberalization in 1991 is actually marked by a combination of continuity with important shifts in the composition of Indian big business. The paper provides a framework for understanding this combination by revisiting the understanding of how business rivalry under Indian dirigisme actually worked. This is done by placing it within the context of dynamic industrialization and structural change, which unfolded within the specific economic, social and political realities of India. The paper shows that continuity and change amongst the leading private business enterprises had common roots in this competitive context.
After achieving independence from Britain in 1947, the Indian state adopted a strategy of import-substituting industrialization and ‘planned’ economic development. As a result, the state principally took on the role of guiding and directing economic activity. Apart from controlling inflows of products, capital, and technology, Indian dirigisme essentially partitioned economic activity between the private and public sectors. The public sector dominated key industries and sectors that constituted the ‘commanding heights’ of the economy. At the same time, the state attempted to direct private investment in accordance with planned priorities. An elaborate system of controls on private capital was created, the centrepiece of which was a system of industrial licensing. The private sector was allowed to dominate manufacturing activity, which consisted of both formal and informal components. The informal component was larger than the formal at independence, but its relative share was reduced to a little over a third by the end of the 1980s. It was the formal part which was subjected to regulation. Large business firms, organized occasionally as individual joint-stock companies but more often as multi-company business groups, dominated the formal sphere.

Following a foreign exchange crisis in 1991, economic policy in India made a radical break with its past. Liberalization and deregulation became the dominant themes. In the discourse surrounding that transition, a dominant view has been that an excessively statist economic policy was chiefly responsible for India’s industrialization problems (Bhagwati 1993, Joshi and Little 1996, Tendulkar and Bhavani 2007, Virmani 1999).¹ One of the central elements in this assessment of Indian dirigisme is the effect of controls on the competition between firms and thereby on the efficiency of the industrial sector. Protectionism and domestic regulation, it is argued, protected Indian business firms from both external and internal competition with consequences that were often the opposite of what was intended. Specifically, rather than curbing monopolies and the concentration of economic power, dirigisme in India allowed a segment of private capital to monopolize the opportunities for expansion and to erect artificial barriers to the entry of new firms. Established business families, who dominated at the time of independence, manipulated the system of controls to maintain their stranglehold on India’s industrial sector.²

¹ An earlier critique along the same lines can be found in Bhagwati and Desai 1970.
² The following summarises this viewpoint: “India was the most planned among mixed, non-communist economies until 1991. While it had a long tradition of modern private industry run by an indigenous class of entrepreneurs, upon independence the consensus was for a state-led, import substitution industrialization with relative neglect of agriculture and of the imperatives of employment generation. This was labeled a permit-
Critics of India’s statist economic policy have however not been the only subscribers to the idea that the system of industrial controls was used by leading business firms to perpetuate their dominance. Termed the Hazari-Dutt perspective (Chandrasekhar 1999), this view in fact originally emerged out of the Indian discussions on the issue of “concentration of economic power” in the 1960s. The backdrop to this was the evidence that a few large business houses had actually succeeded in maintaining a steady dominance over the industrial sector in the first decade and a half of planning. The discussions of the 1960s served however to rationalize more rather than less state regulation. Measures like the Monopolies and Restrictive Trade Practices (MRTP) Act, the abolition of the Managing Agency System, and nationalization of major banks and industries followed. Subsequent assessments revealed that most large firms were able to, or allowed to, circumvent these attempts to curb their power (Goyal 1979, Paranjape 1991).

Thus, despite some disagreement about the importance of state intervention for economic development, most assessments of India’s import-substituting industrialization regime have fostered the impression that stability characterized the composition of Indian big business before liberalization. However, this issue has never been subjected to systematic examination. Nor has there been any attempt to collect evidence that could be used to assess how stable the Indian corporate world was during the relevant period.

This paper puts together evidence to tackle this question. A specially constructed list of India’s largest business enterprises in 1990 is compared with those available from earlier studies. This reveals that the process of industrialization between independence and the onset of liberalization was accompanied by some continuity as well as important shifts in the composition of Indian big business. Despite the ongoing dominance of the oldest and largest family firms, entry and exit from the large business sector did take place. There was also a significant reordering of relative positions.

To explain this combination of continuity and change the paper revisits the understanding of how business rivalry under dirigisme worked. This is done by placing it within the context of dynamic industrialization and structural change. This context was furthermore structured by the specific economic, social and political realities of India. As a result, both established license raj in which quotas and high tariffs insulated domestic industry from outside competition, in which a large public sector crowded out private companies, and where the few large established business houses grabbed most of the licenses issued for capacity expansion in industry. (Desai 2003)


Baru (1988), Chandrasekhar (1999), and Damodaran (2008) are partially important exceptions.
business enterprises and newer or smaller enterprises could all use the methods offered by the system of controls to their advantage. Dominance was the consequence of the successful use of these rather than their essential premise. The relative abilities of enterprises to exploit these methods were determined by a complex set of factors; these were not a simple function of their relative sizes.

The results of this paper indicate that the study of India’s experience with import-substituting industrialization is a field of enquiry that is by no means exhausted. In particular, the interface between industrialization and the business histories of that period are open to new research and interpretation. Business history has always been a relatively neglected area in the research on India (Tripathi 1992). In addition, the study of Indian economic history between independence and liberalization is today a major concern of neither of the two relevant disciplines, namely history and economics. Indian historiography has traditionally not extended itself beyond 1947 (Chibber 2004, Guha 2008). Indian economic research on the other hand has always had a contemporary focus, which now translates into an almost exclusive preoccupation with the post-liberalization period. The business history of the interim period in such a context is even less likely to attract attention if it is assumed that there is effectively no such ‘history’. To that extent even a simple demonstration that the story of the corporate world in that period was one of motion rather than stability is valuable.

Continuity with Change in India’s Leading Business Firms: The Evidence

The prevalence of business groups has always rendered difficult the identification and ranking according to size of private business firms in India. In the group form of the business firm, a number of legally independent companies are subject to the control of a single centralized authority and function as a single organization. Information about the companies constituting different groups has however never been readily available. This problem was even more acute during the period of controls when groups had many reasons for not revealing all the companies that they controlled.

Systematic exercises to identify the companies constituting different groups were undertaken only in the 1960s, by Hazari (1966), the Monopolies Inquiry Commission (MIC) (GOI 1965), and the Industrial Licensing Policy Inquiry Committee (ILPIC) (GOI 1969). Despite differences in the criteria used for determining the company compositions of groups, their findings overlapped to a fair degree. However, unlike the MIC, Hazari and ILPIC had two different boundaries for individual groups. Hazari’s ‘complex’ for any group included both
an inner-circle and an outer-circle, the latter including those companies where the group shared control with some other firm. The ILPIC introduced the concept of a ‘second-tier’, in which were included companies not part of the group proper but nevertheless having a close association with it. Hazari had also highlighted the existence in some cases of sub-groups, formally de-linked from the group proper but not operating entirely autonomously.

Hazari only identified the company composition, in the years 1951 and 1958, of twenty groups. The MIC and ILPIC reports, on the other hand, reveal more comprehensive listings of firms which had assets of at least Rs. 5 crores (Rs. 50 million) in 1964 and 1966 respectively. The MIC identified 75 groups and 57 individual companies (companies not included in any group, termed as ‘large independent companies’ by the ILPIC) meeting that criterion in 1964. The comparable numbers from the ILPIC were 72 groups and 60 individual companies. Thus from these reports we can generate a list of the 132 largest business firms in the mid-1960s. To these one may add three additional groups which were above the threshold size in the mid-1960s but escaped the attention of the MIC and the ILPIC. Two additional lists can be extracted from the MIC report. The first is of 300 companies which were not affiliated with any large group and had assets between Rupees 10 and 50 million in 1964. The second is of companies which were amongst the top 5 producing firms of either one of 1278 different industrial products, amongst whom were many which had assets less than Rupees 10 million and were also not part of any group.

Thus, the MIC and the ILPIC reports between them provide a fairly comprehensive picture of the leading business firms in India during the early post-independence period. No comparable picture for subsequent periods is however available in any published source. Only the lists of companies registered under the MRTP Act, along with their group affiliations, are available up to 1990. Unfortunately, all the companies of large groups were not actually registered under the Act; nor was the determination of their group affiliation always accurate (Chalapati Rao 1985). To arrive at definitive conclusions about what happened to the composition of India’s leading private business firms after the 1960s, a list of the 210 largest firms in 1990, virtually the end-point of the dirigiste regime, has therefore been specially constructed.

5 The major studies are summarized in Sandesara (1992).
6 Financial data for these companies were taken from GOI (1991 and 1992) and for companies listed on from the official directories of stock exchanges. The formidable difficulties faced in preparing such a list prevent repeating that exercise for different intermediate points of time between the mid-1960s and then 1990.
Information culled from a variety of sources was used to identify 210 large firms that in 1990 had either assets or income of at least Rupees 100 crores (1000 million). This threshold size could be considered comparable to that used by the MIC and ILPIC for the mid-1960s, given the increase in India’s gross domestic product (GDP) between the 1960s and 1990. The MIC data revealed that the value of the annual turnover of large groups in 1964 was similar to the value of their assets. Therefore a threshold size defined either in terms of income or assets is usable. Where possible both criteria have been used.

By the author’s calculations, the 210 large private sector business firms in 1990 accounted for roughly 57 per cent of the total assets of over 200,000 private sector companies existing in that year and about 72 per cent of their income. 173 of these were Indian firms, 169 of which were family controlled. 31 groups/companies were affiliated with foreign multinationals (MNCs), four were controlled by non-resident Indians (NRIs) and two were jointly controlled by NRI-MNC combinations. It must be noted, however, that any divisions that may have affected the family controlled groups have mostly been ignored. This practice was adopted to avoid exaggerating any changes in the composition of the leading firms. It does not make sense to equate instability within families with instability in the composition of leading firms. However, the divisions the ILPIC and the MIC had taken into account have been retained, and the second-tier groups of the ILPIC and the Hazari sub-groups are assumed to be distinct firms.

To facilitate comparisons with the mid-1960s picture, the 210 large private firms identified for 1990 can be classified into the following categories.

A) Those which were amongst the 135 large firms of the mid-1960s.
B) Firms indirectly included in the Hazari, MIC or ILPIC lists by virtue of their association with large groups – a) as sub-groups/second-tier groups; b) because they jointly controlled some companies with major groups; or c) because at least one of their companies was managed by a large group through its managing agency.
C) Firms having companies with assets between Rs. 1 to 5 crores in 1964 which were not listed as large groups at the time.
D) Firms which were amongst the top 5 firms in at least one industry in the mid-sixties but did not qualify for category C.
E) All other firms.

---

7 This was the asset limit for registration under MRTP Act applicable in 1990.
8 The total assets or income of all companies is not available from any source and these therefore were estimated using the aggregates for a sample of companies.
Table 1 shows the distribution of these 210 firms, and different indicators of their size, between the five categories. The table also shows the distribution of firms within each category by their period of origin. The period of origin in each case, with some adjustments, is derived from the earliest year in which a company currently or previously part of the firm was incorporated.

A marked feature of India’s largest firms in 1990 was that many had come into being before the planning era began in 1950. However, such firms were present in all categories including category E. The strong component of continuity amongst India’s leading business firms is actually indicated by the large share of Category A firms in the size aggregates for all large firms. Category B may also be considered as representing the older, traditional group of large firms. However, between them these two categories accounted for less than half of the large firms in 1990. Moreover, missing from amongst them were as many as 49 firms that had been amongst the largest firms in the mid-1960s. 29 of these were groups and 20 were large independent companies.

Categories C and D include firms that were semi-dominant firms in the 1960s but not in the top rung, and whose status had been clearly elevated by the end of the 1980s. The last category, accounting for over a third of the largest firms but a much smaller share of the size aggregates, could be considered as firms which mainly grew after the mid-1960s. Certainly their membership of the group of large firms was a product of the post-independence industrialization process. Of the 71 such firms, as many as 65 were Indian controlled.

To check that the element of change has not been exaggerated by pitching the threshold size for 1990 at a low level we doubled the threshold size to Rs. 200 crores. As a result, the total number of large firms in 1990 was reduced to 134, almost identical to the number in the mid-1960s. However, while this reduces the number of category E firms by 32, category A firms were also significantly reduced, by 21 to be precise. This means that 70 of the top 134 firms in 1990 were different than the top 135 firms of the mid-1960s, and 39 of these were from category E.
The essence of continuity and change in the composition of the leading private business firms between the mid-1960s and the end of the 1980s can be captured by comparing the compositions of the smaller group of firms that stood tall within them at both points of time.
In 1990, 42 firms had incomes or assets exceeding Rs. 500 crores, or five times the threshold size. Exactly the same number had assets greater than Rs. 25 crores in 1966, which was five times the threshold size used by the MIC and the ILPIC. The continuing dominance of old firms was reflected in the fact that 35 of the 42 largest firms in 1990 were from category A. However, 18 firms amongst the largest 42 in 1966 were not amongst these 35. Only 10 survived among the set of large firms in 1990, but all of them had slipped down the relative size ladder. On the other hand, 11 of the new firms amongst the top 42 in 1990 were from category A, old large firms who had enhanced their relative size. Another firm was from category D, dominant in an industry in the mid-1960s but as a small firm. The real break from the past lay in the other 6 new firms who were from category E; five of them originated after 1965.

The visibility of a combination of continuity and change even with such significant adjustments of the threshold size indicates the tremendous variations amongst firms in both categories A and E. Too much should therefore not be made of the fact that the share in the size aggregates of category A was considerably greater than that of category B, despite the numbers of firms in each being similar. This simply reflects the larger number of category A firms in the largest size class, including the two largest groups whose sizes had always been significantly larger than of all others (this was true even in the mid-1960s). Other than these two, the spectrum of sizes of individual firms in Categories A and E were quite similar. The 49 firms absent from the large category in 1990, including those that slid down the ladder, were spread across the size spectrum in the mid-1960s. Moreover, if one were to go beyond simply relative sizes of firms and look at the trajectories which different firms were traversing, the extent of decline of some of the old and the rise of some of the new would appear more pronounced than it has been possible to show here. Some of the most prominent Indian firms of today do not belong to the older group of large firms and were only a little above or even just below the threshold size level in 1990.

Some of the 49 large firms of the 1960s absent from the same category in 1990 still existed as private firms but were now below the threshold size. In many instances however, their absence from the 1990 list is attributable to the re-distribution of control over capital within older firms, or between the State and private capital, that took place between the mid-1960s

---

9 The actual number was 43 including the ACC group, treated as an independent group by the MIC and the ILPIC the Tatas shared control over ACC with three other groups, but taken by us to be part of the Tata group in 1966 as well as 1990.
and 1990. Their disappearance from the 1990 list of large firms was thus partly a result of processes that in fact contributed to reinforcing the dominance of older large firms. The newer large firms were not part of that process. Therefore the interesting point about the growth of many new large firms is that the growth happened *despite* the continuing dominance of older large firms. In other words, the demise or decline of segments of older large firms that had dominated at the time of independence, the robust survival and growth of many others within the same category, and the rise of a number of new large firms accompanied the industrialization process after independence. It was this mosaic combination, reflected most by the varied fates of family controlled Indian firms, rather than a simple reproduction of a stable pattern of dominance that was produced by the competitive dynamics of Indian dirigisme.

**Dirigisme and the Competitive Dynamics of Indian Capitalism**

State intervention in the economy in the pre-liberalization era meant that the *discretionary* decisions of state and state controlled agencies and institutions played a crucial role in the allocation of expansion opportunities between private capitalist firms. Under the 1951 Industries Development and Regulation Act, private firms were required to secure licenses from the government for new capacity creation or substantially expanding existing capacity. In some cases additional approvals were necessary. Foreign collaboration and imports of inputs and capital goods also required prior government approval. The state was also omnipresent in the financing of private corporate sector. Indian private enterprises relied heavily on external institutional finance, and with the nationalization of insurance and banking and the creation of state-sponsored industrial development banks and institutions, public sector financial institutions became the main suppliers of finance (Reserve Bank of India 2000a and 2000b). State institutions also subscribed to and underwrote capital issues by private companies. Even the size, form and pricing dimensions of these issues were subject to government control under the 1947 Capital Issues (Control) Act, which was repealed only in 1992. The significant public sector presence in the Indian economy, and the promotion of a ‘joint-sector’ (public-private partnerships) created a large field of interaction between the public sector and private firms. For instance, government agencies and public enterprises granted contracts to private firms and also supplied critical inputs to them at administered prices.

Thus, irrespective of the mechanisms and motivations behind the decision-making of public agencies, the benefit of a favourable configuration of such decisions was one of the necessary conditions for the business success of individual enterprises. These decisions influenced not
only the boundaries of what these firms could do themselves but also what their potential or actual competitors could do.

In the conventional view of competition under Indian dirigisme, the source of large business dominance lay in the decisive advantage enjoyed by them in practicing pre-emptive behaviour. It has been argued that the environment of controls, especially industrial licensing, induced firms to strive to maximise their share in planned investment approvals. This served the twin objectives of pre-empting rival firms and of reserving target-bounded investment opportunities for themselves. By cornering a large share of these approvals in any industry, a firm could prevent entry of competitors even if it did not actually create all the capacity licensed to it. The command over large resources and better information and organization of large business-houses, it was believed, enabled them to make better use of these possibilities. They could influence the decision-making process in their favour and shut out potential competition from smaller firms (Bhagwati and Desai 1970, Ghose 1974a, GOI 1965). The multi-company business group structure also helped large firms to use many different companies to secure multiple industrial licenses in the same industry.

One basis for the disproportionate influence of large business firms, according to the MIC, was their “deep pockets”, which could be used to provide financial assistance to political parties and corrupt officials (GOI 1965, p. 136). The perception that the control regime spawned a system of corruption has become quite common. It is widely acknowledged that this became more dominant in the second half of the control regime, after circa 1970 (Goyal 1979, Kochanek 1987, Virmani 2004). However, discussions in the 1960s did not reduce the issue to corruption and instead emphasized the working of other forces in favour of established business firms. These included the perception that they had greater ability to secure finances or foreign collaboration. They were also able to build on established “credentials” in executing large projects. These, it was felt, influenced the decisions of public authorities keen to ensure industrialization and the effective utilization of scarce resources. The control and influence of large business houses over banks and financial institutions were also highlighted as a factor behind their greater access to finance. The establishment of public sector dominance in finance, however, did not necessarily affect the superior access to finance of large firms. Moreover, the securing of an industrial license often virtually guaranteed the availability of the requisite finance from public sector institutions.

The traditional view did capture aspects of how the competitive process under Indian dirigisme actually operated. The weakness of the view comes from drawing too strong a
correlation between firm size, influence, and the reproduction of dominance, ignoring in the process the specific Indian context within which the regime of controls operated, as well as its dynamic nature.

**The Impact of Industrialization and Structural Change**

The process of industrialization was the backdrop for the actual combination of continuity and change amongst large Indian businesses. Industrialization meant not merely an expansion of industrial output but also significant diversification of the industrial structure. This structural change was more pronounced in the case of the formal or organized segment of Indian industry, the segment in which corporate enterprises operated. At independence, India had a substantial textile industry as well as food product industries, but other, more modern, industries were extremely underdeveloped. Growth over the subsequent four decades however came mostly from modern sectors. The overall decline in the relative share of the traditional industries was also accompanied by a massive redistribution of textile production (fabrics) towards the informal or unorganized sector.

The structural change accompanying industrialization should be seen as one possible factor behind the changes in the composition of large enterprises. Textiles and other traditional industries had been important for many of the old large enterprises, being the initial base for their growth. Even in the mid-1960s, nearly 40% of the aggregate turnover of the 75 large groups identified by the MIC was derived from these industries. Over 20 groups and 13 of the 57 large independent companies were mainly based in these industries. By contrast, by the end of the 1980s, large enterprises were founded in a wide range of industries and hardly any had their major base in textiles. Table 2 gives a sense of this by showing the diversity of industries in which large enterprises had large individual turnovers in 1990.

However, industrialization and structural change by themselves cannot completely explain the change in the composition of large enterprises. For one, had there been such a simple relationship between the two, the changes in composition should have been far greater than observed. The element of continuity in the membership of the set of large enterprises is simply too great for this explanation to be entirely satisfactory. How then does one explain this degree of continuity, an equally important part of the story? Moreover, the industrial spread of the turnover of older and newer large enterprises in 1990 were not radically different.

---

10 Britain in the early 20th century is a good example (Hannah 1983).
Table 2: Selected List of Indian Industries where Large Enterprises had Individual Turnovers Exceeding Rs. 50 Crores (500 million), 1990

<table>
<thead>
<tr>
<th>Industry</th>
<th>Number of Large Enterprises With Turnover in Range:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>&gt;1000</td>
</tr>
<tr>
<td>Textiles</td>
<td>1</td>
</tr>
<tr>
<td>Sugar</td>
<td></td>
</tr>
<tr>
<td>Vanaspati, etc.</td>
<td></td>
</tr>
<tr>
<td>Tea and Coffee</td>
<td>1</td>
</tr>
<tr>
<td>Jute Goods</td>
<td></td>
</tr>
<tr>
<td>Other Food Products</td>
<td>1</td>
</tr>
<tr>
<td>Cement</td>
<td>1</td>
</tr>
<tr>
<td>Paper and Pulp</td>
<td>3</td>
</tr>
<tr>
<td>Chemicals</td>
<td>4</td>
</tr>
<tr>
<td>Automobiles and Tyres</td>
<td>2</td>
</tr>
<tr>
<td>Steel and Steel Products</td>
<td>1</td>
</tr>
<tr>
<td>Electrical Machinery</td>
<td>4</td>
</tr>
<tr>
<td>Electronics</td>
<td>1</td>
</tr>
<tr>
<td>Non-Electrical Machinery</td>
<td>5</td>
</tr>
<tr>
<td>Plastic &amp; PVC Products</td>
<td></td>
</tr>
<tr>
<td>Alcohol &amp; Tobacco</td>
<td>1</td>
</tr>
<tr>
<td>Other Products</td>
<td>1</td>
</tr>
</tbody>
</table>


Evidence at a more disaggregated level for Indian controlled large enterprises also confirms that the change in the composition of large enterprises was not a simple process. Old enterprises did not always remain ensconced in the declining traditional industries and the growth of new enterprises did not always reflect the growing significance of newer industries. No doubt some of the large enterprises of the 1960s that ceased to be so by 1990, like the Podar, Mangaldas Parekh, B Kanoria and Rohit groups, were primarily textile industry oriented. So too were some others that experienced relative decline in their position between the mid-1960s and 1990, like Soorajmull Nagarmull, Thackersey, Ruia, and Thiagaraja. However, there were also many exceptions to this trend amongst enterprises that initially established themselves through the textile industries. Those like Birla, Kasturbhai Lalbhai, JK Singhania, Mafatlal, and Goenka, successfully survived the process of industrial change by finding opportunities of expansion outside the traditional industries. Further, some of the older large enterprises that declined had not focused on the sunset industries in the 1960s, but on those industries that grew relatively rapidly after independence. These included groups like Sahu Jain (Cement) and S.P. Jain (Chemicals and Footwear) which experienced relative...
decline, and others who had slipped below the threshold size level like RK Dalmia (Edible Oils and Cement), Indra Singh (Engineering), Kamani (Electrical Goods and Non-Ferrous metals), and Muthiah (Chemicals). Some like Sarabhai had substantial presence in both textiles and chemicals in the mid-1960s yet experienced significant decline in their relative position. Even more striking is the fact that new large enterprises emerged from not only the new industries but also many traditional industries. New large groups like Reliance, Oswal, Garden Silk, Siyaram Poddar and LNJ Bhilwara drew substantial turnovers from textiles in 1990. Edible oils, which was important, apart from Oswal, for other new groups like Amrit Banaspati and Wipro followed a similar pattern. The largest turnover of any single group in the sugar industry in 1990 (Rs. 145 crores) was that of a new group, the Sakthi group.

Industrial transformation possibly produced the varied trajectories of individual firm in two ways. Firstly, expansion opportunities were mainly outside the traditional industries, forcing the older group of large enterprises to transform in order to sustain their dominant position. It is unlikely, however that all would automatically take the steps required for such a transformation at the appropriate time. Secondly, large enterprises did not make their investment decisions as a group, but individually. Consequently even if they could collectively have cornered all expansion opportunities of long-run significance in new industries, there was no mechanism to ensuring that they would do so. They therefore often missed out on expansion opportunities that could be exploited by smaller or newer enterprises. Both these possibilities are made even more likely by two facts. First, many of the new industries were far removed from the traditional industries in which many large enterprises were initially based. Second, the scale of expansion opportunities they offered in their initial stages was often quite small. This could have made older large enterprises pass over some expansion opportunities. The absence of dominant incumbent firms and smaller initial investments would have made these opportunities attractive to newer or smaller enterprises. Thus, within the context of industrial transformation, the decline of large enterprises and the rise of new ones, or a change in their relative positions, could eventually result from the different strategic choices by firms, sometimes induced by different initial relative positions.

This kind of process definitely did happen in India, particularly in the initial period of post-independence industrialization. Until the mid-1960s, there was an important difference in the strategy choices made by the survivors and those who declined. Survivors pursued industrial expansion during the first three five-year plans and diversified into new industries, while the firms that declined chose to remain concentrated in the traditional industries. This failure to
diversify was to be of decisive significance as the industrial sector entered into a period of protracted crisis after the mid-1960s, which most severely affected the textile industry. The decisions of many enterprises in categories C to E to enter into smaller industries before the mid-1960s proved to be equally decisive, but in the opposite direction. Some of these enterprises had achieved turnovers in excess of Rs. 100 crores by 1990. Examples of this are Eicher (Tractors), Amrit Banaspati and Wipro (Vanaspati), Atlas Cycles and Hero Cycles (Bicycles), Kelvinator (Refrigerators), Facor (Ferro Manganese) and HN Kapadia (Tin Containers).

Early entry into an industry was however not necessarily a decisive advantage. This was proved by the growth of new enterprises in industries that had been dominated initially by older large enterprises. In 1990, three Category E enterprises (Raasi, Jaiprakash, and Gujarat Ambuja) and a Category C enterprise (Ramco) all had turnovers in excess of Rs. 100 crores in the cement industry, more than that of the Sahu Jain group which had been amongst the dominant groups in that sector in the mid-1960s. Another prominent example is of the Reliance group, the most important representative of the newer large enterprises in 1990. Reliance’s dominant position in the polyester fibre and some polyester intermediates industries, where many older large enterprises were the initially important players, was built up in less than a decade before 1990. These kinds of instances cannot be explained by industrial change alone. Comprehending them requires a modification and reconstruction of the conventional view on the competitive context under dirigisme.

**The State and Inter-Firm Rivalry under Dirigisme: A Revised View**

The rivalry between different private business enterprises characteristic of India under dirigisme had a distinctive character. Much of the rivalry was not played out in the market, but in shaping the conditions of market rivalry, which sometimes made competition appear to be virtually absent. The means of business strength were *external* to enterprises and securing them was in fact the object of the rivalry. In this rivalry, the size of an enterprise did not in fact provide such a decisive advantage. At the same time, it also meant that the dominant positions of firms were not closely tied to a particular industrial context.

In a context where business enterprises are reliant mainly on internal sources of funds, the investment possibilities of different firms are determined by the magnitude of funds *owned* by them. Large sized firms in such a situation could be expected to corner a large share of expansion opportunities because of their greater financial resources. Even in a situation of
where external finance is available, the allocation of such funds between enterprises would tend to favour large firms if commercially oriented industrial financing institutions or return-seeking individual investors dominated the process. However, in India the public sector financial institutions which mainly provided finance did not operate on a pure commercial basis. Their financing decisions were often subject to extraneous influences and were not always based on independent appraisal of projects and borrowers.

Large size could also be considered a major advantage if technology is proprietary in nature and mostly developed internally by the firms using them. Such was however not the case in India under dirigisme. Like all late industrializations of the second half of the twentieth century, Indian industrialization was initially heavily dependent on technology acquisition from abroad. Creating an independent technological base and preventing unnecessary duplication of technology imports were certainly the stated objectives behind the regulation of technology imports. By and large, however, the policy failed in its objective to promote the development of technology by Indian industry (Alam 1985, Tyabji 2000). In most industries Indian private enterprises typically did not create their own technology, for entry into a new industry or for upgrading in an existing one; they secured it through foreign collaboration. The competition to secure technology through such collaborations was somewhat different from that for finance. This is because the foreign suppliers of technology were not necessarily amenable to the same influences as the public sector industrial financing institutions. Since foreign collaboration and its terms were subject to governmental approval, the ability to secure technology depended not only on how much a firm was willing to pay or do for it but also on what it was permitted to pay and do. Moreover, there is no reason to presume that, other things being equal, foreign firms would always have preferred collaboration with established large Indian firms.

Large size did not represent an overwhelming and mutually reinforcing advantage in the competition for finance and technology. This was also the case in what was perhaps the most important rivalry between firms. This was the rivalry for approvals from state agencies, success in which was also critical for securing and successfully using finance and technology. In any economic context where the presence of a set of large and dominant enterprises is a structural feature, it would be inevitable that such enterprises would enjoy a significant influence with the state. The Indian situation under dirigisme was no exception on this count. However, since size and status itself depended crucially on the command over influence and had a relatively fragile independent basis, the leverage enjoyed by large enterprises in India
with the state had a correspondingly weaker structural foundation. This is all the more so when one is referring to the leverage relevant for advancing the individual interests of these enterprises rather than their ability to promote their general interest in relation to other sections of society.

The contestation over approvals was wider and more incessant than presumed by the traditional view. The fundamental assumption that licensing of capacity was limited by plan targets was neither consistent with planners being serious about plan targets nor with the notion that the ability of any enterprise to secure industrial licenses depended on its ‘influence’ and ‘connections’. In the former situation, pre-emptive behaviour of enterprises and under-utilization of licenses would have induced a tendency towards over/licensing as a countervailing measure (Chandrasekhar 1999). The ILPIC had noted that a strict relationship between targets and approvals did not exist even in the early post-independence period and rejection of licenses beyond planned targets was due more to factors like foreign exchange shortages. On the other hand, the exhaustion of a plan target would not necessarily stand in the way of getting additional capacity licensed if the influence commanded by the enterprise seeking it mattered significantly.

In reality the state in India at no stage displayed the capacity to discipline private capital in the manner that was necessary if plan targets for investment were to be strictly enforced (Chibber 2004). This inability had other implications too. The actual capacities created could deviate from licensed capacities in either direction. If there was underutilization of licenses, firms also created capacities larger than what was approved. These additional capacities either remained undeclared or approvals for them were secured ex post. The ILPIC had in fact found that the phenomenon of enterprises installing capacities beyond their licensed levels was more common than preemption through cornering of licenses which were then not subsequently implemented. A later study had also found the co-existence of under-utilization and over-utilization of licenses and of actual production levels both significantly below as well as above stated installed capacity levels (Corporate Studies Group 1983a and 1983b). This does not mean that the success of enterprises in securing approvals for themselves and restricting those granted to competitors was irrelevant. It was not for instance possible to create any capacity in an industry unless at least some was licensed. The extent to which licensing and other regulations could be stretched by enterprises was also subject to some limits. There were costs associated with such stretching, which would be expected to increase more than proportionately with its degree. However, to the extent that there could be such stretching in addition to the weak link between
plan targets and licensed capacity, pre-emption of licenses and reservation of capacity were less effective as a means of maintaining dominance than the traditional view thought to be the case.

The rivalry between firms operating under a regime of controls in India for finance, technology, and approvals was thus different from the conventional market rivalry. It was not so much a battle where competitive strengths depended on proprietary resources existing within firms, which could then be leveraged also in the competition for securing complementary resources from outside. Instead business success depended more on being able to command resources existing mainly outside the firm and influencing market conditions through means not under the direct control of firms. In such a rivalry, the access of any enterprise to finance, technology and the other means of business success depended not directly on its relative size but on the patronage it could command from state agencies. The benefit of such patronage and the consequent access to other means was not a one-time but rather a recurring requirement. Precisely however because large enterprises were deficient in firm-specific strengths, they were relatively more easily replaceable as the beneficiaries of patronage. Reproduction of the dominant position of any enterprise did not therefore have a very secure foundation. Conversely, if it could enjoy such patronage at critical points in its history a smaller firm could be transformed into a large and dominant one. This was the key which could open many doors.

The insecure basis for dominance should not of course be exaggerated. Investing effort and resources towards the objective of securing and maintaining influence was an integral element of large enterprises’ business strategy. This strategy no doubt paid some dividends, though factors other than simply corruption constituted the basis for the command over influence. Shifts in business leadership could, however, accompany industrialization even when large and dominant enterprises typically enjoyed greater leverage with state agencies and financial institutions than run of the mill businessmen. Such a prior status was in all circumstances neither absolutely critical nor always sufficient for gaining the necessary patronage. This would be ruled out only if a set of enterprises enjoyed a complete monopoly over all patronage throughout. This scenario is by no means a natural corollary of dirigisme. It requires a very definite historical, social, and political context to prevail. The Indian context at no stage after independence, let alone throughout the four decades of dirigisme, was of that kind.

The state in India had to manage a vast country with an extremely complex society, characterized by the co-existence of a variety of social and economic groups and great linguistic, religious and cultural diversity. The industrial capitalist class at independence was
only one such group, which was also narrow in other senses. It was very small in number and
presided over only a small part of the society’s entire production activity. Its constituents were
also drawn from very few of India’s social and linguistic groups. Politicians and bureaucrats
however did not come from a small closed circle associated with these dominant business
families. Since the adoption of its constitution soon after independence, India has also had a
reasonably stable formal state structure. The key elements of this structure have been a federal
system of government with cabinets and elected legislatures at the central and state level, a
professional bureaucracy and an independent judiciary. The states were also soon after
independence reorganized on a linguistic basis.

However stretchable, discretionary decision-making in such a setting was always subject to
some boundaries, whether legal, political, or sometimes arising from even the rivalry between
enterprises. There were also limits to the centralization of the decision-making process. For
one, decisions of multiple agencies not necessarily subject to a common authority (for example
the central and state governments) could often be relevant for business enterprises. Every
decision involved a variety of individuals and actors, directly the participants in the formal
decision-making process and indirectly those capable of influencing or pressurizing the
decision-makers. The individuals responsible for decision-making could also change as a
result of processes that could not be entirely controlled by businessmen. For instance,
governments and ministers could and did change because of the electoral process.

Despite widespread corruption, it would be a gross oversimplification to say that every
decision of every bureaucrat and every politician was taken to favour some particular
businessmen in exchange for a pay-off. Even if the motivations involved were not always
entirely selfless, bureaucrats and politicians also responded to a variety of non-pecuniary
incentives, pulls and pressures. For instance, legislators and state governments often lobbied
for industrial projects to be located in their own constituencies or states because it suited their
political ends. The decision taken in the early years after independence to restrict capacity
expansion in the organized cotton textile mills in order to promote the handloom sector, the
spate of nationalizations in the late 1960s and 1970s, and the government takeover of a
number of sick companies up to the early 1980s, can hardly be called the handiwork of
powerful business interests. Many large enterprises in fact lost valuable assets in that process.
As indicated earlier, the third largest group in the mid-1960s, Martin Burn, was virtually wiped
out in one stroke by such takeovers in the 1970s. Large and powerful enterprises also failed
occasionally to get the approvals they wanted. The Birla group, one amongst the two largest
enterprises throughout the period of dirigisme, for example was not able to realize its ambitions to set up a steel plant even when it was the biggest beneficiary of the licensing regime.

In other words, the sphere of politics and state decision-making had its autonomous and independent dynamics and the leading business enterprises did not possess all the levers for controlling it. At the macro level, both private capital and the state were interested in promoting a process of industrialization after independence. But the imperatives to which they responded were not identical. At the micro level, individual business enterprises pursued their own competing interests while individuals and groups involved in public decision-making acted in response to a variety of motivations. As individual business enterprises jostled amongst themselves to gain influence over the decision-making of the state, they could and did use multiple channels. Personal, family or political relations, or regional and community affiliations, were always relevant along with plain bribery to getting favourable decisions. Even the quid pro quo for getting the necessary approvals need not always have been a simple bribe. The location of the concerned industrial project, where it would suit the interests of powerful individuals or entities, could for instance also serve a similar function. The ability to use these kinds of channels of influence was not in all cases dependent on having a prior large size. It was always possible that a particular small enterprise could have access to a channel not available to a rival large one. Even the ability to pay bribes was not strictly a function of size. Thus there were opportunities for some newer or smaller enterprises to benefit from state patronage, and at times at the expense of a large and dominant rival.

A particularly prominent trend was the role that state governments played in the growth of new large enterprises. There are several category E large enterprises in whose fortunes State Governments or their sponsored financial institutions had a decisive impact. The most important company in 1990 of the Raunaq Singh group, Apollo Tyres, was established in the 1970s under the joint sponsorship of the State government in the rubber-growing southern Indian state of Kerala. In another southern state, Andhra Pradesh, the Andhra Pradesh Industrial Development Corporation jointly promoted the first major ventures of the Nagarjuna, Raasi, Priyadarshini and Nava Bharat groups in the 1970s. The Punjab State Industrial Development Corporation similarly aided the Steel Strips group to establish itself. Gujarat Ambuja Cements started off as a joint-sector enterprise with the Gujarat Industrial Investment Corporation. There are similar instances amongst category A enterprises that
experienced an improvement in relative positions. Support from State governments in these cases went beyond the financial. It also considerably strengthened the ability of enterprises to secure the necessary approvals.

The context of inter-firm rivalry and discretionary decision-making in India was never characterized by the exclusive control of a set of established large enterprises. This context also was not a static but dynamic one. As the industrialization process unfolded and transformed the context, the control regime too was amended from time to time. The degree to which the regime favoured older, established enterprises, and the ways in which it did so, were consequently not the same throughout the period of dirigisme.

ILPIC observed the influence of large enterprises’ “credentials” on licensing decisions in certain sectors. However, this may have had a lot to do with the specific context prevailing in the initial stages of the post-independence industrialization process. In this phase, the state was keen to promote the growth of domestic capital goods industries and to widen the industrial structure. However, given the initial limited development of these industries, policy towards foreign investment and collaboration was also relatively more permissive than it was to become after the mid-1960s. In addition, while a significant part of this development was to be in the public sector, to begin with there was hardly any public sector and a very limited and inexperienced machinery for planning and state management of the economy. The development of state sponsored industrial financing institutions was also in its nascent stages. These circumstances would have created a selection bias in favour of large established enterprises in some key sectors involving large projects. Where the same considerations did not apply, as in the cotton textile industry in which import-substitution had been completed before independence, the state acted differently despite a significant big business presence. Licenses were also issued to many newer or smaller enterprises in a number of less significant industries.

During the decade of industrial stagnation that followed the mid-1960s crisis, economic policy was less coherent than before. There were however certain clear departures from the policies of the earlier phase. After a brief interlude of external sector liberalization, in the face of foreign exchange difficulties, the state became far more restrictive on the external front. In response to the strained economic conditions as well as the political turmoil it

---

11 The M.A. Chidambaram group, amongst the smallest of the large groups in the mid-1960s, became a reluctant private partner of the Tamil Nadu Industrial Development Corporation in the latter’s venture, the Southern Petrochemical Industries Corporation (SPIC), which subsequently became the flagship company of the group.
engendered, the state also nationalized extensively. Public sector dominance of the financial sector came to be firmly established in this period. All of these, and other measures like the MRTP Act, made for an enlarged role of the state in the economy. This happened along with increasing corruptibility of the decision-making process and an erosion of planning which was more or less permanent in nature. Public investment growth also slipped on account of the fiscal crisis, and this in turn led to attempts in the 1970s to induce private investment by loosening controls. This included de-licensing in some industries, easier capacity expansions or endorsement of unlicensed capacity, easing of restrictions on investments by large enterprises in certain industries, and freer licensing in sectors facing shortages. These were accompanied by the reservation of some sectors for small-scale industry.

The loosening of the licensing regime certainly made entry conditions easier in some industries, an important case being that of the shortage afflicted cement industry where many new firms entered. The reining in of MNCs during this phase also created space for the growth of new or small Indian firms in some industries, the most prominent case being that of pharmaceuticals. The balance was also tilted further against older large enterprises in certain sectors by the state takeover of their assets. At the same time, the position of some of these older established enterprises was reinforced by other components of the policy changes. Endorsement of unlicensed capacity and restricted foreign exchange availability made entry conditions in many industries with large enterprises as incumbents more stringent. At the same time these enterprises benefited from easing of restrictions on their investment in other industries, and also from restrictions on MNCs. Overall, however, the period from the mid-1960s to the end of the 1970s was one of slow and extremely fragmented growth. This did not produce a visibly dramatic shift in favour of newer large enterprises. It did however partially create the foundations for some of the changes which were to become possible subsequently. Thus, despite stagnation, the number of registered non-government companies increased rapidly during this period. This was in contrast to the earlier phase of rapid industrial growth, when no such increase took place.

In the 1980s yet another situation emerged. The earlier emphasis on developing a capital goods industry gave way to a process of liberalization of capital goods imports. There was also a cautious liberalization of FDI policy and a more or less consistent trend of liberalization in licensing policy. The public expenditure driven growth of the market created conditions for expansion in several industries, of which both older and newer enterprises took advantage. The expanding electronics industry in particular was the route through which a number of new
large enterprises emerged. Limited external sector liberalization was critical to this as the availability of imported CKD and SKD kits reduced the sunk costs associated with entry, and made foreign collaboration easier. At the same time product markets remained protected. Groups like Videocon, Onida, and BPL (Televisions), Samtel (TV picture tubes), and HCL and Wipro (Computers) emerged as large firms in the electronics sector in the second half of the 1980s.

Conclusion

This article has presented evidence that India’s post-independence industrialization under dirigisme was accompanied by a combination of continuity and change amongst India’s large private business enterprises. This is, on reflection, not surprising. Given the specific historico-economic context of Indian industrialization, the sources of business strength were external to all enterprises, large and small, and access to them depended on securing the patronage of state agencies.

The dominant position of the older and established large enterprises was not tied strongly to the maintenance of an industrial context dominated by the traditional industries in which they were initially established. Industrialization made the transformation of older, established, enterprises a necessary condition for maintaining their dominant position. That transformation, achieved by many amongst them, would have been exceedingly difficult had they been dependent on their own resources. If textile based enterprises had to rely mainly on the profits from these activities to finance their forays into newer industries, they may never have been able to do so and would have perished like the others who chose not to diversify. If diversification and entry into new industries relied on the self-development of technology, few of the older firms would have been able to do so. Without the helping hand of state agencies they may not have been able to set themselves up in industries that were often as new to them as they would have been to any other emerging enterprise. However, if the external basis of business strength allowed many of the older enterprises to adapt more easily to a changing industrial context by becoming its instruments rather than its victims, it was also a source of weakness for them. It meant that existing business strength provided only a weak basis for success in the rivalry for securing the means of future strength - all the more so when the industrial context was changing. The social and political realities of India too did not provide a background for dominant business families and public officials to be tied together into a close-knit and exclusive network from which others were completely shut out. Thus, even though all large enterprises actively sought to maintain their influence with public
agencies, there was no inbuilt automatic mechanism to guarantee this. Conversely, the external basis of business strength could be used by a smaller or newer enterprise to catapult itself into the big league, and opportunities of this kind were thrown up to a greater extent on account of the structural changes in the industrial sector. Access to the necessary support for this from state agencies did not critically depend on business strength or prior membership of a fixed group of favoured businessmen. A variety of channels not dependent on past success could be used for that purpose, and these became available in different ways at different stages of the industrialization process.

The competitive context of the process of industrialization as it went through its different stages could and did impact on different large business enterprises differently, leading to survival, exit and entry. Both the old large enterprises that survived the industrialization process after independence, and newer ones that joined their ranks, benefited from the external sources of business strength. It enabled the survival of the former and the emergence of the latter. Continuity and change amongst leading enterprises therefore had a common underlying basis.

REFERENCES


Reserve Bank of India (2000b) *Private Corporate Business Sector in India, Selected Financial Statistics from 1950-51 to 1997-98 (All Industries)*, Mumbai: Company Finances Division, Department of Statistical Analysis and Computer Services, RBI.


