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Transfer of Economic Power in Corporate Calcutta, 1950–1970

Between 1950 and 1970, the ownership of some of the largest business conglomerates in India changed from British to Indian hands. Almost without exception, the firms formerly under the management of British conglomerates saw bankruptcy, nationalization, relative decline in corporate ranking, and on rare occasions, reinvention of identity. In Indian business history scholarship, this episode is underresearched, even though hypotheses on the transfer-cum-decline exist. Combining a new source, legal documents, with conventional ones, this article revisits the episode and suggests revisions to current hypotheses.

In 1947, when India gained independence from colonial rule, British business in South Asia consisted of two types of corporate firms: managing agencies and multinationals. The former had originated in nineteenth-century British overseas trade. These firms drew on their contacts abroad to recruit managers and partners, and to raise capital, but their main operational base was located in India. Some were diversified conglomerates, with interests in tea plantations, jute manufacturing, paper, mining, engineering, inland transport, international shipping, financial services, real estate, agriculture, and trade. By and large, these firms were export-oriented and formed partnerships with mercantile firms overseas. In business history scholarship, they have been called by different names; perhaps the most common is "managing agency," after a legal contract that allowed one firm (usually a partnership) to

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manage others (usually publicly held).[1] However, since the term "managing agency" was also present among Indian firms, alternative names have been used. One of these is Michael Kidron's "old-type" foreign firms, to distinguish them from the new type, namely, multinationals.[2] Just how different these two types were is an open question, however. I will use "Indo-British" firms, to suggest a mixed identity created by British origins and an Indian main field of operation. The largest groups included Andrew Yule, Bird and Heilgers, and McLeod.[3]

The second type, multinationals, consisted of subsidiaries of multinational companies (MNCs), directed by offices located in Britain. These firms had typically entered India in the interwar period and served the Indian market with relatively technology-intensive goods, such as machine parts, engines, and chemicals. They represented "a qualitative shift in foreign business investment in India," but did share some similarities with the Indo-British firms in terms of institutional structure.[4] The Indo-British firms were ordinarily registered in India. However, some of the companies under their management were registered in Britain. The MNC had a parent abroad, and the Indian subsidiary was incorporated under the Indian Companies Act as a distinct legal entity. Both types of firms were based mainly in Calcutta, a city in the West Bengal state of eastern India.[5]

[1] On the history of the British managing agencies, the authoritative study is Maria Misra, *Business, Race and Politics in British India* (Oxford, 1998). Important aspects of the context of their emergence are explored in B. R. Tomlinson, "British Business in India 1860–1970," in *British Business in Asia since 1860*, ed. R. P. T. Davenport-Hines and Geoffrey Jones (Cambridge, U.K., 2003), 92–116; Geoffrey Jones, *Merchants to Multinationals: British Trading Companies in the Nineteenth and Twentieth Centuries* (Oxford, 2000); and, from a different regional angle, A. K. Bagchi, *Private Investment in India 1900–1939* (Cambridge, U.K., 1972); and Dwijendra Tripathi, *The Oxford History of Indian Business* (New Delhi, 2004). There are useful industry-specific histories of business practices; see, for example, Henner Papendieck, "British Managing Agencies in the Indian Coalfield," in *Zamindars, Mines and Peasants*, ed. D. Rothermund and D. C. Wadhwa (New Delhi, 1978), 165–224. The codevelopment of Indian and British firms, especially in industry, is explored in M. D. Morris, "South Asian Entrepreneurship and the Rashomon Effect, 1800–1947," *Explorations in Economic History* 16, no. 4 (1979): 341–61; and Bishnupriya Gupta, "Discrimination or Social Networks? Industrial Investment in Colonial India," *Journal of Economic History* 74, no. 1 (2014): 141–68.

[2] Michael Kidron, *Foreign Investments in India* (London, 1965), 39.

[3] For a full list of companies under some of the largest groups in 1951 and 1958, see R. K. Hazari, *The Structure of the Corporate Private Sector: A Study of Concentration, Ownership and Control* (London, 1966), 377–400. One firm that does not get much attention in this article is Martin Burn, mainly because it was jointly owned by Indians and Europeans and does not meet the definition of Indo-British used here.

[4] B. R. Tomlinson, "Foreign Private Investment in India 1920–1950," *Modern Asian Studies* 12, no. 4 (1978): 655–77. An appendix contains details of forty-one MNC subsidiaries as of 1950.

[5] Major examples include the Imperial Chemical Industries, Metal Box Company, Guest Keen Williams, Dunlop, and Mather and Platt.

Both sets of firms experienced decline and bankruptcy in the last quarter of the twentieth century. Table 1 shows that the Indo-British firms lost their dominant position among Indian business groups between 1939 and 1969 and became invisible in the following thirty years. Well over two-thirds of the diversified business groups in India around 1955 were British-owned and had originated in the nineteenth century.[6] In 2010, the surviving private-sector companies that had originated in British enterprise did not figure in standard lists of top 500 Indian companies; by then, leading British MNCs had left Calcutta or wound down operations there. Among the Indo-British firms, the decline was "spectacular."[7] Bird and Heilgers and Andrew Yule were nationalized after sustained losses. A number of individual companies were nationalized, too. Some were liquidated, while some survive today as little more than an office building in Calcutta. Large conglomerates disintegrated into small independent companies, many of which today are owned by lesser-known business families of eastern India.[8]

Some causes of the crisis were common to both the Indo-British firms and the British MNCs, such as a hostile policy environment, Britain's relative economic decline, and a violent trade-union movement in left-ruled West Bengal. But there were two important differences between them. First, chronologically, the crisis set in earlier in the Indo-British firms. Table 1 shows that their fall began before 1969 while the MNCs were, in fact, doing well. Second, unlike the MNCs, the Indo-British firms experienced transfer of ownership and control in the 1960s. In short, with the latter set, we are talking about a dual process of transfer-cum-decline. It is plausible, though not easy to establish, that the process contributed to trade-union violence from which the MNCs of Calcutta were not immune. This article is about the transfer-cum-decline of the Indo-British firms.

Interest in this episode derives from three themes connected with postwar global business history and South Asian development. First, whereas the British colonial state did not regulate industry and trade

[6] British capital in India was estimated at £300 million, 80 percent of total foreign business assets in India (1956). S. Garvin, *A Survey for British Industrial Firms* (London, 1956). See also M. M. Mehta, "Recent Trends in the Managerial, Administrative and Financial Integration of Industrial Enterprizes in India," *Indian Economic Review* 2, no. 1 (1954): 21–36.

[7] B. R. Tomlinson, "Colonial Firms and the Decline of Colonialism in Eastern India 1914–47," *Modern Asian Studies* 15, no. 3 (1981): 455–86.

[8] Some of these owners and the firms that they own are listed in Tirthankar Roy, "Transfer of Economic Power in Corporate Calcutta 1950–1970" (Economic History Working Papers No. 230/2016, Department of Economic History, London School of Economics and Political Science, Jan. 2016), http://www.lse.ac.uk/economicHistory/workingPapers/2016/WP230.pdf.

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

	1939	*1969*	*1997*
Indo-British group companies	47	14 (27)[1]	0 (2)[1]
Indo-British group companies of Calcutta	37	14 (27)[1]	0 (2)[1]
Firms of Calcutta in top 25 firms of India	39[2]	30–33[2]	9
Names of groups	Martin Burn, Bird, Andrew Yule, Inchcape, Sassoon, Begg, Jardine, Wallace, Duncan, Finlay, Killick, Kilburn, Brady, Steel, McLeod	*Martin Burn*, *Bird Heilgers*, Macneill Barry, Andrew Yule (Surajmull Nagarmull/McLeod, *Bangur/Kettlewell Bullen*, Mehta/Jardine Henderson, Goenka/Duncan and Octavius Steel, Killick/Ruia)[1,3]	(Williamson Magor/ Khaitan)

Source: Raw data from Tarun Khanna and Krishna G. Palepu, “The Evolution of Concentrated Ownership in India: Broad Patterns and a History of the Indian Software Industry,” in *A History of Corporate Governance around the World: Family Business Groups to Professional Managers*, ed. Randall K. Morck (Chicago, 2005).

Notes:

1. Percentage in parentheses includes Indian-owned groups whose assets consisted mainly of the assets of formerly Indo-British firms.
2. Figure depends on how the Birla group assets, which were nominally together for some years and then divided, are treated.
3. Italics indicate those listed as “monopoly” in 1965–1966 by the Monopolies Enquiry Committee.

on a serious scale, the postcolonial state set out to do so with tariffs, capital control, regulation of hiring abroad, and investment and import licenses. Was corporate decline a price paid for the state-led and nationalistic industrialization strategy pursued between 1950 and 1990?

Secondly, the episode formed part of a dramatic change in the composition of industrial entrepreneurship in India. The transfer process offered an extraordinary chance of mobility to eastern India's largest commercial group, the Marwari traders and bankers. "Marwari" applies to a loose group of capitalists who came to Calcutta from the Marwar region in western India.[9] Their main business was banking, from which they diversified into commodity trading and share broking around the turn of the twentieth century.[10] Few Marwari houses had become industrial houses before independence. By 1965, over a third of the industrial conglomerates of India were Marwari owned and based in Calcutta. Two of these (Bangur and Surajmull Nagarmull) had risen to prominence almost entirely owing to acquisitions of British firms, and a third (Singhania of Calcutta and Kanpur) had taken significant part in the transfer process.[11] A fourth Marwari group from western India, Dalmia-Jain, had greatly added to its assets through acquisitions.[12] Did business culture change as a result of reconfiguration of capital, and did that change in turn influence performance?

Third, the transfer process changed the complexion of the premier business city of India in 1950. Once a hub of global business in Asia, Calcutta deglobalized and deindustrialized after 1947. The city failed to play any worthwhile role in the reemergent Asian trade, as it had done a century before. Between 1950 and 1970, Singapore and Hong Kong attracted a great deal of the mobile international capital in trade and services working in the region. At the same time, some of the Indo-British firms left Calcutta to invest money elsewhere. The expansion of the tea industry in East Africa, for example, was helped by firms contracting their Calcutta operations. In fact, Calcutta fits a pattern that was common in the late twentieth century. Forced exodus and dispersal of capital was an integral part of ethnic nationalist movements. Dutch

[9] Thomas Timberg, *The Marwaris* (New Delhi, 1973); Tirthankar Roy, "Diaspora: Marwari," in *Oxford Handbooks Online*, published Oct. 2015, http://www.oxfordhandbooks.com.

[10] R. S. Rungta, *The Rise of Business Corporations in India 1851–1900* (Cambridge, U.K., 1970).

[11] Raymond Woollen Mills of Bombay was acquired between 1944 and 1946. Attempts were made to enter at least one Indo-British firm in Calcutta.

[12] In 1964, the list of ten "monopoly houses" by the Monopolies Inquiry Commission 1965–1966 included Tata, Birla, Martin Burn, Thapar, Bangur, Sahu Jain, Shriram, Bird Heilgers, J. K. Singhania, and Sarabhai.

plantation capital in Indonesia, for instance, saw their firms taken over by the state in December 1957 after independence became effective, and some moved toward Latin America and Africa. Dutch trading firms relocated to Europe and North America.[13] There was divestment in tea in Sri Lanka after its independence in 1948.[14] Overseas Chinese merchants and bankers, who had either lost assets (such as tea land) or lost status in China after the revolution, were a factor in the emergence of Singapore as a business hub.[15] During the Chinese civil war, entrepreneurs and bankers migrated to Hong Kong.[16] These and other examples —like the dispersal of Burmese Indians in 1962 and Ugandan Indians in 1972—influenced the trajectory of capitalism both in the countries of origin and in the regions of destination of fugitive capital. In other words, the transfer-cum-decline of Indo-British firms formed part of a process that reshaped the world economy in the late twentieth century.

Why did the transfer happen? Did transfer of control cause the decline of the firms? This article makes an attempt to answer these two questions. In order to study the connection between transfer and performance, the article combines two types of new sources: on business environment and state policy, it makes use of confidential reports and proceedings of chambers of commerce representing the interests of British firms; on conditions of firms after transfer, it relies on judgments of Indian high courts in cases concerning transferred firms. The judicial cases are useful for a number of reasons. The cases often outline a narrative history of the firms, show where law fails to protect shareholder interest and why, and reveal when the line between acceptable behavior and malfeasance is crossed by officers in charge of protecting shareholder interest.

On the basis of the material, the article disputes a received view of the transfer-cum-decline, which states that old British business in India was too conservative to fit into the development regime created

[13] Studies on Dutch decolonization explore the exit of business; see J. Thomas Lindblad, *Bridges to New Business: The Economic Decolonization of Indonesia* (Leiden, 2008), 177–93; and Joost Jonker and Keetie Sluyterman, *At Home on the World Markets: Dutch International Trading Companies from the 16th Century until the Present* (Montreal, 2001), 258–72.

[14] Transfer in this case too was followed by poor performance. "An outcome of this transfer of control from sterling companies to Ceylonese ownership has often been a fall in their agricultural condition and output per acre." N. Ramachandran, *Foreign Plantation Investment in Ceylon, 1889–1958* (Colombo, 1963), 169.

[15] Jason Lim, *Linking an Asian Transregional Commerce in Tea: Overseas Chinese Merchants in the Fujian-Singapore Trade, 1920–1960* (Leiden and Boston, 2010), 154–58.

[16] Catherine Schenk, "The Economic History of Hong Kong," *EH-Net Encyclopedia*, ed. Robert Whaples, 16 Mar. 2008, https://eh.net/encyclopedia/economic-history-of-hong-kong. Catherine Schenk shows how banks in Hong Kong gained from "flight capital" flowing in from overseas and mainland Chinese businesses in the 1950s. Schenk, *Hong Kong as an International Financial Centre: Emergence and Development 1945–65* (London, 2001).

after 1947. I reexamine six variants of the thesis, each one suggesting that the process was somehow inevitable and consistent with the "logic of history." My argument instead is that the process stemmed from an institutional failure that was preventable. I propose that an unregulated and opaque process of transfer allowed private interest to prevail over shareholder interest, increased the propensity for disputes, and in turn caused decline among firms that had already been weakened by regulation.

The thesis has two parts. In one part, I use the businesses' own testimony to suggest that Indian government regulation was perceived as a significant problem by the Indo-British firms in the period from 1947 to 1956. This finding contradicts the official position of the Indian government welcoming foreign capital in the 1950s. The sources suggest that the problem was not announced policy on foreign capital, but a disintegration of factor markets caused by restrictions imposed on international transactions in capital, labor, technology, and services. The MNCs were less susceptible to these regulations because they sold goods in the Indian market and sourced capital and technologies in-house from the parent firm. The Indo-British firms were more susceptible because they were more market-dependent and had grown used to open borders to capital, managerial labor, cross-border trading partnerships, and easy repatriation. Unlike the MNCs, these firms needed to buy technology from the world market.

While adverse environment is a necessary part of my explanation of transfer and decline, regulation does not provide a sufficient explanation of either transfer or decline. Here, the judicial sources are useful. They tell us that absence of credible penalty for collusion between investors and stockbrokers, and changes made in firm strategy after transfer of control, also mattered to the subsequent fate of the companies. There is no one model within which the dysfunctional nature of the transfer of control can be understood. I show that in a number of the cases discussed, there was credible suspicion of asset stripping; manipulation of share prices; use of bank loans and workers' provident funds to buy shares; directives by new owners to the company's board to conduct transactions through verbal means; induction of new board members often unconnected to the business, giving rise to struggles for control of the company; and the floating of fictitious companies to hide asset transfer. Some of these practices had long been part of folklore in Calcutta; their appearance in court papers gives them authenticity.

My thesis can be extended with two subsidiary propositions, one of which the article illustrates, while the other it cannot. First, along with a number of cases of decline were a few cases of successful adaptation after transfer. I show that in these cases, firm strategy had greater continuity because the transfer process was negotiated and therefore less disputatious.

Secondly, it is possible that an enforced fragmentation of business groups because of transfers compromised scale and integration economies.[17] With the sources available, this point cannot be satisfactorily explored.

The rest of the article is divided into three sections. The next section discusses historiography and the postcolonial business environment. The second section discusses the firm evidence. The last section concludes.

Historiography

In Indianist business history scholarship, the transfer-cum-decline of Indo-British firms is explained with reference to certain factors both internal and external to the firms. These views exist as conjectures, since firm-specific information is rarely used to drive the explanations.

The first conjecture blames the managers and owners of Indo-British firms for not being adaptable enough. Michael Kidron contrasts "Indian temerity" with "British timorousness" in choosing fields of new investment in the mid-twentieth century.[18] "The continuing social conservatism of the managing agency firms," Maria Misra writes, "was combined with their traditional investment strategy [to make them] generally less innovative than Indian firms."[19] Misra gives conservatism a particular construction, namely, a racially prejudiced reluctance to Indianize management and direction early enough, which bred distrust and hostility between Indians and Europeans in the same business. The attitude was repaid with a nationalist backlash after 1947.

A second explanation again points at endogenous failing, but now with specific reference to the Great Depression. Because of a growing shortage of capital in the interwar period, which turned into a short-term crisis during the Depression, the formal corporate firms were forced to rely more on informal indigenous banking capital, bringing the two sets of actors closer. Around 1915, the boards of Indo-British companies had tended to be wholly European. A browsing of large jute- and tea-based conglomerates around 1940 shows that Marwari names figured in the boards of a number of these.[20] The induction of

[17] A referee pointed me in the direction of integration. On patterns of integration, see Papendieck, "British Managing Agencies."

[18] Kidron, *Foreign Investments*, 41.

[19] Misra, *Business, Race, and Politics*, 204.

[20] Six names were especially common: Gokulchand Bangur, Onkarmal Jatia, Champalal Jatia, K. P. Goenka, Radha Kisen Kanoria, and C. L. Kanoria. Based on unpublished annual "Jute Reports" (c. 1850–1950) prepared by the Calcutta broking firm J. Thomas and Co. for internal circulation; I am grateful to J. Thomas and Co., especially Krishan Katyal, for access to these reports, a full set of which is stored in the main office of the firm in Calcutta.

Marwaris onto the board is often attributed to the resource crisis. Thomas Timberg points out that the Marwaris were bankers and thus had access to large volumes of liquid wealth.[21] For the European managers of the firms targeted, cash resources were limited, tied up in corporate banks, and actions in the stock market would be slower. The presence of Marwaris on the boards, therefore, reflected a growing dependence of the companies upon indigenous financiers. Omkar Goswami moves from the resource crisis to the entry of Marwaris to the conclusion that the companies had become "inefficient, cash-strapped managing agencies that had lost the battle."[22] In other words, once inside, the entrepreneurial Marwari engineered a takeover from within.

A third, and mainly environmental, theory is that the Indo-British firms were too dependent for their survival and well-being upon imperialism, and their economic power derived from political patronage in a crucial way.[23] This viewpoint was nurtured in Indian public opinion in the interwar period. "The belief," writes Ashok V. Desai, "was almost universal among Indian businessmen that the British government discriminated in favor of British business."[24] When discussing the hostility entertained by Indian business towards foreign capital, Kidron cites "Indian publicists."[25] When the patronage of the empire ended, their fall was inevitable. Dwijendra Tripathi and Jyoti Jumani, authors of the magisterial *Oxford History of Contemporary Indian Business*, accept the inevitability of their fall: "Their end lay in the logic of history."[26]

These three theories deal with the first of the two questions this article sets out to answer: Why did the transfer happen? A fourth thesis about the episode deals with the second question and shows why transfer of control might affect performance. Radheshyam Rungta, author of a well-known business history book on India and a Marwari himself, believes that the community as a whole is characterized by "proverbial love for speculation."[27] Industrial management was not the core competence of the community. Another leading historian,

[21] Timberg, *The Marwaris*.

[22] Omkar Goswami, "Sahibs, Babus, and Banias: Changes in Industrial Control in Eastern India, 1918–50," *Journal of Asian Studies* 48, no. 2 (1989): 289–309.

[23] The role of racialist sympathy in business success is emphasized in A. K. Bagchi, "Introduction: Money, Banking and Finance in India," in *Money and Credit in Indian History*, ed. A. K. Bagchi (Delhi, 2002), ix–xli.

[24] Ashok V. Desai, "New Forms of Foreign Investment in India," *Social Scientist* 12, no. 6 (1984): 23–43.

[25] Kidron, *Foreign Investments*, 66.

[26] Dwijendra Tripathi and Jyoti Jumani, *Oxford History of Contemporary Indian Business* (New Delhi, 2012).

[27] Rungta, *Rise of Business Corporations*, 166.

A. K. Bagchi, writes that "most of the new Indian owners had been speculators and traders, with little experience of the running of large manufacturing plants, and few of them seem to have put in a major effort to learn the production side of the business."[28] The class approach is further illustrated in a recent article that suggests the decline was due to control passing on to "industrialists possessing characteristics that reflected their background of engagement in non-industrial activities."[29]

A fifth thesis explains decline with reference to the business (especially the regulatory) environment after 1950. Several authors note that independence and a new policy setup made many of these firms apprehensive and possibly more willing to divest.[30] Tripathi and Jumani believe that a new Companies Act (instituted in 1956, implemented in 1960) and a new industrial policy affected the expatriate firms adversely.[31]

Lastly, it is possible to connect the decline of foreign firms in Calcutta to emerging patterns of regional inequality in postcolonial India. A large scholarship explores the economic decline of the West Bengal state from the 1960s.[32] Stories of deindustrialization of West Bengal identify a variety of factors that had adverse effects on Calcutta's industrial firms, from leftist trade-union politics to a central government policy known as "freight equalization," the discovery of polymer packaging to replace jute sacks, the silting of Calcutta's port, and New Delhi's "step-motherly" treatment of West Bengal.[33]

None of these six theses is illustrated with company-specific evidence. As conjectures, they raise more questions than they answer. Theories of entrepreneurial failure presume that firm experiences were similar, which is testable. Misra's proposition that the Indo-British

[28] A. K. Bagchi, "Studies on the Economy of West Bengal since Independence," *Economic and Political Weekly* (hereafter *EPW*) 33, no. 47–48 (1998): 2973–78.

[29] Nasir Tyabji, "The Politics of Industry in Nehru's India" (unpublished conference paper, Nehru Memorial Museum and Library, New Delhi, 2015).

[30] Misra, *Business, Race, and Politics*, 204. Misra's main focus is on the colonial era, not the postcolonial one.

[31] Tripathi and Jumani, *Oxford History of Contemporary Indian Business*.

[32] Bagchi, "Studies on the Economy of West Bengal"; A. Sarkar, "Political Economy of West Bengal: A Puzzle and a Hypothesis," *EPW* 41, no. 4 (2006): 341–48; D. Banerjee, "Industrial Stagnation in Eastern India: A Statistical Investigation," *EPW* 17, nos. 8–9 (1982): 8:286–98, 9:334–40; A. Banerjee, A. S. Guha, K. Basu, M. Ghatak, M. Datta Chaudhuri, and P. Bardhan, "Strategy for Economic Reform in West Bengal," *EPW* 38, no. 41 (2000): 4203–18.

[33] The freight equalization policy (1952–1993) offered compensatory subsidies to factories for different transport costs on minerals. Eastern India produced some of these minerals. On "step-motherly treatment," see Paranjoy Guha Thakurta and Shankar Raghuraman, *Divided We Stand: India in a Time of Coalitions* (New Delhi, 2008), 407. The phrase refers to the uneasy relationship between the pro-Congress federal government and the left-leaning government in the West Bengal state, which allegedly led to internal tariff policies that discriminated against the state.

firms' preference for social exclusivity colored their business practices has been received with skepticism.[34] The argument that the British owners were too "conservative" glosses over the fact that the actual decline of firms in many cases occurred *after* transfer to Indian ownership. "Conservative" is a strange epithet to apply to firms that had been around for over a century and had started their enterprises at a time when trade, agency, and information costs were very high.[35] The Great Depression was a traumatic event for these firms. There is no compelling evidence, however, to suggest a causal chain between resource shortage, the induction of Marwari capitalists onto the boards, and "losing the battle," to use Gowsami's terms.[36]

The thesis that the entrepreneurial Marwari pushed aside the timid European has a mythical quality for two reasons. It does not say why, if the companies were in trouble, the Indians would *want* to take charge.[37] Perhaps both the extent of the crisis and the reluctance of the Europeans to do deals with the Indians have been overstated by historians. Further, the presence of Marwari names like Kanoria, Jatia, and Bangur on the boards does not suggest a definite pattern of relationship between Indian and European capitalists as such, let alone a dysfunctional relationship. In some cases—such as that of Onkarmal Jatia, who was a trustee of the David Yule estate—more of a partnership than a predatory relationship existed. This example also points to a problem with the class-based analysis of the situation. The Indian owners were too differentiated to be grouped together into a class.

Purely environmental explanations overlook the fact that an adverse environment rarely accounts sufficiently for firm performance. When markets turn bad, or resources are costlier, companies do not necessarily fail. We need to know what adaptation strategies they pursued and why these failed.[38] The four specific points of emphases in environmental explanations—the Great Depression, the British Empire, postcolonial policy, and the decline of West Bengal—raise further questions. The

[34] Clive Dewey, review of *Business, Race, and Politics in British India c. 1850–1960*, by Maria Misra, *Journal of Imperial and Commonwealth History* 29, no. 1 (2001): 183–87.

[35] A recent work explores the complex and differentiated institutional response to these costs in the mid-nineteenth century: Michael Aldous, "Avoiding 'Negligence and Profusion': Ownership and Organization in Anglo Indian Trading Firms, 1813–1870" (PhD diss., London School of Economics and Political Science, 2015).

[36] Goswami, "Sahibs, Babus," 302.

[37] I owe this point to a conversation with B. R. Tomlinson.

[38] A number of alternative scenarios exist, variously called "strategic flexibility," "turnaround and strategic restructuring," "endgame" scenarios, or "creative destruction." Igor Filatotchev and Steve Toms, "Corporate Governance, Strategy and Survival in a Declining Industry: A Study of UK Cotton Textile Companies," *Journal of Management Studies* 44, no. 2 (2003): 896–920.

Depression point has been discussed. Let us briefly consider the other three themes.

The empire was no doubt a crucial factor in the profitability of these firms because it helped integrate markets for commodities, capital, know-how, and skills. In short, the empire reduced some transaction and trade costs. Did the British Raj also help Europeans with direct patronage or distribution of privileges? This is a harder claim to sustain. No study exists to show how race and empire were institutionalized to give expatriate industry a competitive advantage over Indian rivals. The existence of social spaces like clubs, golf courses, and racecourses, where expatriate officers and capitalists rubbed shoulders but Indians were denied entry, is of doubtful relevance for business history, since it is not known—beyond the occasional anecdote—how the conversations that took place in clubs and golf courses mattered to business practices. Indian businesses and publicists protested the exclusivity, but in their own milieu they were scarcely less parochial and exclusive. The experience of industrialization in Bombay or Ahmedabad would show that race and empire did not pose obstacles for Indians.[39] Far from being the favorite of the imperial order, this class of capitalists was often seen by the latter as a political liability. Toward the end of the empire, that feeling had grown stronger.[40] B. R. Tomlinson argues that the evidence to show that the firms prepared to leave early when independence became an accomplished fact is weak.[41] As late as 1964, seventeen years after the end of the Raj, Andrew Yule and Bird Heilgers were among the most profitable firms in India.[42]

That the corporate crisis worsened because of state policy is again a conjecture because we are not told how businesses perceived the importance of this factor. A few years before independence, Indian businesses close to the Indian National Congress made statements advocating sequestration of the assets of Indo-British firms. The hostility subsided, and the government declared itself friendly towards foreign capital.[43] And yet, a large repatriation of capital occurred around 1947. Foreign direct investment as a proportion of capital stock, which was nearer 10

[39] Gijsbert Oonk, "The Emergence of Indigenous Industrialists in Calcutta, Bombay, and Ahmedabad, 1850–1947," *Business History Review* 88, no. 1 (2014): 43–71.

[40] The left-wing Labor politician and head of the commission sent to secure Indian help in the war, Sir Stafford Cripps, "took a malicious pleasure in telling them to become Indian nationals." Dewey, review of *Business, Race, and Politics*, 186.

[41] Tomlinson, "British Business in India."

[42] Economic and Scientific Research Foundation, *A Guide to the Performance of Top 200 Companies* (New Delhi, 1964).

[43] Kamal Mitra Chenoy, "Industrial Policy and Multinationals in India," *Social Scientist* 13, no. 3 (1985): 15–31.

percent before World War II, dropped to 2 percent after independence.[44] A London association for rupee companies estimated that £44 million, or 12 percent of total British assets in India, had been transferred between 1947 and 1953 in the form of sale of shares, liquidation of interests and assets, and retirement of saving instruments.[45] New inflows of foreign direct investment totaled £6 million.

Reports prepared by British chambers of commerce point at two particular worries behind the flight of capital: political sentiment and factor market regulation. In 1956, the leading chamber of commerce in Britain criticized India's politicians for a "pejorative, and frequently downright hostile" stance towards foreign firms, especially the Indo-British firms.[46] Given these firms' deep connection with commerce and export, the fact that "it has been made abundantly clear that further foreign capital for employment in purely trading activities . . . will not be given right of entry into India" was not good news.[47] Furthermore, the Capital Issues (Control) Act of 1947—which required government permission for raising capital abroad—and steps taken to enforce Indianization of management made it difficult for these firms to use their access to capital and managerial talents to deal with the transition. Work permit applications by foreign technicians were usually refused.[48] The Indo-British firms were forced to recruit top managers from their cadre of Indian officers with a speed that may have compromised efficiency. Along with capital and labor, restrictions were imposed on access to technology and specialized services. A strict import-licensing system hurt the older textile industries in need of modernization. Government approved technical collaboration was the only way that technology was allowed to come in. The regulatory framework had an implicit bias for the "new" technologies that India was thought to need the most. Cotton and jute textiles did not meet that criterion. Trade in services was restrained. Orders were proclaimed in banking, insurance, and shipping, insisting that preferential treatment should be offered to firms of Indian origin.

The West Bengal story is indeed relevant, but only to explain a mass exit of corporate enterprise due to disturbed industrial relations from the late 1960s. The story does not tell us why the Indo-British firms would face a particular crisis, which in fact had started well before the 1960s. In any case, the importance of regional shifts has not been seriously

[44] For the earlier estimates, see Michael J. Twomey, *A Century of Foreign Investment in the Third World* (Abingdon, 2000), 118.

[45] India, Pakistan and Burma Association, *A Note on Foreign Investment in India* (London, ca. 1956), 2.

[46] Garvin, *Survey for British Industrial Firms*, 32.

[47] India, Pakistan and Burma Association, *Note*, 4.

[48] Garvin, *Survey for British Industrial Firms*, 37.

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tested with business history evidence. Some of the factors discussed in this context might have caused a relative shift of enterprise, but not absolute decline. Freight equalization, for example, should explain convergence in rates of profit between groups of firms facing differential trade costs; it should not lead us to predict bankruptcy in one of the groups.

It is undeniable that these firms faced a difficult environment after 1947, and yet, why they failed to recover and reinvent themselves cannot be answered with reference to the environment alone. The task requires studying the situations of specific firms.

Cases

Some Indo-British companies suffered large losses in the 1940s. In the beginning of March 1942, the British pulled out of Burma and Japanese forces occupied the territory. As many tea gardens were located on the eastern front, the war imposed human cost on the tea business; some managers died or were wounded. The London Tea Auctions were suspended during the war and did not restart until 1951. The Partition closed river routes of cargo movement. The Rivers Steam Navigation Company, managed by Macneill and Barry & Co, lost a great deal of its inland transport business and some of its assets.[49] Before pulling out, the British army blew up and destroyed the installations of British Burma Petroleum Co. as part of its scorched earth policy. The company claimed compensation for the loss from the British government and received none.[50]

In the late 1940s and the 1950s a spate of takeovers and transfers occurred, of which four clusters deserve special mention. The first cluster relates to the Dalmia-Jain group. Ramkrishna Dalmia was the group's head, but control in the acquired companies was shared with and sometimes passed on to the relations and associates known as the Jains, particularly Shanti Prasad (S. P.) Jain. Dalmia had emerged in

[49] The loss occurred first due to the Partition, and later, the India-Pakistan War of 1965. The company came into the Inchcape group in 1960, with which the Government of India entered into an agreement. The government purchased shares in the company, but the crisis had already driven the managing agent Macneill and Barry into a financial crisis.

[50] Before any money was paid, the British Parliament passed the War Damage Act of 1965, abolishing the right to compensation. From its inception in 1910 until 1942, the company engaged in prospecting for, refining, producing, and dealing in petroleum and other mineral oils in Burma. Between 1942 and 1965 it conducted no business. It then suffered a predatory takeover in 1965. One Jagdish Kapadia, shareholder, gathered a number of proxies and ousted the owners from the board. With the cash reserves of the company, the Kapadia group acquired the shares of National Rayon Corporation Ltd. and Killick Industries Ltd. Killick Industries, in turn, was the managing agent of about seven other companies and had a few more companies as subsidiaries. British Burma, however, was a special case. Rajan Nagindas Doshi and another v. British Burma Petroleum Co. Ltd. (1972 42 Comp Cas 197, Bombay, 30 June 1971).

the 1930s as the head of a conglomerate with interests in sugar in north India, along with cement, textiles, and insurance businesses. The acquisition drive may have begun within the core area of the group—sugar—with the British-owned Pursa Ltd., which had existed in Bihar from 1905. The Dalmia-Jain group had conversations in 1942 with the directors of Pursa living in England about the sale of shares. In December 1943 the sale was effected. The deal went sour because the company's warehouse had a quantity of unsold sugar, the ownership of which was not clearly specified in the contract. It was believed that Pursa had not been running its machines for several months before the deal, nor was it working in the sugarcane-crushing season of 1943.

In October 1944, "some persons called the Dalmia-Jain Group acquired more than half the number of ordinary shares" of Lothian Jute Mills Company Ltd., a company under the managing agency of the Calcutta firm Andrew Yule. In March 1945, in a meeting of the board of directors, the pro-Yule director David Ezra was defeated and removed from the board by the shareholders. He was replaced by Rameshwar Prasad Bajoria, the nominee of the new owners. The move had followed an attempt to stall the Dalmia-Jain takeover by the four pro-Yule directors—including Ezra, Satya Charan Law, and Champalal Jatia—and it led to a high court suit and an appeals suit seeking to reverse the induction of Bajoria. The case of Bajoria was that the directors had acted in the interest of the managing agent (Andrew Yule) rather than the shareholders of the managed company (Lothian Jute), whereas the case of the directors was that the articles of the company gave them the authority to act independently of the wishes of the shareholders, implying in effect that the interests of Bajoria conflicted with that of the minority shareholders. In the final appeals suit, the judge held that when the directors acted mala fide, the shareholders had the right to intervene.[51]

In May 1945, S. P. Jain, director of Shri Krishna Gyanoday Sugar Ltd., which owned factories in Bihar, advanced a loan of 3.1 million rupees to Dalmia Cement and Paper Marketing Ltd. for purchasing shares of New Central Jute Mills Co. Ltd. Dalmia Cement and Paper Marketing purchased the first lot of shares of the jute company at a price higher than the market price. Between May and November, a sufficient quantity of shares had been purchased for Jain to sit on the board of directors of the jute company. By August 1947, these shares had been transferred to the sugar company, which sold them in June 1948 to Dalmia Investment Ltd., which then resold them to Jain.[52] By then the

[51] Dr. Satya Charan Law and Others v. Rameshwar Prasad Bajoria and Others (1950 20 Comp Cas 39 [FC], Supreme Court).

[52] Commissioner of Income-Tax v. Shri Krishna Gyanoday Sugar Ltd. (1967 65 ITR 449 Patna, 17 Oct. 1963).

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market price of the jute company's share had fallen more than 20 percent, so that the sugar company had taken a loss. The process of transfer came to light because the tax commissioner refused to accept the loss as a revenue loss. Between 1945 and 1947, Jain had also acquired the Albion Jute Company. Like Lothian, New Central and Albion were Andrew Yule concerns.

In 1947, Dalmia acquired a controlling stake in Bennett, Coleman Ltd., the company that owned the *Times of India*, India's leading English-language newspaper, using cash reserves of the insurance business. The transaction became infamous, but the acquisition was not challenged. The group's head Ramkrishna Dalmia, however, had to transfer control of Bennett, Coleman to the Jains a few years later.[53]

The case of Lothian showed that transfers could lead to conflicts within the boards. In another takeover case from the early 1950s, the rivalry became public. Kettlewell Bullen had managing agency contracts in Fort Gloster Jute Manufacturing, Bowreach Cotton Mills, Fort William Jute, Dunbar Mills, Mothola Co., and Joonktollee Co., the last two being tea companies. Kettlewell Bullen resigned as the agent of the Fort William Jute Co. in 1952, upon sale of the latter to Mugneeram Bangur.[54] It is not clear whether the transfer was a mutual agreement or the result of a hostile takeover. Having taken control of Fort William, Bangur, through share brokers working for him, started buying up shares of Fort Gloster Jute, which already had some holding by a rival, Lakshmipat Singhania. The battle ended up as one between two rival groups seeking control of a company more or less abandoned by the Europeans.[55]

A third and notorious set of transfers was led by Haridas Mundhra.[56] It is not known when he started the acquisitions, but his companies in 1956 included a pharmaceutical company, Smith Stanistreet; the structural engineering firm Richardson and Cruddas; Kanpur-based conglomerate British India Corporation; and the shipping firm Turner

[53] The aftermath of the Dalmia-Jain affair is explored in Nasir Tyabji, "Of Traders, Usurers and British Capital: Managing Agencies and the Dalmia-Jain Case," in *Indian Industrial Development and Globalisation: Essays in Honour of Professor S. K. Goyal*, ed. S. R. Hashim, K. S. Chalapati Rao, K. V. K. Ranganathan, and M. R. Murthy (New Delhi, 2009), 237–59.

[54] Star Company Limited v. Commissioner of Income Tax (1970 AIR 394, 1970 SCR (1) 772, Supreme Court, 7 Aug. 1969).

[55] Mahaliram Santhalia v. Fort Gloster Jute Manufacturing Company Limited and others (AIR 1955 Cal 132, 1954 24 Comp Cas 311 Cal, 58 CWN 715, Calcutta, 1 Apr. 1954).

[56] Good discussions of the Mundhra episode can be found in G. Balachandran, *The Reserve Bank of India, 1951–1967* (Mumbai and New Delhi, 1998); Nasir Tyabji, "Private Industry and the Second Five-Year Plan: The Mundhra Episode as Exemplar of Capitalist Myopia," *EPW* 45, no. 32 (2010): 47–55; and Ashok H. Desai, "Afterthoughts on the Mundhra Affair," *Economic Weekly* 11, nos. 28–30 (1959): 937–40.

Morrison. British India Corporation purchased another Kanpur firm Begg Sutherland. Turner Morrison was a Calcutta managing agency engaged in inland shipping. Between 1951 and 1953, when it was still owned by the Turner family, the company made large severance payments to its employees, but did not yet seem eager to leave India.[57] In 1955, it decided to sell a 49 percent stake to Mundhra, with an option that Mundhra could buy the remaining 51 percent five years later. A dispute between the Turners and Mundhra started soon after, and Mundhra filed a suit seeking an injunction upon the exercise of voting rights by the owners of the 51 percent. This was granted, according to a subsequent judgment, with "serious consequences." The consequence was that he came into full control of the company without having to buy more shares. Another company that Mundhra acquired was Jessop, a structural engineering firm from Calcutta. Having become a director of the company (ca. 1956), Mundhra—along with his brother-in-law Rameshwar Daga, a share broker working for him, and an executive of the firm G. M. Robins—allegedly used Jessop to buy shares of British India Corporation, where he had previously bought his way into directorship. Jessop then sold these shares to one Sohanlal and Company, which was allegedly another front company working for Mundhra.[58]

All of these firms went bankrupt in a short time. Richardson and Cruddas was eventually nationalized. The British India Corporation of Kanpur, of which Mundhra and Dalmia-Jain shared control, collapsed in the late 1950s. Subsequent to its takeover by Mundhra, the history of Turner Morrison was noted for a sordid fight between two Indian claimants, Mundhra and one Nirmal Hoon, for control, to the detriment of the company. In May 1958, the government of India took over the management of Jessop and Co. Ltd. In 1963, the government decided to purchase shares of Jessop to obtain a controlling interest; the controlling stake was then vested with two share broker agencies, Sohanlal Pachisia and Mahadeo Ramkumar. It is not clear what role, if any, these firms had in running Jessop. Turner Morrison was the managing agent of Alcock Ashdown of Bombay, which manufactured and repaired

[57] The company made large payments to four of its senior directors ostensibly to retire them (that is, before expiry of their contracts) and charged these as a business expenditure. The prosecution, the tax authority, alleged that "the payment of compensation to the manager was being made not for the purposes of the expedient conduct of the business of the assessee but for the winding up of that business." In short, the payments were a form of capital flight. For other similar payments and tax cases, see Gordon Woodroffe Leather v. The Commissioner of Income-Tax (AIR 1957 Mad 347, Madras, 20 Dec. 1961); and Commissioner of Income-Tax v. Anderson Wright Ltd. (1962 46 ITR 715 Cal, Calcutta, 20 Mar. 1962).

[58] Rameshwar Daga v. The State of West Bengal (AIR 1965 Cal 38, 1965 CriLJ 26, 69 CWN 292, Calcutta, 5 May 1964).

engineering installations, transmission line towers, marine diesel engines, ships, and boats. Eight years after the takeover, Alcock Ashdown stopped production completely. A suit filed by some of the employees alleged that Mundhra and his associate, one K. C. Lakhotia, "have mismanaged the affairs of the company for their own personal gain and misappropriated the funds of the company in various ways." The allegation could not be proven, however; the owner of the company had instructed the executives to act on Lakhotia's verbal instructions alone, so little documentation of the procedures existed.[59]

By 1956, allegations that Mundhra drained the cash reserves of one company to buy up another were repeated too often. In one of these cases, forged shares of group companies were pledged to the Life Insurance Corporation of India against large loans. In another instance, cash in hand of a group company was transferred to the managing agent on account of a payment by a buyer company that was fictitious.[60] In yet another case, shares of Richardson and Cruddas were transferred to British India Corporation on the authority of a forged transfer certificate against a loan. Mundhra faced prosecution on these counts and was briefly jailed. The same fate befell Dalmia for similar offenses.[61]

The fourth major episode of sudden and large-scale acquisition involved the group known as Surajmull Nagarmull. Surajmull Jalan and Nagarmull Bajoria were related by marriage. Both were traders in Calcutta in the 1930s and owned extensive real estate. In the 1940s, the Surajmull Nagarmull group moved into jute manufacturing. The family-owned agency firm Howrah Trading managed Naskarpara Jute Mill near Calcutta. Between 1948 and 1951, the combined group Surajmull Nagarmull attracted the attention of the income tax authorities for tax evasion. They were among several jute trading firms that had allegedly over-invoiced imports of raw jute from East Pakistan.[62] Chiranji Lal Bajoria, son of Nagarmull, was the head of the group at that time.[63]

[59] Bhalchandra Dharmajee Makaji and other v. Alcock, Ashdown & Co. Ltd. and others (1972 42 Comp Cas 190 Bom, Bombay, 20 July 1971).

[60] Legal Remembrancer of Govt. of India v. Haridas Mundhra (1976 AIR 2225, 1976 SCR (2) 933, Supreme Court, 9 Dec. 1975). The group company was Richardson and Cruddas, the payer was Indian Machine Tools Co., the managing agency was S. B. Industrial Development, and the transaction took place in 1955.

[61] The Dalmia prosecution was complicated by the fact that the group's head, by then a newspaper magnate, did not get along with Prime Minister Jawaharlal Nehru. There was a suspicion that the prosecution's case had political weight behind it.

[62] For another case pertaining to 1952–1953, see Commissioner of Income-Tax, West v. Mahabir Commercial Co. Ltd. (1968 70 ITR 114 Cal, Calcutta, 15 Nov. 1967).

[63] Surajmull Nagarmull and others v. The Commissioner of Income Tax (AIR 1961 Cal 578, 28 Apr. 1961).

In 1952 or 1953, Surajmull Nagarmull front companies bought up jute companies under the control of McLeod and Co. McLeod managed and owned ten jute mills, sixteen tea companies, and light railways. Other affiliated companies included Marshall, an engineering firm making tea machinery, and J. F. Low, a smaller managing agency. The circumstances of the takeover are not available. C. L. Kanoria (related by marriage to Bajoria) and J. R. Walker ran McLeod in 1952, when both were investigated for tax fraud. During the investigation, Surajmull Nagarmull took control of the firm, through an arrangement with Kanoria. Subsequent to the takeover, the McLeod board was left more or less unchanged (three of the four members had sat on the previous board), but the boards of some of the group companies were reconstituted by inducting members of the immediate family and individuals from Ratangarh town in Rajasthan, where the two families came from. In 1955–1956, C. L. Bajoria also acquired the controlling stake in India Jute Company—then managed by Mackinnon Mackenzie, an Inchcape group company—through the broking firm Bharat Luxmi, owned by S. L. Kanoria. The deal was projected to be an agreed transfer of control, but this detail cannot be confirmed.[64]

McLeod acquired the managing agency Begg Dunlop & Co. in 1947.[65] In 1948–1949, Begg Dunlop was liquidated. Two months after the takeover, while the old Begg Dunlop board still functioned, H. G. G. Mackay, director of Begg Dunlop was discharged from service with an unusually large severance payment. This was done by the board in the background while the new owners moved to insert their own people on the board.[66] The severance payment was shown as a business expenditure, which the tax authorities challenged. There were several more examples of such payments, which were likely instances of capital flight.

An investigative book by N. C. Roy published in 1972, citing purported balance sheets of 1965 (Roy held shares in some of the group companies), alleged that four group companies used their cash advances that were made up of bank loans and McLeod worker provident fund provisions to buy up shares in Davenport, a smaller managing agency interested in tea; the Kanpur-based European firm British India Corporation; two jute companies; Britannia Engineering Company; and a group firm, Hanuman Sugar mill.[67] In turn, Davenport purchased debentures

[64] Commissioner of Income-Tax v. Bharat Luxmi Co. Ltd (1983 142 ITR 624 Cal, Calcutta, 24 May 1982).

[65] Stephanie Jones, *Merchants of the Raj* (Basingstoke, 1992), 386.

[66] Liquidators, Begg Dunlop and Co. vs. Commissioner of Income-Tax (1963 50 ITR 401 Cal, Calcutta, 3 Apr. 1962).

[67] The companies were Bajoria Properties Ltd., Darjeeling Dooars Investment Co. Ltd., Alipore Holdings Private Ltd., and Barrackpore Industries Ltd. Roy calls them "dummy companies." N. C. Roy, *Mystery of Bajoria-Jalan House* (Calcutta, 1972), 35–40. The book takes

floated by Kanoria Industries, owned by C. L. Bajoria's sister's family, and an affiliated company invested a large sum of money in a cotton mill that was liquidated. In a few cases the money trail ended up in obscure firms that were liquidated without anyone noticing that they had existed at all.[68] The Surajmull Nagarmull group was investigated twice, between 1948 and 1951 and again in 1956, for tax evasion and foreign exchange rules violation. The suspicious death and disappearance, respectively, of two close associates led to police enquiry and adverse press reports.[69] Nothing came of the investigations.

The facts of some of the other acquisitions in the 1950s are suggestive. These involved smaller managing agencies whose businesses were built around one or two factories. One such case occurred in 1950–1951, when the Kedia family of Calcutta acquired control of Anderson Wright, which owned and managed a medium-sized jute mill called Khardah Jute. Flora Meyer was the majority shareholder of Khardah Jute. Meyer was said to be interested in selling her stake. Kedia ensured that Anderson Wright raised the required sum (Rs 10 million) as loans, to purchase her holding at a price higher than the market price.[70] An income tax appeal regarding the share transaction failed in 1970. Little is known about Khardah Jute between then and 1983, when it was nationalized in a bankrupt state. The firm George Henderson, which managed Bally and Barnagar Jute Mills, incorporated as Jardine Henderson in 1946. Giridharilal Mehta sold the controlling stake of Bally Jute in the same year to Jardine Skinner, which merged with George Henderson to form the new company. From a remark by the tax authorities, that "the respondent and the transferee were directly connected," Mehta was already in control of Jardine Skinner. Later history of the factory remains unclear. Jardine Henderson is still owned by the Mehta family but specializes in pest control.

These early examples can be called "shock" acquisitions in that they occurred too quickly and in companies that were seemingly unprepared for a transfer of control. From the judicial documents, it is almost

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inspiration from an earlier, similarly titled book that deals with allegations of a business-politicians alliance but has nothing to do with acquisitions. Debajyoti Barman, *Mystery of Birla House* (Calcutta, 1950).

[68] In 1975 the official liquidator of a firm known as International Shipping Ltd., on inspection of the company's premises, discovered that the firm existed as a nameplate and nothing else. It was also discovered that, around 1961, it had transferred its entire paid-up capital and reserves to another firm, Chandpur Jute Co. Ltd. The former was owned by the Surajmull Nagarmull group and the latter was managed by the same group. International Shipping Ltd. vs Chandpur Jute Co. Ltd. (1982 52 Comp Cas 121 Cal, Calcutta, 20 Feb. 1980).

[69] Roy, *Mystery*, 28–29.

[70] Commissioner of Income-Tax, West v. East Coast Commercial Co. Ltd. (1967 AIR 768, 1967 SCR (1) 821, Supreme Court, 12 Feb. 1969).

impossible to know anything about the role of the European directors and owners of the firms in cases of shock acquisitions. We know a little more of the method adopted by the Indians and the consequences of the transfer. In almost all cases, the acquisition was done via share broking firms, so that the transaction itself could be made to look like a routine investment by a broker firm rather than a takeover bid. These broking firms and the party interested in a takeover, however, were closely connected. On several occasions, the purchase was made at an above-market price, while the sale to the person instigating the takeover was done below market price. The resultant loss was shown as a capital loss by the broking firm. This procedure drew the attention of the income tax commissioners. The judicial process disallowed claims to reduction in taxes on account of losses made during the transactions, but let the broking firm off.[71] The law could not challenge ties between stock market insiders and industry raiders. This can be seen as a failure of law or as a structural feature of Indian industrialization that legislators and jurists did not fully understand.

Whether because of the adverse publicity that these acquisitions received in the press or because of more resolve on the part of the larger managing agency groups to continue in India, the 1960s saw fewer predatory takeovers.[72] Industry as a whole, however, was in a depression between 1965 and 1975.[73] Two distinct trajectories in the Indo-British firms unfolded in this decade. First, in tea a transfer process started; not only did it start late, but it was more gradual than in the other major industries in which Indo-British firms had significant interest. Second, firms engaged in jute and coal faced difficult supply and demand conditions.

[71] This mechanism was first debated in the courts in the 1950s when Ramnarain and Sons, a share-broking firm in Bombay, acquired the controlling stake in Dawn Mills, owned and managed by the David Sassoon group, during a planned move by the latter to leave India. The difference in the purchase and sale prices was shown as a loss, which was successfully challenged by the tax commissioner. M/S. Ramnarain Sons Private Ltd. v. Commissioner of Income Tax (1961 AIR 1141, 1961 SCR (2) 904, Supreme Court, 5 Dec. 1960).

[72] The threat did materialize on occasion. One example was the Calcutta Landing and Shipping Company Ltd., which ran a stevedore business. Its managing agents were Gladstone Lyall. Inevitably, the attempt led to a struggle for control of the firm. Mohta Bros. (P.) Ltd. And others v. Calcutta Landing And Shipping Co. (1970 40 Comp Cas 119 Cal, 73 CWN 425, Calcutta, 7 Mar. 1969). Tea companies not registered in London faced threats of takeover. For example, in 1968, Hari Krishna Lohia and "friends and relations" bought up 10 percent of the shares of Hoolunguri Tea Company, managed by Andrew Yule, and demanded takeover of the management. The company's response to the threat was to pass an extraordinary resolution to amalgamate the company with three others. Lohia and company filed a suit trying to prevent this and lost. Hari Krishna Lohia v. Hoolungooree Tea Co. Ltd. and another (AIR 1969 Cal 312, Calcutta, 16 Aug. 1968).

[73] Deepak Nayyar, ed., *Industrial Growth and Stagnation: The Debate in India* (New Delhi, 1994).

Tea had a somewhat different ownership pattern than jute. For one thing, many tea companies were registered in London. For another, in contrast to the jute manufacturing business, where production was organized in large employment units so that one takeover could change the complexion of a group, tea production was split up into many gardens, and companies that managed these gardens could lose a few or sell a few while still remaining in business. Although such reshuffling was common between 1947 and 1970, none of the Indo-British firms with a significant interest in tea seemed to be willing to withdraw totally from India in 1947. The Partition was a temporary setback. The demand for tea was robust in the 1950s and 1960s. Calcutta remained a hub of the global tea trade, if gradually losing this status. Nevertheless, a transfer process did set in, and the implicit threat of stock market raids played a part in the process. Two of the largest conglomerates that specialized in tea, Duncan Brothers and Williamson Magor, illustrate the process well.

During the Partition, the Duncan Brothers' tea estates were split between India and Pakistan. Duncan Brothers started a company to look after its Pakistan property. Around 1950, Octavius Steel—an engineering firm that supplied electric lighting systems for cities—and Duncan both had deals with the Marwari industrialist Badridas Goenka on divestment. These were friendly deals and were not expected to introduce sudden changes in management. Badridas's nephew D. P. Goenka became the owner of Octavius Steel in 1958, after India had nationalized some of the electrical units. Octavius Steel owned tea as well, but not the best-quality gardens. Badridas's son Keshav Prasad (K. P.) Goenka came into ownership and control of Duncan around 1957–1958, after further divestment induced by the Companies Act of 1956. The Goenka group inherited an Indian-owned jute mill. The tea and the jute assets of Duncan Brothers were split again, in 1979, when K. P. Goenka divided the assets among his sons, ending the Duncan family interest in India. Though one of the sons, R. P. Goenka, had started his career as an assistant in the jute department of the Duncan group, the main Duncan interests went to the other sons.[74]

Even after the change, Duncan companies remained exposed to takeover threats. In 1965, members of one Bhalotia family acquired a quantity of shares of Patrakola Tea Company, under the managing agency of Duncan Brothers. Patrakola, "for long one of the most prosperous" arms of the managing agency, had been divided up into Pakistani

[74] This account is based on Walter Duncan and Goodricke Ltd., *The Duncan Group* (London, 1959); Jones, *Merchants of the Raj*; and Gita Piramal and Margaret Herdeck, *India's Industrialists*, vol. 1 (Bombay, 1986).

gardens and Indian gardens in the late 1950s.[75] As in other takeover cases, there was a credible claim that Duncan Brothers had sold its shares to Munnalal Bhalotia "at high prices," and the purchaser was offering to buy the remaining shares "at a ridiculously low figure." Bhalotia and his brothers joined the board of the company and tried to influence it to write the managing agency agreement in their favor. A number of directors, including G. D. Jatia and P. D. Bangur, resigned their positions in 1965. In 1966, Duncan Brothers resigned from the agency. An anonymous shareholder filed a suit challenging "the ability of Messrs. Munnalal Bhalotia and Co., to have the financial capacity to acquire the shares they did without the backing of some secret agency."[76] The name of the secret backer is not known.

Independence did not bring any immediate change to Williamson Magor, either—"after the excitement of Independence, life on the tea estate continued much as before."[77] The entry of B. M. Khaitan into Williamson Magor in Calcutta was, like K. P. Goenka vis-à-vis Duncan Brothers, one of the few stories of an informal partnership between Indians and Europeans evolving into Indian corporate control. Khaitan supplied fertilizers and tea chests to gardens in Assam managed by Williamson Magor. He was socially close to the Calcutta partners, thanks in part to a shared interest in racehorses and horse racing. Still, Khaitan might not have been inducted into the partnership but for the growing threat of predatory raids on publicly held companies in Calcutta.

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

In 1954, Lingia and Soom company stakes were sold, and the same anxiety reappeared. On this occasion, Khaitan bought the stakes, thus

[75] Walter Duncan, *Duncan Group*, 135.

[76] Patrakola Tea Co. Ltd. v. Unknown (AIR 1967 Cal 406, 70 CWN 971, Calcutta, 23 June 1966).

[77] Peter Pugh, *Williamson Magor Stuck to Tea* (Cambridge, U.K, 1991), 107.

ensuring that the managing agency contract was left intact. In 1961, a more serious attack came from B. Bajoria, who purchased 25 percent in Bishnauth Tea Company, the flagship of the Williamson Magor companies and a company in which Williamson Magor owned 26 percent. This was a crisis, and one that could not be solved by means available to the British partners in Calcutta or London. Khaitan raised the money to buy out Bajoria, and in return he was invited to join the board. Gladstone Lyall resisted the move, and an acrimonious exchange followed. But Khaitan came in with a significant shareholding.

Williamson Magor continued in this way, part-managed by Khaitan and managers sent by London, where the world tea trade was still concentrated. But predatory attacks on some of the companies it managed in India raised the prospect of a stronger multinational organization. In the first half of the 1970s, a merger between Macneill and Barry and Williamson Magor was discussed, and the merger was effected in 1975. The former company had tea interests in India and Africa, had links with its parent Inchcape group, but was Indian-controlled in the 1970s. The partnership did not succeed. The directors of Macneill and Barry and those of Williamson Magor clashed constantly, which Khaitan attributed to "personality problems." In particular, Inchcape group directors and Khaitan, who now held 34 percent of Williamson Magor, did not get along. Further, Macneill and Barry's jute interests had started losing so much money as to threaten all other interests of the firm. In 1982, a decision was reached; Williamson Tea Holdings bought up the Inchcape interest. Williamson Tea Holdings was incorporated in London in 1964 and had fully or almost fully owned subsidiaries in Assam and East Africa. George Williamson, which had become a company in 1983, consolidated its control of Williamson Tea Holdings in 1984. In 1987, McLeod Russel, a London group with tea, rubber, and oil interests in India, Malaysia, and Indonesia, decided to sell their Indian estates. In 1987, with the sale of these estates to Williamson Magor, the latter became one of the largest tea producers in the world. George Williamson's own interests were confined to East Africa.

Jute, the world's fiber of choice for packaging commodities for trade, faced a difficult market in the 1970s because of competition from synthetic substitutes. In India the industry was supported by government orders on mandatory use of jute. The decline of the jute-producing firms, however, began *before* the competition from substitutes set in. In fact, even in the 1970s, when the rate of growth of the market fell, the absolute size of the world market of jute continued to grow.[78] In

[78] Jim Tomlinson, Carlo Morelli, and Valerie Wright, *The Decline of Jute: Managing Industrial Change* (London, 2011).

the mid-1960s, two conglomerates with a significant stake in jute, Andrew Yule and Bird and Heilgers, were pushed towards bankruptcy. The immediate cause of the crisis came from the supply side, including fluctuations in the raw jute market, poor management, a shortage of funds, and suspected frauds. A spate of bankruptcies and forced transfers diminished the substantial jute interests of Andrew Yule and Bird and Heilgers. Andrew Yule was further weakened by nationalization of coal mining (1971–73), and rivalry in the board in the wake of attempts by Bangur, a large shareholder, to take full control. Eventually, it was nationalized (late-1970s) in a bankrupt state.[79]

In both tea and jute, modernization of technology met with obstacles. One example is the difficulty faced by older businesses in procuring machinery. In 1964, the Duncan group company Anglo India Jute Mills received a license to import jute mill machinery from a firm in Dundee. About a year later, orders were placed, but by the time the order was ready, in June 1966, the Indian rupee was devalued, driving the value of the order up 60 percent. Another year later the Reserve Bank of India grudgingly approved an application to increase foreign exchange entitlement, but by then the original import license had expired.[80] Examples of this kind point to a similarity between two traditional industries, jute and cotton, that suffered especially because of technological obsolescence.[81]

By 1975, the Foreign Exchange Regulation Act (FERA) was in operation, making it mandatory for all foreign firms to become minority shareholders. The major episodes of transfer of control in Indo-British firms were over by then, but a few prominent cases did occur after FERA. The Gourepore Company, a jute mill complex that belonged to the Macneill and Barry group, was purchased by Hemraj Mahabir Prasad Poddar in 1976–1977. The company declined thereafter, was closed, and was approved for liquidation by the high court in 1997.[82] As late as 2014, a number of obscure small firms competed for control

[79] The last private owners of Bird and Heilgers were Pran Prashad (1965–1972; at Heilgers only, 1972–1976) and a Marwari group called Saraf (1972–1976, owned the interests of formerly Bird & Co.). See Prashad's account in Jones, *Merchants of the Raj*, 271–72. No serious attempt to reuse the extensive assets of the firm in these years was reported, and attrition, deliberate or otherwise, remains a plausible scenario. Andrew Yule was transferred to the government of India through a negotiated sale by Yule Catto group (1974–1979). See Jones, *Merchants of the Raj*, 241–45.

[80] Commissioner of Income-Tax v. Anglo India Jute Mills Co. Ltd. (1981 129 ITR 352 Cal, Calcutta, 9 June 1980).

[81] A discussion of the literature can be found in Shuji Uchikawa, *Indian Textile Industry: State Policy, Liberalization and Growth* (Delhi, 1998).

[82] Gourepore Co. Ltd. v. Unknown, case citation number not available, Calcutta, 14 July 2014.

of the company, offering revival packages that the courts considered dubious and possibly motivated by prospects of inflation in real estate.

A notorious example of a post-FERA transfer is the case of the jute conglomerate Thomas Duff. Thomas Duff was the Dundee-based managing agent of jute companies in Calcutta. In 1948, Thomas Duff divested a part of its stake to Giridharilal Mehta, but retained control over three jute mills.[83] In 1969, Victoria Jute Factory, one of those three jute mills, was merged with the Samnuggur Jute Factory and the Titaghur Jute Factory Co. Ltd., with the latter as the parent company, and the Angus Company Ltd. as a subsidiary of the group. In 1976, changes to the articles of association were adopted, reorganizing the capital of the company and transferring its residence to India, passing management and control of the company from Dundee to Calcutta. The jute mills, however, were mismanaged, and in the 1980s, the Board of Industrial Finance and Reconstruction, the government agency for industrial rescue, handed over management of Samnugger and Titagurh to two firms, Aditya Translink (1985) and RBD Textiles (1995). These firms had interests in the raw jute trade and were part of the groups known as Podar and Oswal, respectively. The firms became the "licensees," akin to a managing agent. These firms were owned by a Scottish holding company Azmara plc, which had acquired the Dundee assets of the company, but the firms were managed by the Calcutta-based licensees. In a bid to regain control of the Indian assets, Azmara's representative Graham Avery came to India in the late-1990s. But he had to leave because of a criminal case allegedly contrived by some government officers and the licensees.[84] The corruption case against the government officers remains in court, but no hearing has occurred for some time because no witness has come forth to testify. In 2001, the regional provident fund recovery officer attached and took over the title deeds of immovable and movable assets, including share certificates, of the Titagurh group companies and then sold these shares to what were alleged to be front companies of Podar and Oswal, known as Smart Technologies, Chick Commodities, and York Holdings. One of the brokers through whose firm the sale was effected later purchased a part of the real estate sold by Angus Jute.

Conclusion

Why did a large-scale transfer occur in the Indo-British firms? And how did the transfer contribute to their decline? The hypotheses usually

[83] Misra, *Business, Race, and Politics*, 193.

[84] Vikas Dhoot, "The Great Jute Mill Robbery," 30 May 2005, http://in.rediff.com/money/2005/may/30jute.htm.

offered to explain the transfer—for example, entrepreneurial Indians took over from conservative Europeans—are found to be unpersuasive. The judicial documents used in this article suggest another reason for the transfer: failure of law.[85] Weak enforcement of shareholder protection made it easier to effect stock market raids in the 1950s. Further, the managing agency system allowed the majority shareholder of an acquired firm to rewrite the agency contract in such a way that it became impossible for minority shareholders to intervene.[86] Companies caught up in this process or threatened by it were weakened by changes occurring inside the companies and in the economic and policy environment of post-independence India. Restrictions imposed in the 1950s on international factor market transactions ruled out some of the restructuring options available earlier to these firms. Within the companies, control frequently went to individuals who adopted business practices detrimental to the firms. Court disputes occurred usually in the wake of asset stripping and rivalry within the boards caused by shock transfers.

A counterpart question to "Why was there decline?" is, in a few cases, "Why was decline avoided?" The article suggests that these cases were more likely to occur in the tea companies and to involve a graduated and planned transfer of control. One explanation, after all, does not fit all of these cases.

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[85] A judge held that a rapid burst of company formation around Indian independence had created an environment of opportunism that legal reform was unable to keep up with, leaving "the way open to some businessmen to misuse and at times to pervert the provisions of the law to serve their private ends." New Central Jute Mills Co. Ltd. v. Deputy Secretary, Ministry of Law (1966 36 Comp Cas 512 Cal, 70 CWN 280, Calcutta, 4 Aug. 1965).

[86] The managing agency entailed conflicts of interest. Nasir Tyabji suggests that the problems came to the fore during the Mundhra and the Dalmia-Jain investigations and eased the way for the eventual abolition of the system. Tyabji, "Traders, Usurers and British Capital" and "Private Industry."