Twelve

Merchants of Marwar

No matter who reigns, the merchant reigns.

—HENRY WARD BEECHER

Marwaris have never got the respect from Indian society that they have always yearned for. The average Indian thinks of the Marwari as either a small-time shopkeeper who is also a moneylender or a ruthless tycoon. Yet theirs is a fascinating story of how a tiny community from the desert sands of Rajasthan spread out to every corner of north, east, and central India, settling in thousands of villages and towns in the ninteenth century. With their enormous appetite for risk, Marwaris seized control of India's inland trade. Gradually they turned to industry after the First World War, and today they control roughly half the nation's private industrial assets. What made them so successful? And why were they not able to create an industrial revolution and broadly transform the country? I shall explore these questions first in the context of the historical emergence of Marwaris and later in the story of Aditya Birla, the grandson of G. D. Birla, during the License Raj.

Indian industry originated with the old merchant castes and they continue to dominate till today. Fifteen of the twenty largest industrial houses in 1997 were of Vaishya or bania trading castes. Eight were Marwaris. (Similarly, in contemporary Pakistan, most of the twenty-two families who reputedly own half the nation's wealth are Kutchi Memons, the leading Muslim trading caste of undivided India.) In the latter half of the nineteenth century, the trading communities started the first cotton textile mills in Bombay and Ahmedabad. There were Parsees, Khojas, and Bhatia traders in Bombay and Jain banias in Ahmedabad. Although the Marwaris came late, after the First World War, they became the most successful. The Marwaris come from Marwar, the old Jodhpur state in Rajasthan. The most successful families come from the small Shekhawati region in the old Bikaner and Jaipur states. They are all bania by caste and either Jains or Vaishnav Hindus by religious persuasion. Of the 128 Marwari subcastes in Rajasthan, only five became big and prominent in national commerce—Maheshwaris, Oswals, Aggarwals, Porwals, and Khandelwals.

For centuries Marwaris had been bankers and helped finance the land trade between the East and the West, as the great trade route passed through northern Rajasthan. During the Mughal days, they were financiers to many princes, including the emperor's family. Kasturbhai Lalbhai's family was one of them. Jaget Seth, a Marwari Oswal, was banker to the nawabs of Bengal. Not only was he a nawab-maker, he was also a friend of Clive's and played a part in the conspiracy at Plassey. Colonel James Tod, the historian of Rajasthan, noted that in 1832 "nine-tenths of the bankers and commercial men of India are natives of Maroo des, and these chiefly of the Jain faith." As the British created a national market during the nineteenth century, there was a huge migration of Marwari traders into the smallest and remotest villages of India. The migrants began as petty shopkeepers (often with capital advanced from a wholesaler from their own community) and slowly graduated to moneylending, then moved up to finance farmers for their commercial crops, such as opium and cotton. The railways accelerated the process.

Some Marwaris became hugely successful and created large and famous firms, such as Tarachand Ghanshyamdas, with which the Birlas were proud to be associated when they first came to Calcutta around 1900. It had branches at the major seaports in Bombay and Calcutta, on the river ports along the Ganges, and throughout the opium- and cotton-growing areas. The firm took deposits, gave loans, engaged in the wholesale trade of commodities, transferred funds for clients to distant cities, cashed bills of trade, insured shipments, and speculated on commodity futures when the opportunity arose. In such a firm, trading and banking were closely interlinked and every firm was a moneylender. Some firms were exclusively bankers; they were called “shroffs.” These “great firms” also lent money to the princely families. For example, Bhagoti Ram Poddar, the founder of the “great firm” Tarachand Ghanshyamdas, was banker to the royal families of Jaipur, Bikaner, and Hyderabad.

The Marwaris achieved their biggest successes in the British trading post of Calcutta. They smelled the chance for big money and they flocked there to become brokers and agents to the British (who called them “banians”). Ramdutt Goenka was a typical example. He came to Calcutta in 1830. Starting as a clerk to a Marwari firm, he gradually became a broker to the major English firms. Nathuram Saraf began as a clerk in Ramdutt Goenka’s firm and he graduated to become a banian to other British firms. He opened a free hostel for migrants from the Shekhawati area, and G. D. Birla used to say that this hostel spawned many entrepreneurial careers. At night, the young apprentices would exchange stories of their commercial exploits of the day and draw lessons from them. Some of these stories became legendary. Passed on by word of mouth for generations, it was their version of Harvard Business School cases. The arrival of the Delhi–Calcutta railway in the 1860s quickened the migration to Calcutta, and by the turn of the century Marwaris had become dominant in the jute and cotton trade. During the First World War they made fabulous profits speculating in cotton, jute, and hessian, and these profits laid the foundation for many industrial careers after the war.

Why the Marwaris turned out to be so spectacularly successful had a lot to do with their wonderful support system, explains Tom Timberg in *The Marwaris.* When a Marwari traveled on business, his wife and children were cared for in a joint family at home. Wherever he went in search of trade, he found shelter and good Rajasthani food in a *basa,* a sort of collective hostel run on a cooperative basis or as a philanthropy by local Marwari merchants. G. D. Birla’s grandfather, Shiv Narain, settled in a basa when he first came to Bombay in the 1860s. When the Marwari needed money, he borrowed from another Marwari trader on the understanding that the loan was payable on demand, “even at midnight,” and that he would reciprocate with a similar loan. At the end of the year, they tallied and settled the interest. He could count on community banks to insure his goods in transit and collect his dues when the goods arrived. His sons and nephews were apprenticed to other Marwari traders, where they earned their salary through profit sharing, learned business skills, and accumulated capital to start their own business when they were ready.

Why some groups in society become entrepreneurs and others do not is an old question. I am not sure that there is a satisfactory answer, but I find that merchants everywhere seem to become the first industrialists. This is not surprising. They possess capital and access to credit; they have business skills; they are used to taking risks; and they are close to the market and understand the nature of the demand. The Marwaris, in addition, have always had a powerful support system within the community. To a lesser degree, this applies to other Indian trading castes. But the Marwaris score over the others because they appear to have a stronger stomach for risk. Many Marwaris made their fortunes during the First World War in extremely speculative trading in futures. Their abilities as businessmen make their competitors fear (and admire) them.

The British businessmen of Calcutta disliked G. D. Birla because he took control of the jute market and forced up prices to the European mills. At the same time, he and other Marwari shippers (Bangur, Goenka, Bajoria) undersold the Europeans in the baled jute market through cut-rate exports by hedging in the *futka* (futures) bazaar. Dalmia, who made his fortune in the Calcutta bullion market in 1917 by speculating on the rise of silver prices in London, also destroyed many English rivals. Nationalist historians interpreted the reaction of British business as an "anti-Indian feeling." In fact, the British rivals behaved like competitors anywhere and did what any businessman would have done to stop competition.

After Independence, Aditya Birla, more than anyone, symbolized the Marwari ethic. In the early eighties I used to see Aditya off and on at the badminton courts of the Bombay Gymkhana Club. He wore thick-rimmed, square glasses over his square face. We used to greet and smile at each other but never became friends. I found him exceedingly reserved, almost ascetic. I had first met him in Boston, when he was a student down the river at MIT and I was at Harvard. He used to stick with his two roommates, and I remember that we shared a passion for Guru Dutt's films, songs from which he played all the time on his hi-fi.

Aditya Birla was shy and it was difficult to believe that he was G. D. Birla's grandson and the inheritor of one of the largest family fortunes in India. And that amazing wealth had been in his family for more than a hundred years. However, stark simplicity had been part of his family tradition. Behind the shy exterior, there was an attractive quality in Aditya which drew me to him. I was also fascinated by the breakneck speed with which he was building hugely successful companies in Southeast Asia—in Thailand, Malaysia, Indonesia, and the Philippines. By the early 1980s, he had built an empire of a dozen companies in the Far East, which had become global leaders in the manufacture of viscose staple fiber, palm oil, textiles, and carbon black.

Aditya and I were both twenty-one years old when we returned after studying in America. Whereas I joined Vicks as a trainee in 1964, he got busy planning an industrial empire. His grandfather had been keen that he join one of the large family companies (either Gwalior Rayon or Hindustan Aluminium), where he would personally train him, but Aditya politely declined his offer. GD was disappointed, but he also understood Aditya's desire to strike out on his own. After all, had he not done the same at the age of sixteen? Just before the First World War, he had started his own trading company, which became the foundation of his great empire. His son had followed his example and built an independent group of companies. Indeed, his own grandfather, Shiv Narain, had defied his father in the 1860s and set out on his own (rather than join the firm of Ghaneriwalas in Hyderabad). Aditya was merely following a family tradition. Aditya told GD six months before leaving MIT that he wanted to "create something really BIG."

Realizing that Aditya was determined not to join any of the family businesses, his father, Basant Kumar Birla, gave him an unusual graduation gift. He presented him with an industrial license—one of the most coveted pieces of paper at the time. It was for a cotton spinning mill. When giving him the present, the father offered his son the following advice: "This permission is just a piece of paper. If you are interested, take it. If not, tear it up. The entire responsibility, from start to finish, will be yours."

Along with the advice came some seed capital to get started. Without losing a day, Aditya began to look for land to locate the mill; he hired people; he sent out inquiries for machinery. He wanted only the latest technology. He found a piece of land near the Calcutta airport. Before he knew it, he was working fourteen hours a day, shuttling between his home and the factory site forty kilometers away. He also plunged into learning *parta* accounting: he knew this ancient ledger bookkeeping system was critical to success.

His parents now began to think of his marriage. Aditya had been engaged to an attractive Marwari girl, Rajshree Fomra, since he was fourteen and she ten. Now she was seventeen and in a local college in Madurai in the south. They had met only once. They were soon married, in January 1965, in the sprawling gardens of the family bungalow in Calcutta. True to character, Aditya chose Ranchi, a sleepy provincial town in nearby Bihar, for the honeymoon, and he invited several dozen friends and relatives to come along. The decision raised eyebrows, for he was, after all, "America-returned," but Aditya thought the presence of relatives and close friends would help smooth the early relationship between the couple.

On returning from his honeymoon, Aditya was besieged by problems at his textile factory. He found that he had hired the wrong executives. The 1965 Indo-Pakistan war had begun to delay deliveries and his project costs were out of control. He was mortified. He had also broken an article of family faith—a Birla plant always started on time. However, Aditya learned from this experience: it was the first and last time that he failed to construct a factory on time (and he built seventy factories in his lifetime!). The plant started in October 1965 with twelve thousand spindles and six hundred employees, and by 1967 it had turned in its first profits. Aditya was now ready for his second company. Around this time, the Birlas were offered a "sick company" by the respected Morarjee Vaidya family of Bombay. It was a large firm called Indian Rayon, employing thousands of people. Because of mismanagement, it had run up huge losses. Since it was well known, the asking price was also high. The family did not like the proposal, but Aditya saw in it untapped potential, valuable assets—and a challenge. He argued persuasively and convinced the family to take it over.

Aditya was thrilled to have a second company. But his joy was short-lived. The workers in the plant near Bombay soon went on strike. A few months later a fire broke out. The blaze continued all night, and when Aditya arrived the next morning, the plant was a shambles. He worked day and night, and within weeks he got the production started. Slowly and painfully, with a lot of time, effort, and money, he turned the company around. Gradually, he pushed up quality and productivity; he pioneered colored yarn. Eventually, Indian Rayon became one of the largest and most profitable Indian companies. By the decade's end all three generations of the main Birla branch—GD, Basant Kumar, and Aditya—owned flourishing, independent businesses. It was also the time that Indira Gandhi was consolidating her hold on the Congress Party with a series of populist moves—nationalizing banks and enacting draconian controls on private investment. Her socialist acts clearly dampened Birlas' attempts to expand, to build world-size plants (with economies of scale), to bring in world-class technology, or even modernize old plants. In the end, she crippled them.

Mrs. Gandhi's damaging policies were a clear signal to Aditya Birla that his future did not lie in India. The thought depressed him no end. At MIT, he had been excited by the way the capitalist world did business—there were transparent regulations rather than licenses and quotas, and there were reasonable taxes. Having turned around Indian Rayon, Aditya now hungered after bigger challenges. If he could not do it in India, he would have to go outside. His thoughts turned eastwards. He sent one of his managers to Bangkok, who brought a positive report saying that there was a growing market and the Thai government was hospitable. This was it, thought Aditya. He decided to set up a synthetic fiber plant. Although there was a war raging next door in Vietnam, Aditya felt that it would end one day and he began to wrestle with the problem of funding the Thai venture. How would he get the currency for a factory when the Indian government prohibited foreign exchange even for travel, medical emergencies, or for a cup of tea abroad? He hit upon an ingenious idea: he would form a joint venture—he would get Indians abroad to invest the cash while he funded his equity by exporting machinery and materials from India. This was fair and legal. He invited Vijay Mehta, a diamond merchant in Antwerp, and Amarnath Sachdev, a Bangkok textile trader, to become his partners. Aware of the legendary Birla name and management skills, they quickly agreed. The Thai venture commenced production in September 1970, on time and within budget, and was soon a great success.

The Thai venture became the model for a spate of foreign companies that Aditya Birla set up in Southeast Asia in the 1970s. The following year he set up a textile plant in Thailand, then a rayon plant, followed by a textile plant in Indonesia, a carbon black plant in Thailand, a spinning mill in the Philippines, the world's largest palm refinery in Malaysia, a viscose rayon fiber plant in Indonesia, a polyphosphate plant in Thailand, another carbon black operation in Egypt. He became the world's largest producer of viscose staple fiber, palm oil, and insulators, and the world's sixth-largest maker of carbon black. In India, his group became the largest producer of rayon filament yarn, flax yarn, caustic soda, rayon grade pulp, and aluminum (in the private sector), and among the top three makers of cement. When he died suddenly in 1995, his group had thirty-seven companies with sales close to \$5 billion and after-tax profits of \$450 million. More than a third of his business was overseas. He was rightly called a "human factory-making factory." At the time of his early death he was completing an oil refinery, a copper smelter, a hot-rolled coil steel mill. He was planning a petrochemical complex, a 1,000 megawatt power station, and an entry into telecommunications.

With all his successes, there were heartbreaks galore. One of them was the Mangalore refinery, which Delhi's bureaucrats took eleven years to clear—a record even by the standards of the Indian bureaucracy. While both of us were waiting for a court to open up at the Bombay Gymkhana one day, I asked Aditya Birla what had led him to invest abroad. He had no choice, he said, in his deep, unaffected voice. There were too many obstacles in India. To begin with, he needed a license, which the government would hot give because the Birlas were classified as "a large house" under the MRTP

Act. Even if he did get one miraculously, the government would decide where he should invest, what technology he must use, what was to be the size of his plant, how it was to be financed—even the size and structure of his public issue. Then he would have to battle the bureaucracy to get licenses for the import of capital goods and raw materials. After that, he faced dozens of clearances at the state level—for power, land, sales tax, excise, labor, among others. “All this takes years, and frankly, I get exhausted just thinking about it.”

Aditya told me that he produced staple fiber in Thailand from pulp that he bought in Canada. He sent the fiber to his factory in Indonesia for converting to yarn. He exported the yarn to Belgium, where it was made into carpets, and finally, the carpet was exported to Canada. “Here is Aditya Birla,” I thought, “an Indian, and yet India does not figure in this global value-added chain.” It did not because India had closed its economy. By closing it, it denied its citizens the chance to participate in the enormous expansion in global trade in the second half of the twentieth century. It denied its people jobs, technology, knowledge, and new ways of organizing. Thus, it deliberately suppressed economic growth.

Domestically too, India did itself enormous damage. For example, Gwalior Rayon, GD’s flagship company, of which Aditya was later chairman, wished to expand its viscose staple fiber plant in 1978. It applied to the government for permission. Despite weekly follow-ups by the Birla managers with the ministry of industries, the approval did not come because of the MRTP rules. Nor did the government reject the application. Fed up with waiting, Gwalior Rayon decided after eighteen months to transfer the project to Indonesia. Indonesia welcomed the investment and the jobs and India’s loss became its gain. It is hard to imagine the absurdity of our rules. Aditya wanted to be director of his foreign company, and he applied for permission. Since the approval did not come for nine months, he went to meet the officer concerned. The official told him maliciously, “Mr. Birla, we could even prosecute you if you accepted the offer to become the director of a foreign company.” Aditya had to face embarrassment with the foreign company’s board of directors, who were unable to comprehend why it should take anyone nine months to accept a directorship. Finally, after hard lobbying by Birla executives, the permission came, but only after a heavy drain of precious management time.

Having achieved so much in a lifetime, Aditya Birla was left uneasy. He thought it ironic that the Indian ruling class should have such a low opinion of the Birlas. Throughout his life, his family had been under attack in Parliament, by the bureaucracy, and in the media. To many Indians, he had become a symbol of the license-permit nexus between politicians, bureaucrats, and businessmen. They thought his success was the result of a cozy relationship with the powers that be. When the economic reforms came in 1991, they said that his companies would not survive in the competitive climate. The truth is that Aditya Birla felt a huge load lifted when licensing came to an end. The critics did not realize that it was the government that had been his biggest problem. After the reforms, he was a happy man and he plunged again into fourteen-hour days to improve the performance of his Indian companies and to execute his petrochemical complex and other major projects. His Indian businesses responded after 1991 and prospered like never before. But he never got a chance to prove his critics definitively wrong. For on 1 October 1995 he died of prostate cancer, not yet fifty-two years old.

With all his triumphs, and those of his father and his brilliant grandfather, Aditya Birla had to live down the poor image that Indians have of Marwaris. Perhaps that is why Aditya and the entire Birla clan have been shy and reclusive—almost secretive. The Birlas suffered heavily from the fallout of the Hazari Committee report on monopolies in the 1960s. Hazari had pointed a finger at the Birlas for preempting 20 percent of all licenses awarded by the government between 1957 and 1966. From twenty companies in 1945, Birla companies had grown to almost 150 by 1962. To many Indians this smacked of monopoly. It confirmed their image of Marwaris as ruthless businessmen who did not stop at anything to get what they wanted, who did not pay taxes if they could get away with it.

A certain amount of antipathy to business exists in all societies. But Aditya Birla could not understand why the public chose to target his family. It pained him that the Birlas represented the ugly face of big business in the public mind. He thought it unfair. After all, they had supported the nationalists' movement for independence. They had invested huge sums in charities and philanthropy. They had maintained a simple and quiet lifestyle and reinvested their entire surplus rather than consuming it. In Aditya's mind they had come closer than anyone else to practicing Mahatma Gandhi's idea of trusteeship—that the businessman's wealth belongs to the community and he is merely a trustee of this wealth during his lifetime. In fact, GD had offered the following advice to Aditya at MIT: "Eat only vegetarian food, never drink alcohol or smoke, keep early hours, marry young, switch off lights when leaving the room, cultivate regular habits, go for a walk every day, keep in touch with the family, and above all, don't be extravagant." Aditya thought that his grandfather's counsel symbolized the ethic of the Indian merchant. Its defining tone was restraint and austerity, not dissimilar to the ethic of Protestant, Jewish, or Chinese business families. It captured the spirit of conservation that leads eventually to accumulation.

In business, Birlas were always regarded highly (and feared by competitors), but they never enjoyed the social status that they yearned for throughout the forty years of the socialist raj. As for the contention that they were the great beneficiaries of the License Raj, I disagree. I believe, on the contrary, that the Marwaris lost touch with the market during the socialist period. By eliminating competition, socialism distorted their behavior and suppressed their business skills. Competition is the school in which companies learn to perfect their skills. By closing the economy and discouraging competition, socialism made Indian business houses complacent and insensitive to customer needs. They lost the incentive to improve their products and acquire marketing skills. When the economy opened in 1991 and markets became increasingly competitive, the old businesses were in trouble. Hence, a decade after the economic reforms, the old Marwari houses, including the Birlas, are floundering.