



The impact of religion and reputation in the organization of Indian merchant communities

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Abstract *The complex interplay of religion, reputation and repeated transactions among trade and business communities that dominate the Indian intermediary markets are detailed. Using prior historical sociological and ethnographic accounts, the author highlights some unique aspects of Indian merchant communities and the common elements that these share with other business communities in Asia. The analysis lends credit to the notion that marketing theory can gain substantially from a focus on identity, family and other forms of kinship relations. Strategic implications drawn from the analysis show that while foreign consumer goods firms cannot afford to ignore the large and growing Indian market, their success will depend to a large extent on their understanding of the intricacies of the Indian merchant communities that dominate various marketing channels.*

Introduction

Recent advances in the disciplines of contract law and institutional economics have brought to light the relational and institutional characteristics of business linkages (Williamson 1975, 1985). While these perspectives have definitely contributed to a new theory of the firm that complements, and at the same time, discards key assumptions of the neo-classical firm, their application is by no means restricted to the study of the firm. One area where these perspectives have made a clear impact has been on the study of business-to-business marketing linkages. Earlier assumptions on power, dependency and contracts have now been practically replaced by attempts to explain long-term relations through their underlying dimensions of interdependency, trust and commitment (e.g. Anderson and Weitz, 1989).

The study of the family firm

Another area where these perspectives present great potential for new understanding is in the study of firms and business networks that have a common ethnic base. The study of the family firm, ethnically homogeneous middlemen groups and immigrant middlemen minorities, as well as other personalized economic relations, stand to gain from these new approaches. The general nature of such personalized relations can be found in Carr and Landa's (1983) seminal treatment of "clans" in trading relations and in Ben-Porath's (1980) assessments of family linkages in trade. Bonacich's (1973) theoretical and empirical review of immigrant middlemen minorities and Landa's (1981) institutional analysis of ethnic homogenous middlemen enhance our understanding of the roles and operations of such ethnic groups in intermediary markets.

These approaches to the study of middlemen groups have demonstrated how common ethnic and identity bonds reduce the transaction costs otherwise inherent in trading with strangers in open markets. At the same time, considerable potential exists among the ethnic trading groups for generating

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Kinship and personalized relations

trust and commitment through repeated transactions and enforcing commercial obligations through reputation.

The importance of business ties formed more along kinship and ethnic lines is growing in prominence even as national economies are increasingly becoming global in scope (Kotkin, 1993). Recent studies have emphasized the importance of the family firm connected more by kinship and personalized relations, especially in the Asian context (Goody, 1996; Weidenbaum, 1996). Among business in much of Asia, community and religious identity and historical family lineage play a part in providing a “club”-like status to the trading group such that contractual uncertainties are reduced in dealing with “club”-members. The necessary cohesiveness to business ties as well as to the larger community is obtained through sumptuary laws and customary restrictions (Carr and Landa, 1983).

The case of Indian business communities is slightly different from the generalized pattern observed for the rest of Asia, especially in that such business communities have traditionally evolved within specific religions and castes. Moreover, the religion of the Indian merchant community, in contrast to the general strictures on wealth and profits as in other religions (including Asian religions, such as Confucianism), treats money as neutral and does not condemn wealth generation itself. This has important implications in the ways the Indian merchant community assimilates the contradictory objectives of wealth creation and frugality with religious piety that serves to enhance market reputation.

Outlines some fundamental characteristics

The purpose of this paper is to outline some fundamental characteristics of dominant merchant or middlemen communities in India, with a specific focus on communities that originated from the Northwestern regions of India. Such dominant merchant communities, though further divided along religious, caste and community identities, have to be reckoned with for deeper penetration of consumer goods markets beyond the urban confines of India’s major cities. The significant role and importance of such ethnic domination is apparent when one considers the fact that, absent any major role for direct marketing activities, practically all of consumer goods marketed in India are sold through indirect channels. Also, given that only 30 percent of India’s population is situated in urban areas, ethnic middlemen are crucial for deeper penetration of goods into the Indian market and for the consumption of branded goods by the increasingly affluent rural consumer base.

The organization of this paper is as follows. First, several major trading communities of India are introduced in a historical context to illustrate their social and commercial classification and status. Using prior anthropological and ethnographic accounts, key characteristic features of such communities are reconstructed, especially with regard to the influence and impact of religion, reputation and repeated transactions in the commercial strength and success of the community. The aim of this section is to demonstrate that reputation for the individual firm derives not only from economic transactions, but also from ascribed religious, caste, and social status. A brief comparison between the Indian merchant communities and others in Asia demonstrates common elements as well as some unique elements present only in the Indian context. Finally, some strategic implications are noted for foreign goods marketers keen on obtaining wider reach and adoption for their products in the growing Indian market.

Indian middlemen communities – a classificatory overview

Even though the word “community” will be used to signify homogenous properties of various Indian middlemen groups, the constituent structure of the groups themselves can be viewed in multiple ways. First and foremost, is the concept of *caste*, or *varna*[1], according to which Indian society is divided into four major groups that are hierarchically arranged – the *brahmins* (priests), the *kshatriyas* (warriors), the *vaishyas* (traders), and the *sudras* (peasants and manual laborers). Historically, trading and banking activities were conducted by the third, i.e. the *vaishya* caste in the hierarchy (hence, also denoting its somewhat lower status in Indian society). However, this mercantile caste was recognized as twice-born and thus, entitled to the sacred thread of initiation and the services of the priest, all which were denied to the *sudras* and the untouchables (those outside the *varnas*). By circa 300BC, trade was an established occupation and the circulation of coinage made possible extensive trading links and relations in Northern India. However, also around this time, the *Arthashastra* (possibly the earliest manifesto on political economy) accorded a low status to the merchant, possibly due from the lower caste hierarchy, but also due to a distaste for the profit motive and high rates of interest that are not uncommon to this day[2]. Around the second century AD, *Manava Dharmashastra*, the human code law attributed to Manu, identified the *vaishya* with its legitimate occupations of cattle rearing, farming and dealing in jewels, metals, cloth, threads, spices, perfumes, and all other forms of merchandise (Basham, 1967).

Hindu merchant groups

Second, Hindu merchant groups could be further divided into various *jatis* (or roughly, family descent). *Jatis* are endogamous hereditary and named social groups that are “occupationally linked to a fixed position in the local status hierarchy” (Cottam Ellis, 1991, p. 82). It is *jati* rather than the *varna* that clearly identifies the social group to which a particular merchant belongs, though further subdivisions based on identification with specific religious sects, locality, blood relationships, guild and special customs and beliefs are also prevalent (Cottam Ellis, 1991; Lamb, 1955; Thapar, 1992). *Jati* is often used to symbolize caste within the *vaishya* community, leading thus to the cursory conclusion, based on casual observation, that there are numerous castes in India.

Jainism as a religion

Third, beyond the distinctions present in Hindu merchant communities, other religious community groups also took to trading as an occupation. Muslim merchants have been known to India since the establishment of Islam and the Parsis (those subscribing to *Zoroastrianism*, who fled Persia circa 700AD) have been notable in their contribution to Indian trade and industry during the British Rule. Each of these non-Hindu communities also have their subdivisions that finally accords them a position in the status hierarchy within their own commercial community. Notable among the Hindu merchant communities are the Jains (subscribing to the religion of Jainism that predates Buddhism in its challenge to Brahmanical orthodoxy of the first millennium BC). Jainism as a religion prescribes extreme austerity and a respect for all living creatures; the latter rendered farming beyond the sanction of religion for the Jains. Subscribing, thus, to *ahimsa* (non-injury), trade has historically been the only occupation that enabled the Jains to live within the jurisdiction of their religious canons[3].

Last, the concept of what constitutes the merchant “community” must be elaborated in the Indian context. Even though, in general, the concept of the community elicits notions of territorial proximity and social completeness, the distinction between merchant communities takes into account various

other features, including social class (Sheth, 1984). When the categorization of the merchant caste is extended, one finds several merchant communities, each distinguished by traders from specific jatis, religions, religious sects, guilds, social class, ethnicity, and locality[4]. Merchant groups formed from the intersection of each largely do meet the criteria for any “community”, i.e.

- (1) they share a common culture, belief, and practice as well as some common interests;
- (2) they are significantly different from the surrounding society in the above;
- (3) they are conscious of their identity;
- (4) they are effective as socio-economic communities; and
- (5) they are able to reproduce themselves (Carrithers and Humphrey, 1991).

Marwaris and the Gujaratis

In the last 150 years, the prominent commercial communities in India have been the Marwaris (Northwest and Eastern India), the Gujaratis (Western India, including Bombay)[5], both of which may include the Jains and form the largest trading communities; the Muslim Momins, Bohras and Khojas (West India) and the Sindhis (West India), which are smaller trading groups, and; the Naidus and Chettis (South India) and the Parsis (Bombay), which are largely “industrialist” classes rather than simply merchant communities (Lamb, 1955, 1959; Timberg, 1978). Also, the Sethis in North India, the Shroffs in West India and the Chettis in South India have been banking and financier subcommunities for more than two millennia.

“Ethnicity” of business communities within their native countries is less studied as compared to immigrant business communities that live and trade in nations other than the countries from which they originated. To illustrate, the “ethnic enclaves” formed by Chinese in Malaysia, Indians in East Africa and India, Koreans, Jews and Chinese in the US are some of the ethnic communities studied more frequently in business, whether for their transactional nature or for their entrepreneurial spirit (Bonacich, 1973; Landa, 1981; Min, 1987). On the other hand, international business studies have focused on specific business networks formed either from family linkages (China) or businesses alliances (as in Scandinavia, Japan and Korea). The Indian concept of “community” in business, formed from an intersection of religion, spatial origins, class identity, family lineage and guild associations, represents a complex and unique structuring that has interesting consequences on the nature of the firm, inter-firm and consumer transactions, credit, market information, market signaling (of prices and reputation) and codes of business conduct. The following sections provide some important insights on the effects of religion, reputation and repeated transactions on the economic viability not only of business, but also the community as a whole.

Religion and the Indian merchant community

As noted earlier, religion forms an important basis for grouping Indian merchant communities. The most prominent and prevalent merchant communities are the Jains and Vallabha Vaishnavas; most of whom are referred to as Marwaris since they originated and spread throughout India and abroad from the region of Marwar in the modern state Rajasthan in northwest India. The principal non-Marwari Jain and Vallabha merchants originate and are still found in the adjoining modern state of Gujarat. Other

Meat seen as the root of degradation

numerous Hindu merchants, by contrast, largely lack the coherence and community dimensions of the Jains and other Marwaris. These traders are found practically everywhere in India and their presence is only growing even in England and the United States. Wherever they operate, they retain their unique identity and community consciousness, a fact that proved to be unsettling for nationalistic Africans in East Africa (Himbara, 1994). Muslim traders are common in cities and towns with a substantial Muslim population (e.g. Ahmedabad, Surat and Bombay in the West, Lucknow in the North, Hyderabad in the South). Sikhs from the Punjab find place in the markets of Delhi as well as in the Northern and far Eastern regions of the country. Parsis, historically a strong industrial community, do trade in Bombay, though more Parsis in modern India are turning towards “white collar” professions.

The primary impact of religion is on the types of products traded. The fundamental vegetarianism of the Jains and Vallabhas and the dominant conception of meat and substances as the root of degradation, excludes them from trade involving meat and other products derived from animals (such as, leather, tanning, etc.). The proverbial expression, “one man’s poison is another man’s meat”, finds expression in the case of trade as well, for Muslim merchants and the Hindu *sudra* castes and those outside the Hindu *varnas* do trade in products condemned by the religion of the Jain and other Marwari merchants. Historically, religion also separates the larger and sophisticated merchants who turn into agents, brokers and wholesalers, from the smaller ones (usually a “shopkeeper” class). Here, it can be observed that while Muslims and Sikhs do engage in a variety of trading functions, those displaced from serving their own large local enclaves of religion, have generally become artisans and shopkeepers. For example, Muslim artisans in weaving and sculpting, Muslim shopkeepers for meat products and Sikh general stores carrying a wide variety of food and non-food items are prevalent in many large and small towns across India.

It is, however, in the Jains that one finds a complex impact of religion on various facets of business and trade. Renunciation and detachment from worldly phenomena are highly valued in Jainism (Laidlaw, 1995; Reynell, 1985), and austerity and asceticism are essential for enlightenment and salvation. Much of the Jain society is characterized by the split between the monk and the laity; the former being the object of veneration and the source of the “right path” for the latter. Similarly, since the ascetics practice complete detachment, they subsist on the laity for food, alms, dwellings and donations to the monastic order, since the renunciant is dispossessed of all worldly possessions and desires[6]. Jainism, not unlike Buddhism, prescribes definite codes of conduct for monks and laities alike and the laity is expected to follow “lesser vows” comparable to the “great vows of the ascetic”.

Frugal Jain lifestyle

The Jain laity is entreated to absolve from all injury and pointless destruction of life forms; avoid falsification and misrepresentation in social life and business; avoid anti-social practices including stealing; curb the sex drive; and not be overattached to wealth (Dundas, 1992). This last vow finds variance with the Jain merchant community, many of whom are very wealthy and disposed towards greater accumulation of riches. However, from the lay Jain point of view there is no contradiction – wealth accumulation is seen as a result of honest and simple living and one’s lack of attachment to wealth is often demonstrated by generous charity to temples and other social and educational institutions. The frugal Jain lifestyle and inner-worldly asceticism finds parallels with Weber’s “Protestant Ethic”; however, Weber

“Past and present piety and inner religiosity”

himself was more circumspect in his analysis of Jainism, for he saw the religion to be constrained by ritualistic prohibitions and caste restrictions of the surrounding Hindu society (Weber, 1958). But, as Laidlaw (1995, p. 362) argued: “Private, individual uncertainty about the fate of one’s soul in Jainism points away from diligent work in the world and the accumulation of riches, even though public and family duty, and the religious good of supporting monks and nuns, all point towards it”.

For the merchant community, this contradiction between wealth and renunciation is not so much discomfiting, since wealth is simply considered to be a reward of one’s “past and present piety and inner religiosity” and the result of a frugal lifestyle devoid of the excesses of gambling, meat and liquor (Reynell, 1985, pp. 29-31). In contrast, involuntary poverty is seen to be the result of sin and indolence (Laidlaw, 1995, p. 359). This worldview of the merchant has profound implications in the marketplace. Wealth is crucial for obtaining religious credit, through donations and ostentatious participation in religious rituals and ritual life-cycles (e.g. marriages), and religious credit obtains the commercial credit and reputation necessary to generate further wealth. Thus, wealth emerges as a signifier not only of moral piety but also as the signal for economic reputation and consequently, with credit, “the distinction between bad morals and bad economic conduct disappears altogether” (Bayly, 1983, p. 385).

The organization of merchants into *jatis* historically paved the way for the establishment of codes of conduct for each *jati* (*jati-dharma*). These, in the case of both the Jain and Vaishnava Hindu communities, provided strong strictures on piety, worldliness, kinship relations and social and religious responsibilities that, in the commercial sphere, translated into strong sources of credit. However, on the other hand, commercial activities in general, but more specifically, the practices of adulteration of goods, artificial shortages and other forms of unfair practices in trading, though criticized publicly, are also attributed to *jati-dharma*, this time, however, by non-merchant communities. Thus, rather than public outrage, it is widely accepted that it is in the moral nature and social duty of the *baniya* to be a ruthless moneylender and savvy trader (Parry, 1989).

***Dana-dharma* (the law of gifts)**

Moral challenges to commercial life arise from yet another source. Ancient India was notable in the practice of *dana-dharma* (or the law of gifts) that stipulated giving ceremonial and ritual gifts to brahmins and temples. For example, in South India, a complex pattern emerged that ensured that kings provided security and protection to the merchants, whose prosperity, in turn, enabled them to contribute more to the temple and thus, provide the king with ceremonial authority and legitimacy. In medieval South India, as Appadurai (1978, p. 48) noted, “ceremonial exchanges of honor centering on the temple between warrior-kings and sectarian leaders rendered public, stable and culturally appropriate, an exchange at the level of politics and economics”. Ceremonial and ritual gifts still retain their significance among the merchant community in modern India. For example, lavish gifts and endowments to temples and monasteries, charitable institutions, and in marriage, are often common ways to gain prestige and social status that ultimately have their impact on economic credit. However, the concept on *dana* was clearly focused on the view that expectations of reciprocity rendered the gift less sacrosanct. Thus, while gifts made to renunciants are worthy of divine merit (since there cannot be a reciprocal relation with ones outside the social world), gifts made to those still part of the social order imply reciprocity, and hence are morally suspect (Parry, 1989)[7].

**Even Muslim traders
engage in money-lending**

The largely neutral attitude towards commerce and profits is also seen with respect to usury. There are no clear Hindu religious sanctions restricting usury, with the only codes historically restricting this practice found in the law book of Manu. Even here, it was stated that only the merchant caste could engage in usury and at clearly specified rates of interest for various loans. However, throughout medieval India, loans and borrowings by citizens, merchants, and landowners increased substantially, both in number and extent. Such borrowings were usually for the purpose of cash payment of levies by landowners, and by the rulers to support their territorial expansion. Even the British supported their commercial expansion into India through borrowing money from the Indian merchants and money-lenders. Increased opportunities for money-lending led many trader castes to branch into banking and finance and since then, strong trading community groups have engaged in large-scale financial lending, brokerage and securities as well as being factors in the distribution of products. Even Muslim traders engage in money-lending and usury despite the stronger strictures of the Koran; here, the unwritten laws of the state rather than the explicit code of religion provide justification for usury (Habib, 1964).

In summary, religion enables a clear identity to the merchant community and provides the community with the basis for obtaining, albeit competitively within the community, legitimacy and economic credit.

Reputation-building and the Indian merchant community

In the previous section, it was noted that inner piety, ostentation, strict vegetarianism and temperance, and *dana* to temples and charitable institutions served to expand the economic credit of the merchant community. However, merely religious explanations, such as those offered by Weber's "Protestant Ethic" thesis, fail to explain all aspects of the complexity of why and how the relatively smaller merchant community could wield tremendous economic power. In the case of Jains, Dundas (1992, p. 169) noted: "Jain businessmen throughout India and beyond have succeeded in being able to expand their financial resources through consistently fitting into particular commercial niches and making use of ready-made networks of capital, credit and social relationships based on religious, regional and caste origin". Similar patterns and networks prevail among practically all the merchant communities in India.

**Marriages have to be
carefully restricted**

Of crucial concern among the merchant community is the concept of right marriage, which in the case of Jains, Dundas (1992, p. 169) labeled, "carefully regulated marriage alliances". Indeed, it is not only the bride or groom's future, but also the family honor and economic credit that stands at stake in any marital alliance. In much of the merchant community, including Jains, Vaishnavas and the North Indian communities, right marriages, at the minimum, preserve the merchant's family and community status, if not enhancing them. Options for the right marriage alliance are limited, especially since within each merchant community, there are a number of sects, "clans", "factions", and families. Marriages have to be carefully restricted given the constraints of these boundaries (Bayly, 1983). This practice of following explicit rules for preserving family status and enhancing it through marriage serves to uphold and enhance family "purity". In a community where business and family are practically equivalent concepts, it provides for stability and enhancement of economic credit. As Laidlaw (1995, p. 355) explained for the case of Jains: "When a family contracts a good marriage, its credit increases, and . . . the potential impact on business confidence of particular potential alliances are explicit

Izzat (Urdu for honor)

factors for consideration. And this assessment does not rest merely on particular anticipated business opportunities or advantages, but on an assessment of whether, in a world where being connected to a failed family brings both dishonor and the expectation that you too are liable, the family in question will be in the longer term an asset or a liability”.

Indeed, at all times, the Jain and other Hindu merchants attempt to ensure the reputation of the “family”, both in its social kinship sense as well as in the business domain, through social and religious patronage and social relations including marriages and community participation. The fact that, even historically, the merchant community was keenly aware of the impact of reputation on commercial dealings is evident by the practically everyday usage and conscious manipulation of words such as *abru* (Persian for reputation) or *pratishtha* (Sanskrit for prestige), *izzat* (Urdu for honor), and *nam* (Hindi for name, used to convey fame as well). The close relationship between the business and the family is such that one does not find a “family business” as much as a “business family” – business remains merely an adjunct of the larger family (Fox, 1967). The merchant’s reputation is based on publicly observed correct behavior, not only in business but also at home. This presupposes that, apart from piety, religious support and charity, his family is intently spiritual as well. At least in the case of Jains, various family members engage periodically in activities such as, fasting, taking vows and sponsoring religious ceremonies, that serve to enhance the family reputation. Thus, business reputation is derived not only from economic activity but also from religious activities of family members. The merchant’s creditworthiness has been, historically, the family, or more appropriately the joint family (Gadgil, 1959; Thapar 1992), and the merchant’s reputation is derived from the conduct and organization of his own life and of his immediate relatives “in accordance with certain essentially conservative principles” (Dundas, 1992, p. 169).

One-tenth of the firms survive two generations

This form of family reputation, apart from yielding economic benefits, also has the advantage of smoother transition of the business to the next generation. Thus, family reputation not only safeguards current commercial success, but is also crucial to business continuity long after the founder has passed away. Ensuring continuity through reputation tied primarily to the family organization and only secondary to the business firm is rather distinct to India and other parts of Asia, in sharp contrast to the West. It is noted that in many Western countries, only a third of the family firms go beyond the founder’s generation and only one-tenth of the firms survive two successive generations (*Economist*, 1996c).

Repeated transactions

The immediate translatable impact of the merchant’s reputation is on the access to financial credit and market information. Merchants with a good reputation obtain loans at lower rates of interests and often at very short notice (Hazlehurst, 1968; Laidlaw, 1995). Elaborate systems of informal credit and banking can be found within all merchant communities. Merchants with good credit and social standing stand more to gain from this system than their poorer counterparts. Most merchant markets make extensive use of *hundi*, a form of promissory note or indigenous bill of exchange prevalent at least since the 1830s (Bayly, 1983). The *hundi* itself operates like a bearer bond, often swiftly changing hands many times before it is finally presented for cash. As Cohen (1967; Timberg, 1978) noted, with reference to system in use among the cloth traders of Benares: “Firms in the system borrowed from each other whenever short of cash, loans were

Higher class associations have more access to capital, etc.

payable on demand, 'even at midnight', and interest was tallied and settled once a year, with total borrowing offset by total lending'. The *hundi*, once issued, was also a form of reputation on trial. Significant losses of credit and reputation ensue if a *hundi* were to be presented and was not paid in full on time. And the acceptability and size of the *hundi* for commercial transactions depends much on the credit of the merchant who issued it. Moreover, overt reputation-building practices, such as extending high amounts of credit, are common attempts to further one's reputation, despite the doubt that the merchant is actually "overstretched" (Laidlaw, 1995, p. 354).

Informal credit links the merchants to others in their community, thereby forming a larger "resource group" (Timberg, 1978). Significant gains are obtained from the immediate community in terms of general business information, apprenticeship of new traders, orientation of relocating traders, etc. through the formation of business associations that are, more or less, community linkages as well. However, it is not simply that all *baniyas* will form a cohesive local community; community lines may be sharply divided between, say, *baniya* shopkeepers and *baniya* timber merchants (Hazlehurst, 1968). Thus, merchant communities are fragmented internally by occupational specialization, which leads further to the notion of class associations within the community (Divekar, 1984). Such class associations emerge from common factors such as volume of business, content of trade or industry or the business environment (Sheth, 1984). "Higher" class associations generally have more access to capital, credit and political clout as compared with the "lower" class ones.

As a "resource group", there is much inter-trading and sources of informal credit and information shared between the merchants; however, when it comes to specific information that would have an immediate impact on profits, such as buyers and new products, merchants within the same community and class are extremely competitive. Moreover, the informal markets or bazaars, are frequent dens for rumor-mongers as well. Indeed, gossip in the market is often aimed at hurting reputation, the one thing that would cause any merchant the most harm.

Markets operate in a volatile fashion

A majority of the markets operate in a rather volatile fashion; however, this volatility is more a characteristic of the type of product traded. In several cases, however, merchants will steadfastly hold on to a prevailing "high" price in the market, despite tremendous potential for revenue gains through even small cuts in price. A strange mix of competition and collusion holds, wherein "scarce" and highly sought-after products enjoy the same high prices with any merchant, while the prices of other products experience competitive erosion.

Repeated transactions with customers are ensured in many ways. The merchant's reputation as a sound business undertaking, extension of credit even to the smallest customer, discounts to regular customers and "rationing" "scarce" products among regular customers are ways in which merchants seek and build relationships with their regular customers. Moreover, it is not uncommon for the merchant, the wholesaler or the retailer, to be clearly aware of the customer's product and brand preferences and take special care to cater to these. In small towns, the trader also operates as a money lender, thereby creating obligations for trade with him. In fact, it is the sense of commercial obligation within a common sectarian interest that lies at the heart of repeated transactions and the formation of a regular clientele.

**Less overt the personality,
less there is to like or
dislike**

Such regular clientele and commercial obligations also extend beyond the immediate community to others from outside the community. However, caste, community and sectarian considerations are manifest and interactions with the outside community are generally limited, as noted in terms of severe restrictions on the exchange of food, invitations to dinner and hospitality (Appadurai, 1981). Beyond religious dictates, the merchant is careful to avoid obligation, since hospitality may lead to the expectation of returning the favor and a social involvement beyond the joint family which, as Fox (1967, p. 309) noted, “is dangerous in itself, because such entanglement may prove a limitation in business of personal aggrandizement”.

At another level, *baniyas*, like all other middlemen practically everywhere (Bonacich, 1973), enjoy but a lower status in their immediate social environment. However, in the case of the Jains and Vallabha Vaishnavas, overt religious activities and participation are a source of credit, while in other merchant communities, the general rule is to avoid larger social or ritual entanglements since the more anonymous one is, and the “less overt the personality, the less there is to like or dislike” (Fox, 1967, p. 309). Thus, while for some religious sects in the merchant community, overt religious and social participation enhances their reputation, others prefer to contain most of their life within the joint family.

Convergence and divergence with other Asian merchants

While family-controlled and/or family-managed firms are prevalent throughout Asia to a greater degree as compared to the West, their patterns of dominance of the economy and economic organization are different in each part of Asia. For example, pre-war family *zaibatsus* in Japan have largely organized into networks of large and small firms, or *keiretsus* that account for a significant component of economic activity in Japan. Similarly, *chaebols* in South Korea, organized more as conglomerates, are often owned by a single family, while in much of Taiwan and China, networks of small and medium-sized family firms dominate the private economic sector (Hamilton and Biggart, 1988). In India, according to one estimate, family firms account for 99.9 percent of all private sector firms and as many as 75 percent of the top 100 companies ranked by sales are family businesses (Dutta, 1997).

Given the prominent role of the family in the organization of business, there are a number of points of convergence in the manner in which Indian merchants conduct their affairs and their counterparts from other parts of Asia. Notable Asian groups, such as the Chinese, Taiwanese, Koreans and the Japanese do place a strong emphasis on community identity and their own standing within a specific community. And, the reach of all these communities extends beyond their own shores to other parts of Asia, Africa, Europe and the USA (*Economist*, 1996b; Kotkin, 1993).

**“Professional” occupations
elevate family status**

Another point of similarity in all merchant communities from Asia is the fact that their occupational specialization tends to be more historical in origin. Trade has a longer occupational lineage in these communities, evident by historical surnames, and the recent tendency towards “professional” occupations is often rued as a loss to the community. However, “professional” occupations do elevate family status in the community, especially if the family reputation was based on the image of a “lowly shopkeeper”.

Yet another point of similarity is the use of reputation in business dealings and the fact that most deals are consummated, not with contracts, but with

Trade with other communities is not restricted

The *baniya* trader is accorded a lower status

words of honor. Reputation within such “closed” communities has a more immediate and severe impact than in markets that lack a strong community participation. Also, the co-terminal unification of two disparate forms of social organization – the family and the business – into a “business family” extends social reputation to the commercial sector and vice versa. These are features common to merchant communities in much of Asia.

However, the great extent to which religious practices and precepts more readily invade the merchant’s daily affairs and the extent to which the merchant’s family piety contributes to his market standing are features rather unique to specific merchant communities from India. Also unique is the system of informal credit that binds the Indian merchant community and signals the reputation of the individual Indian merchant, above and beyond the forms of ethnic and identity signaling and informal credit networks that prevail among most cohesive merchant communities from Asia.

All the close-knit Asian merchant communities, including the Indian merchants, utilize personalized exchanges as means of reducing contract uncertainty (Landa, 1981). Trade with communities other than one’s own is not restricted, though there is certainly lesser trust, unless the exchange partner is from the same immediate region. In the case of the Indian merchants, the amount of credit granted varies according to community and sectarian identities, though none is denied since the importance of gaining and retaining a customer is well understood. Thus, for example, competition between wholesalers from a specific community for the patronage of a retailer may be higher and more intense, and at the same time, there is no exclusion of other communities as exchange partners.

Managerial implications

The extent to which Indian merchants more readily accept either the products or the clientele of foreigners is a crucial element that separates them from their more nationalistic counterparts in Asia. Here, it appears that vertical trade is open at both ends, while being restricted by community considerations in the middle. Thus, Indian merchants rarely have any restrictions on dealing beyond their own community. Part of this “openness” has historical origins – the merchant community financed much of the foreign East India Company’s expansion into India. Concurrent to this expansion and the opening of new commercial venture areas, the Indian Marwari merchants found themselves to be chief benefactors, becoming agents and wholesalers for the British and, in some instances such as in Bengal, they turned into industrialists as well (Goswami, 1985; Timberg, 1978).

This form of “openness” towards trading partners also finds a similar degree of “openness” when it comes to the types of products traded, though trade in some products necessarily entails a lower status for the merchant within his community. It must be remembered that the status of the individual merchant depends on his occupational and product specialization. While the *baniya* trader and shopkeeper is accorded a lower status, the agent or broker in a specific local market enjoys tremendous reputation and clout among the other traders. Also, trade in commodities, such as tobacco, leather, etc. are sure to grant the merchant only a lower level in the prestige hierarchy, while products, such as fine cloth and jewelry, elevate the merchant’s status. However, in a majority of cases, large Indian merchants do not exhibit vertical differentiation, diversifying well into various functions, such as brokerage, wholesaling, factoring, and retailing (Hirsch, 1961).

“Portfolio approach”

Beyond the status imposed on prevalent products, the Indian merchant often expands his business to various product lines. Thus, the business family often emerges as a well-diversified trading firm rather than following narrow product-based restrictions. This lack of specialization and the consequent “portfolio approach” to products traded, fits well with the risk-aversity of the merchant community (Bayly, 1983). However, it detracts from the merchant’s ability to provide unique attention to any single product line (Hirsch, 1961).

Implications for foreign firms doing business in India

Given both the historical relationship with foreign firms as well as the traditional status grouping of products, the foreign firm’s supposedly high quality products immediately gain the patronage of the Indian merchant. Hence, market entry into the Indian market may be less of a problem for the foreign firm as compared to say, entering the Japanese market. However, it must also be noted that despite the *baniya*’s dominance of the market, his acceptance guarantees penetration only on his terms. While the large merchants in urban India have become increasingly sophisticated, integrating new technology and new marketing concepts more readily into their business, the smaller urban merchants and practically all of the rural merchants show slower signs of moving from a traditional way of conducting business. Historically, these merchants have kept accounts and inventory in their own unique ways (Bayly, 1983; Jones, 1991). Increasing complexity of the market and the profusion of brands in an expanding market only complicates matters more for these merchants (Aneja, 1996). One way the merchants reduce their cognitive complexity is by giving more attention to a few brands that provide them better returns and clientele. Aneja (1996, p. 30), the General Manager of a large consumer products company in India, argued: “The shopkeeper’s role is decisive in the success of a new brand. Squeezed for space and time, these businessmen want to deal with companies with a track record of success rather than fiddle with those that don’t always launch successful products. Therefore, consumer-goods manufacturers must not only do things right – but be right the very first time”.

Another crucial consideration in attempting to penetrate the vast and growing Indian market is to realize that Indian merchants are price-takers in their domestic market. While the ability to produce high quality at a very low price has won Indian entrepreneurs foreign market dominance in small diamonds and software, the Indian merchant may have to wage a rather upward struggle, if he wishes to counter the prevalent image of low quality and high prices that has historically been his companion.

Several traders have turned into industrialists

Over the last few decades, several traders have turned into industrialists – a process that began with the Marwari expansion, financing and management of enterprises in colonial Bengal. Strong religious and community identities still bind the Marwari industrialist and the Marwari trader, primarily since trust is readily reposed and transactions costs are kept minimal. The foreign firm, acting individually, may find it difficult to gain the patronage of Jain and Marwari traders, especially in industries where strong domestic competition is already present. Here, the foreign firm can, as a joint venture partner, stand much to gain from a joint venture collaboration with a domestic Indian firm. Such collaborations enable the foreign firm not only to gain access, but also control a considerable portion of the Indian market. This is true of industrial as well as consumer goods markets, where some

foreign firms stand poised to take advantage of the liberalized Indian economy through their collaborations with Indian private companies.

Implications for Indian managers dealing with foreign companies

Compared to other Asian countries, India boasts of a significant number of good management schools, who according to one family firm entrepreneur/manager – Anand Mahindra – “had precious little to manage” (*Economist*, 1996a). However, a liberalized economy has also sparked renewed emphasis on professional management education, and dozens of management schools now compete for quality with the traditional management offerings by schools such as the Indian Institutes of Management, the University of Delhi, Bajaj Institute of Management, and the B.K. School of Business Management.

Economic environment dominated by family firms

In an economic environment that is dominated by family firms, the emphasis on management education may seem to be a paradox; however, it must be noted that the family firm has, historically, placed a clear emphasis on sound business and management principles, not only through the training of family members and successive generations, but also in recruiting professional managers (Benedict, 1967). Moreover, with increasing liberalization, many good managers have found better incentives in working for foreign multinational firms.

However, the scope and domain of much of management education in India still remains rather a blind imitation of the Western model, with calls for an integration with an Indian approach to management far and few (see especially, Chakraborty, 1995). The Western-style educated Indian manager finds ready placement within the foreign firm that emphasizes and uses professional management and functional knowledge. However, absent a clear focus on the structure, organization and business practices prevalent in family firms within their own country, most Indian managers also find it difficult to communicate and translate Western principles to sound Indian practices, though some are clearly adept in bridging the cross-cultural gaps in theory and reality (Das, 1993).

The exoticist, the magisterial and the curatorial

Conclusion

Drawing on sociological and ethnographic sources, a descriptive account of the Indian merchant community was presented to highlight the interesting and complex interplay of religion and reputation in the merchant’s everyday commercial world. It is surprising that despite the growing strength of Indian consumers and the vast potential of the Indian market, this account of the Indian merchant is one of the first in recent times in the field of marketing, at least since the early 1960s (see especially, Hirsch 1960; Westfall and Boyd, 1960; Bartels, 1963). Part of the neglect by Western scholars could be that the image of the Orient, and especially India, is still shrouded in, as Sen (1997) has recently argued, one of three approaches – the exoticist (wonder), the magisterial (imperial territory) or the curatorial (different and unique). The approach taken here is certainly curatorial in that it has presented the Indian merchant as somewhat different and unique and worth noting. However, some balance is restored by pointing out the various similarities with other Asian business families.

At another level, the growing business interest in much of India and other regions of Asia has revealed that despite a strong commercial ethic and entrepreneurial zeal, Asia appears different and distinct in many aspects of business including, but not limited to, economic organization (Orrù *et al.*,

1997). Perhaps, there is such a thing as a distinct form of Asian Capitalism – one that is remarkably similar across Asia, differing only in relatively minor elements, while standing in sharp contrast to the dominant model of Western capitalism.

Notes

1. The word *caste* owes its origins to the Portugese who came to India in the sixteenth century. For the Portugese, the organization of the Hindus in various groups were similar to *castas*, implying tribes, clans or families. However, in the strict sense, the word *caste* does not really capture the concept of the *varna* (Meillassoux, 1973).
2. The *Arthashastra* provides extensive systems and structure for the regulation of trade, fixation of prices of staples and detailed consumer protection laws, all designed possibly with the notion that “merchants . . . are all thieves, in effect, if not in name; they shall be prevented from oppressing the people” (Kautilya, 1987) (First written 300BC).
3. In fact, any occupation endangering life was excluded for the Jains; agriculture more so, since “ploughing . . . always endangers the lives of worms and insects” (Nevaskar, 1971, p. 197; also, Weber, 1958).
4. The complexity of community identification from the perspective of an individual Mahajan merchant in recent Northwest India is provided by Cottam Ellis (1991, p. 87): “[the merchant’s] . . . cognitive map reveals five levels of integration into the business ‘community’ . . . : (1) with his lineage . . . ; (2) with his marriage circle . . . ; (3) with his caste [jati . . .]; (4) with other Mahajans in [the market] . . . ; and (5) with other Mahajans elsewhere, including overseas”.
5. Marwaris and Gujarati merchants are both *baniyas* (historically synonymous with the *vaishya*), though reference to the term often implies derogatory connotations today, partly due to the fact *baniyas* engaged in usury at high rates of interests and trade at high profit margins, thus squeezing debtors, other traders and consumers (Habib, 1964).
6. The relation between monks and the laity is more complex than is provided here. For recent overviews of such relations within Jainism, see Dundas (1992) and Laidlaw (1995); for comparative ideas from Buddhism and Christianity, Silber (1995) and Lawrence (1989), are excellent sources.
7. Thus, Parry (1989, p. 77) argued: “There is therefore an inherent tension – even a contradiction – between a soteriology which denies reciprocity and a social order which is premised on it”.

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