
Colonial Roots to National Growth: Tracing the Legacy of Indian Entrepreneurship A Study

Thaseen Sultana

Associate Professor, Department of Commerce and Management,
Government First Grade College, Kadugudi, Bengaluru.

DOI: <https://doi.org/10.5281/zenodo.17952443>

ABSTRACT:

This paper examines the evolution of Indian entrepreneurship during the colonial period and its enduring influence on modern industrial growth. Drawing from historical-economic analysis, it explores how British economic structures—though designed to serve imperial interests—created the infrastructure, institutions, and financial systems that later supported indigenous enterprise. Despite systemic constraints, Indian entrepreneurs like the Tatas, Birla's, and indigenous bankers—built industries and networks that laid the groundwork for national growth after independence. The study concludes that colonial legacies shaped India's entrepreneurial culture and continue to influence its postcolonial economy.

KEYWORDS:

Colonial India, Entrepreneurship, Economic History, Indigenous Enterprise, Industrialization.

.....

1. Introduction

Entrepreneurship in colonial India stands as one of the most paradoxical chapters in the country's economic history. British rule, which formally began after 1858, sought primarily to extract wealth and integrate India into a global imperial economy serving British industry. Yet, it inadvertently introduced structural transformations that reshaped the landscape of indigenous enterprise. Railways, modern law, and Western-style banking introduced new mechanisms of mobility and capital formation, while Indian merchants—long established in traditional trade and money lending—adapted creatively to these changes.

This research aims to explore how colonial economic policies, institutions, and ideologies influenced the trajectory of Indian entrepreneurship and how this legacy continued to shape post-independence industrial development. The study also highlights the strategies Indian entrepreneurs employed to survive and thrive under exploitative imperial

conditions–strategies that later became defining traits of India’s industrial class.

The topic remains significant because understanding the historical foundations of Indian capitalism provides insight into present–day business practices. The roots of modern conglomerates, family ownership models, and community–based financing systems can often be traced to colonial–era responses to foreign dominance.

2. Literature Review

The historiography of colonial entrepreneurship has evolved from early dependency theories toward more nuanced interpretations. Morris (1968) argued that colonial rule fundamentally suppressed Indian enterprise by monopolizing trade and investment opportunities for British firms. The "deindustrialization thesis" similarly claimed that British imports devastated local manufacturing, reducing India to a supplier of raw materials.

However, later scholars have revised this perspective. Bayly (1983) demonstrated that Indian merchant communities retained control over internal trade networks and adjusted traditional credit mechanisms to operate within new colonial institutions. Rajat Kanta Ray (1995) expanded on this, showing that indigenous capital persisted through informal financial systems like hundis (bills of exchange) and caste–based trust networks.

Tirthankar Roy (2010, 2012) offered a more balanced assessment, arguing that the colonial economy contained both constraints and opportunities. The British introduced legal and organizational innovations–such as joint–stock companies and modern banking–that enabled entrepreneurial growth. Tripathi and Mehta (1990) linked the rise of industrial capitalism to nationalist sentiment, observing that the Swadeshi movement of the early twentieth century fused political and economic independence.

Kudaisya’s (2003) study of G. D. Birla provides a case study in adaptive entrepreneurship. Birla leveraged community finance and nationalist ideology to build a business empire that thrived even under colonial restrictions. Similarly, Roy and Swamy (2016) showed how the colonial legal system unintentionally created conditions conducive to indigenous capitalism, particularly through improved contract enforcement and property rights.

The gap in the literature lies in connecting this colonial entrepreneurial evolution to India's post-independence industrial structure. This study fills that gap by linking historical institutional continuity with modern entrepreneurial culture.

3. Methodology

This study employs a qualitative historical-economic methodology, combining archival data, secondary historical literature, and institutional analysis. It does not rely on statistical modelling but on interpretive analysis of trends in entrepreneurship between 1858 and 1947.

Three major analytical dimensions guide the research:

1. Colonial Constraints: Examination of state policies-trade monopolies, discriminatory taxation, and limited credit access-that shaped Indian business behaviours.
2. Entrepreneurial Adaptation: Investigation into how Indian merchants and industrialists utilized indigenous networks and local knowledge to navigate restrictive structures.
3. Institutional Continuity: Exploration of how colonial-era organizational forms (family firms, community trusts, joint-stock models) persisted into the postcolonial era.

The historical framework aligns with institutional economics, which emphasizes the role of social norms, legal structures, and organizational continuity in shaping market behaviour over time.

4. Analysis and Discussion

The evolution of Indian entrepreneurship under colonial rule cannot be understood merely as a linear narrative of suppression or resistance. Instead, it represents a dynamic interaction between imperial economic design and indigenous adaptive agency. The British colonial state introduced new economic institutions-railways, ports, legal codes, and banking systems-that simultaneously restricted and facilitated entrepreneurship. Indian business groups responded with hybrid strategies that blended indigenous practices with modern capitalist forms.

4.1 Phase I: Commercial Intermediation (1757-1858)

During the early colonial phase, Indian merchants played the role of intermediaries in the export trade dominated by the East India Company. The Company's monopolistic control over external commerce,

especially in textiles, indigo, and opium, marginalized native exporters. Yet, within the internal economy, Indian trading communities—Marwaris, Parsis, Bohra's, and Indigenous bankers—remained powerful agents of capital accumulation.

The Marwaris controlled inland grain and cotton trade routes through Rajasthan and Bengal, while the Indigenous bankers financed plantation economies in Burma, Ceylon, and Southeast Asia. These groups relied on informal credit instruments such as hundis, which substituted for modern banking and facilitated interregional capital mobility. Despite the Company's restrictions, these financial systems operated parallel to official institutions, maintaining liquidity and ensuring the survival of indigenous networks. From a macroeconomic perspective, the colonial extraction model—through mechanisms like the "drain of wealth"—led to capital flight, as Indian surpluses financed Britain's balance of payments. However, at the micro level, Indian merchants reinvested profits locally in land, urban property, and artisanal production. The coexistence of imperial extraction and indigenous accumulation defined this phase.

4. 2 Phase II: Institutional Modernization and Industrial Emergence (1858–1914)

The Crown's direct rule after 1858 ushered in infrastructural development and the codification of commercial law. The Indian Companies Acts (1850–1882) enabled incorporation and limited liability, allowing Indian industrialists to form joint-stock companies. The introduction of Western education, modern accountancy, and English legal systems inadvertently democratized access to commercial knowledge among Indian elites.

4. 2. 1 Infrastructure and Integration

Railway expansion connected raw material-producing regions with port cities, reducing transaction costs and creating new markets. By 1900, India had over 25, 000 miles of railway track, most financed by British capital but operated with Indian intermediaries managing logistics and supply chains. Indigenous entrepreneurs exploited this network to access distant markets and raw materials, leading to regional industrial clusters—notably the textile mills in Bombay and Ahmedabad and jute factories in Calcutta.

4. 2. 2 Indigenous Industrial Capitalism

Entrepreneurs like Jamshedji Tata exemplified the modernization of Indian capitalism. The founding of Tata Iron and Steel Company (1907) symbolized a deliberate challenge to British industrial hegemony. Tata's venture merged nationalist sentiment with technological ambition, supported by Indian investors rather than British financiers. Similarly, the Kirloskar's and Godrej families pioneered domestic machinery and consumer goods, emphasizing indigenous innovation within colonial constraints.

4. 2. 3 Colonial Discrimination and Credit Barriers

Despite infrastructural progress, systemic bias persisted. British banks favoured European clients, while Indian enterprises faced limited credit. Exchange banks (e. g., Chartered Bank, Grindlays) restricted advances to British firms, compelling Indian businesses to depend on caste-based moneylenders and partnership financing (shroffs and seths). Consequently, business expansion was often family-bound, reinforcing kinship capitalism rather than corporate diversification. Moreover, colonial tariff policy prioritized British manufactured imports. Indian cotton mills faced competition from Lancashire, where the imperial government maintained lower duties on imported textiles. Yet, Indian entrepreneurs turned this adversity into an opportunity by specializing in coarse cottons for the domestic mass market—a strategic adaptation that laid the foundation for long-term sustainability.

4. 3 Phase III: National Expansion and Proto-Industrial Policy (1914–1947)

The First World War catalyzed the transformation of Indian entrepreneurship. Wartime disruptions curtailed imports from Britain, generating a supply vacuum that Indian producers quickly filled. The jute, sugar, and cement industries expanded rapidly, while new sectors like paper and chemicals emerged.

4. 3. 1 Rise of Nationalist Business Networks

The early twentieth century saw the fusion of economic nationalism and entrepreneurship. The Swadeshi movement (1905–1908) mobilized consumers to support indigenous goods, directly boosting Indian enterprises. Business leaders such as G. D. Birla and Purushottam Das Thakur Das became political advocates for economic self-reliance. The establishment

of the Federation of Indian Chambers of Commerce and Industry (FICCI) in 1927 Institutionalized Indian business lobbying, giving industrialists a collective voice in economic policymaking. This period also marked the proliferation of joint-stock and cooperative ventures. The insurance, shipping, and banking sectors—previously dominated by European firms—saw Indian entry. Companies like the Indian Mercantile Insurance and Scindia Steam Navigation represented milestones in asserting indigenous participation in modern sectors.

4. 3. 2 Economic Autonomy and Interwar Industrialization

Between 1914 and 1939, Indian industry expanded its share of national income from roughly 8% to 13% (Bagchi, 1972). Although colonial policies still limited heavy industrialization, the interwar years allowed the consolidation of business houses. The Birla's diversified into jute and textiles, while Tata expanded into power generation and chemicals. The Great Depression (1929–1933) paradoxically benefited domestic producers as global deflation reduced import volumes. Indian entrepreneurs leveraged this downturn to strengthen self-sufficiency, while political activism for protective tariffs gained traction. The government's Tariff Board Acts of the 1920s and 1930s—ironically colonial instruments—became tools for Indian business advocacy.

4. 3. 3 Toward Independence and Economic Transition

World War II further intensified local production as British firms redirected resources to the war effort. Indian industries expanded output for wartime supply, enhancing technical capacity and management expertise. By 1947, India had a small but mature capitalist class with experience in modern management, finance, and production. At independence, this entrepreneurial base became central to the new nation's industrial policy. The Nehruvian vision of planned development drew upon indigenous industrialists to execute the Five-Year Plans. Paradoxically, many of these firms traced their institutional roots directly to colonial-era adaptations.

4. 4 Theoretical Interpretation: Path Dependence and Institutional Continuity

The trajectory of Indian entrepreneurship under colonialism can be understood through the lens of path dependence—the concept that historical institutional choices constrain and shape future economic behaviours. The hybrid forms of organization developed under colonial constraints—

family conglomerates, caste-based financing, and community investment—persisted into the postcolonial era.

The persistence of kinship-based capitalism reflects institutional inertia: once informal trust networks substituted for absent formal institutions, they became embedded norms of doing business. Even today, conglomerates like Tata, Birla, and Mahindra retain governance structures and social missions reminiscent of their colonial origins.

4. 5 Comparative Perspective: India and Other Colonies

Compared to colonies such as Indonesia or Kenya, where indigenous capital was almost entirely displaced, India's entrepreneurial resilience stands out. The relative autonomy of Indian merchants before colonialism, combined with their adaptability, allowed continuity. The coexistence of imperial and indigenous systems produced a dual economy, where Indian business operated within colonial constraints but cultivated self-sustaining niches.

5. Conclusion and Implications

The colonial experience created both structural disadvantages and opportunities for adaptation. While the British regime prioritized imperial extraction, it also inadvertently introduced the institutions—corporate law, modern banking, and infrastructure—that enabled Indian entrepreneurship to modernize.

Indian business communities used preexisting cultural capital—trust networks, caste affiliations, and kinship-based finance—to exploit these new frameworks. Their ability to merge traditional values with modern systems produced a hybrid economic culture that persisted long after independence.

Post-independence industrial policy in the Nehruvian era retained this dual legacy. The dominance of family-owned conglomerates like Tata, Birla, and Bajaj reflected both continuity and transformation. The state's regulatory control during the License Raj period coexisted with the resilience of private entrepreneurial families whose origins traced back to colonial adaptation.

Today, India's corporate landscape—marked by conglomerate dominance, family ownership, and reliance on informal networks—continues to mirror these historical patterns. Understanding this legacy is vital for

rethinking entrepreneurship policy and fostering inclusive capitalism in the twenty-first century.

The paper thus concludes that Indian entrepreneurship during colonial rule was not merely a story of suppression but one of adaptation, resilience, and long-term institutional evolution. The entrepreneurial spirit that survived colonialism became the foundation for postcolonial national growth.

References:

- Bagchi, A. K. (1972). *Private Investment in India, 1900–1939*. Cambridge University Press.
- Bayly, C. A. (1983). *Rulers, Townsmen and Bazaars: North Indian Society in the Age of British Expansion, 1770–1870*. Cambridge University Press.
- Kudaisya, M. (2003). *The Life and Times of G. D. Birla*. Oxford University Press.
- Morris, M. D. (1968). Towards a reinterpretation of nineteenth-century Indian economic history. *Journal of Economic History*, 23(4), 606–618.
- Ray, R. K. (1995). *Entrepreneurship and Industry in India, 1800–1947*. Oxford University Press.
- Roy, T. (2010). *The Economic History of India, 1857–1947*. Oxford University Press.
- Roy, T., & Swamy, A. V. (2016). *Law and the Economy in Colonial India*. University of Chicago Press.
- Tripathi, D., & Mehta, M. (1990). *Business Houses in Western India: A Study in Entrepreneurial Response, 1850–1956*. Manohar Publishers.

Funding:

This study was not funded by any grant.

Conflict of interest:

The Authors have no conflict of interest to declare that they are relevant to the content of this article.

About the License:

© The Authors 2024. The text of this article is open access and licensed under a Creative Commons Attribution 4.0 International License.