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Unique Features of Indian Economic and Business System

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Introduction

India is a nation with a long history of cultural, social, business and economic development. Till 1700, it was a major contributor to the world GDP. Share of the India's contribution to the world GDP declined along with colonization in nineteenth and twentieth centuries (Maddison, 2003). Gradually, after independence in 1947, the Indian economy gathered itself and now has been growing at for more than a quarter century, which makes it one of the fastest growing economies in the world (Singh & Pathak, 2019). Reserve Bank of India notes that the

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Indian economy rebounded strongly in 2010–2011 from the moderation induced by the global economic crisis. A report of the Asian Development Bank (2018) predicts that India will continue to be the world's fastest growing major economy.¹ Indian businesses have also gained worldwide recognition, an evidence of which is, out of the 100 local companies identified by the Boston Consulting Group as the new global challengers from 20 rapidly developing economies, there were 16 Indian companies (“Engines of emerging markets”, 2016).² Amid the COVID-19 induced global crisis, India is expected to successfully come out of the economic distress caused by the pandemic, as it has a high percentage of working population and middle-class households.

This chapter is written with the objective to describe Indian economic thoughts and their impact on business. The chapter comprises of six sections. In the following section, we elicit a brief historical account of Indian economy. In section three, we discuss the unique features of Indian business and economic system arising out of socio-cultural characteristics of India. In section four, we summarize the ancient Indian economic thoughts and posit the core economic ideas of some of the most influential leaders of modern India. In section five, we discuss the findings, and in the last section, we conclude the chapter and present the scope of future research.

Indian Economy and Business: Historical Perspective

Historical records show that India was a strong economy since ancient times. Travelogues by several foreign visitors have documented ancient and medieval India as prosperous nation. For instance, Ctesias, a Greek physician (400 BC); Megasthenes, an ambassador of Seleucus I Nicator of the Seleucid dynasty to Chandragupta Maurya in Pataliputra (302

¹ PTI (2018) ‘Ahead of China, India to Remain Fastest Growing Economy in FY19 and FY20: ADB’ *The Economic Times*: <https://economictimes.indiatimes.com/news/economy/finance/india-fastest-growing-economy-in-asia-on-track-to-meet-fy18-target-adb/articleshow/65049353.cms>.

² The Boston Consulting Group, ‘Global Leaders, Challengers, and Champions: The Engines of Emerging Markets’, BCG Report, The Boston Consulting Group Inc., June 2016.

BCE–298 BCE); Faxian, a Buddhist monk who travelled from China to India from 399 to 412 AD; and Marco Polo, who was one of the earliest European travellers to India in medieval times have all described India as the most prosperous among the countries in the world that they had seen.

There was considerable trading and manufacturing activity in goods like cotton and silk clothes, spices and artwork. The trades were regulated by the chiefs or syndics of municipal and industrial organization of the cities. The industrial centres were connected by roads which facilitated traffic. Early in India the external and internal commerce had assumed high importance and found mention in the Buddha Jataka a league of caravan leaders. Buddhist literature testifies that the ancient systems of simple barter as well as of reckoning value of cows or rice measures had for the most part been replaced by the use of metal currency, was well understood and generally accepted exchange value. Basic banking was available. There was no taboo on loaning of money and according to Gautama interest was sought in six different ways. Indian goods were exported by both land and sea route to different countries (Ambedkar, 1915b). India had a strong maritime trade tradition. Apart from the trade and business, the ancient India is known to be the pioneer of introducing the 'corporate form' or organization known as srenis from around 800 B.C. well before the earliest Roman proto-corporations. Also, the historical development of the sreni indicates that the factors leading to its growth are consistent with those put forward for the growth of organizational entities in Europe (Vikramaditya, 2013). Awasthi gives a detailed account of historical development of businesses and business organization in India in the chapter thirteen of this book.

India was the dominant economic force until 1760 (Kennedy, 1989). India alone was contributing almost one-third of the Global GDP in OCE. The vital sector that contributed to the growth of Indian economy was agriculture while industry, education and science were the other critical sectors. China and India combined used to produce nearly half of the world's economic output in 1820 compared to just 1.8% for the USA (Milken, 2006). In addition, India had a 25% share of the global trade in textiles in the early eighteenth century and it had a higher GDP per capita than Europe in 1750 (Bairoch, 1995).

Table 9.1 Share of world GDP from year 0 to 1998

Year	0	1000	1500	1600	1700	1820	1870	1913	1950	1973	1998
W.	10.8	8.7	17.9	19.9	22.5	23.6	33.6	33.5	26.3	25.7	20.6
Eur											
USA	0	0	0.3	0.2	0.1	1.8	8.9	19.1	27.3	22.0	21.9
China	26.2	22.7	25.0	29.2	22.3	32.9	17.2	8.9	4.5	4.6	11.5
India	32.9	28.9	24.5	22.6	24.4	16.0	12.2	7.6	4.2	3.1	5.0
World	100	100	100	100	100	100	100	100	100	100	100

Source Table-B-20 Appendix B; pp263; The world economy: A millennial Perspective—Angus Maddison OECD Development Centre Studies—2007

Sunderland (1932) had underlined the prosperity of India at the time of the arrival of the British in the following words: ‘This wealth was created by the Hindus’ vast and varied industries...India was a far greater industrial and manufacturing nation than any in Europe or than any other in Asia...Such was the India which the British found when they came’. The share of GDP of different countries and regions of the world is shown in Table 9.1. From the table, it can be observed that India’s contribution to GDP saw a steep decline after the arrival of the British. By 1765, the company’s influence had grown to such an extent that the British were effectively controlling most parts of the country (Bayly & Bayly, 1987). Theory of Drain of Wealth (Naoroji, 1867) unravelled the extraction of wealth from the Indian soil by the British. This collapse of Indian industry during the colonial period drove people back to the farms (Gurumurthy, 2013). Naoroji (1901) proved that internal factors were not the reasons of poverty in India but it was caused by the colonial rule (Raychaudhuri, 1966).

Unique Features of Indian Economic and Business System

Although the forces of globalization and technological changes have impacted economic and business systems, the Indian economy and business continue to exhibit some unique features which have been listed and elaborated in this section.

Family System

India has had a strong family-based culture since time immemorial (Merchant et al., 2017). The Indian society is family based and it is the families that drive the economy of India (Kanagasabapathi, 2013). The Indian family is considered strong, stable, close, resilient and enduring (Mullatti, 1995; Shangle, 1995). Indians are collectivist and people tend to prioritize their family interests over individual interests (Chadda & Deb, 2013). The joint family system or an extended family has been one of the important features of Indian culture and an institution by itself (Naidu, 2014). One of the main advantages of a family system is the strong bonding among siblings and other members, providing a sense of security to all. The bonding and bonhomie one finds in close-knit joint families have a positive impact on the emotional quotient of children (Naidu, 2014). Families have their share of conflict situations, quarrels and misunderstandings. Nonetheless, family values play an important role in shaping the outlook of people. For example, respect and care for elders and nurturance of the younger are among the central principles in Indian family system. Festivals play an important role in preserving and promoting these values.³

Arthashastra, an ancient Indian Sanskrit treatise on statecraft, economic policy and military strategy written by Kautilya, notes that the Dharma (duty) of the head of the family is to sacrifice his own pleasures for the sake of the family members. According to Kautilya, 'Every man has an obligation to maintain his wife, children, parents, minor brothers and dependent (unmarried or widowed) sisters. No man shall renounce the life of a householder in order to become an ascetic without providing for the maintenance of his wife and children (2.1)' (Rangarajan, 1992). It is the general norm in the Indian families that parents make sacrifice for children and later, when the children grow up, they take care of their elders (Kanagasabapathi, 2013). For instance, in India, most parents fund their child's education and 89% of the Indian parents are willing to 'make sacrifices' for their children's education (HSBC, 2017).

³ <http://www.businessworld.in/article/Indian-festivals-promote-family-values-Vice-President-/03-08-2020-304530/>.

One of the biggest financial commitments of parents is paying for their child's education. Indian parents prioritize their children's needs over their own needs. Many times they sacrifice their current pleasures and also post-retirement security in the process. In addition to this, almost 32% of the parents work extra hours in their existing job and over 27% contribute less to their own long-term savings or investments or have done so in the past. 59% Indians fund their child's education from day-to-day incomes, 48% get the money from general savings, investments or insurance, and almost 30% get the money through a specific education savings or investment plan.

The family members tend to restrain their consumption and save money for the future of the family. This could be one of the reasons for high personal savings rate in India. Families take care of children, elders, unemployed, sick and disabled. This reduces burden on society and the government. The social security burden in India on government is much lower as compared to that in developed countries.

Family Business

The joint family system has been the backbone of family businesses which provide the required resources and capital for the cohesion and growth of the firms (Basuthakur, 2020). Family business is the leading and the most prevalent type of entity in the world (Sharma et al., 2012). Family firms contribute to two-thirds of all businesses across the globe, generate around 70–90% of annual global GDP and create 50–80% of jobs in the majority of countries worldwide (Family Firm Institute, 2017). In India, more than 85% of businesses being recognized as family enterprises (Ramchandran & Bhatnagar, 2012). Family businesses contribute to two-third of India's GDP, 79% of organized private sector employment and 27% of overall employment (KPMG, 2013). A culture of family business can thrive typically when the families are close knit and the family members share a strong bond with each other. When it comes to the next gen, 73% of family businesses in India (compared to 65% globally) have them working in the business and 60% (compared

to 57% globally) plan to pass on management and/or ownership to the next gen (PwC, 2019).

India has one of the highest numbers of family-owned businesses in the world. The country, with its emphasis on relationships and family bonds, enjoys obvious benefits. If there's any culture that is as rich in tradition as Indian business, families are blessed to have a culture that is effective at promoting family coherence.⁴

In a family business, family members working in the business are likely to share the same set of values, beliefs and ethos, and develop common values (Carlock & Ward, 2010). A family member working in his/her family business is more likely to put in extra hours of work, compared to other organization showing a strong commitment to the organization. Family members are likely to be willing to wear different hats and to take on the work outside of their formal job description in order to ensure the success of the company presenting flexibility in job classification (Birol, 2013). Since family members work to build the business for future generations, they support long-term thinking for growth and success. The founder typically tends to be a leader for a long term and provides stability unless a life event such as illness, retirement or death results in change. There is usually longevity in leadership, which results in overall stability within the organization. Passing of contacts and technology may be smooth in family business. Family members may be more willing to make financial sacrifices for the sake of the business decreasing the cost of operation. For example, they may accept lower pay than they would get elsewhere to help the business in the longer term, or deferring wages during a cash flow crisis. The potential successors are exposed to in-house training which enables them to join the family business with ease as they have already received the required training from the incumbents (Duh, 2014).

⁴ <https://littleindia.com/indian-business-families-blessed-culture-promotes-coherence-mitzi-perdue/>.

Community Orientation and Social Capital

It is the families and communities that constitute the society in India. It is the family set-up that provides the foundation for what the economists now call as 'social capital'. The social capital provides a strong base to the economic development, apart from maintaining peace and order in the society. In addition to the families and communities, the role of varna or caste system is very important in the Indian economic and business system. India's varna system is based on profession. The four main varnas are brahmins, the class of people traditionally engaged in knowledge generation and dissemination; kshatriya, the class of the people traditionally engaged in armed forces, police and political leaders; vaishyasa, the people engaged in agriculture and entrepreneurial activities; and shudras are the people engaged in working with tools for the production activities.

Some of the modern experts believe that the varna or caste-based community system in India helped in the development of the economic and business systems (Merchant et al., 2017). The jati or community or caste plays a major role in entrepreneurship and also facilitates the upward mobility of the whole caste rather than individual. Thousands of caste-based economic clusters are spread across India, providing millions of jobs and creating wealth. Traditional business communities like Marwaris, Sindhis, Patels, Bohras and Kutchis have been extremely successful in forming global business networks. Importantly, such economic clusters are usually self-financed. They maintain a fine balance between cooperation and competition (Vaidyanathan, 2012). In addition, caste familiarity generates trust, and the caste itself turns into an open-air business school of self-learning for entrepreneurs, teaching them to build businesses (Gurumurthy, 2013).

In the nineteenth century, British colonialists used to blame the caste system for everything wrong in India (Das, 2002). It is better to understand the impact of varna on competitiveness rather than morally judging it. Being endowed with commercial skills is a source of advantage in the global economy. For instance, Bania traders possess financial resources and financial acumen and more importantly know how to accumulate and manage capital.

Due to historical reasons, different castes were and even today to a large extent are concentrated in different regions and places. People belonging to different castes share certain social relationships with each other. These social relationships, however small they may be, result in trust and create social capital which is a very important asset for an economy (Kanagasabapathi, 2013). Additionally, the community orientation creates trust among the members of the society (Durkheim, 1893). Trust has some economic value, and Fukuyama (1995) noted that the ability to associate depends on the degree to which communities share norms and values and are able to subordinate individual interests to those of larger groups.

Social capital refers to the quality of human relations within some well-defined social group that enables members of the group to act in cooperation with one another for achieving mutual benefits (Krishna, 2004). Caste is viewed as a form of social capital, and the use of caste-based networks is supported for attaining positive outcomes in entrepreneurship (Alha, 2018). Caste plays a positive role in building social capital in the society (Vaidyanathan, 2012).

Self-Employment and Entrepreneurial Orientation

Self-employment and entrepreneurial orientation is another feature of Indian economic and financial system. The concept of self-employment is popular in India, which is evident from the statistics provided by the International Labour Organization (ILO) in 2018. In Fig. 9.1, the self-employment rate as a percentage of total employment is given for the top 10 economies (in terms of GDP) of the world.

India scores the highest in terms of self-employment as a percentage of total employment in comparison with comparable economies (see Fig. 9.1). The self-employment rate in India as of 2018 is 78.3%. Next to India is China with a self-employment rate of 46.9%. In other words, Indian economy can be called as proprietorship economy (Vaidyanathan, 2012).

In India, entrepreneurial activities take place even in low socio-economic neighbourhood. For instance, there is an area named Dharavi

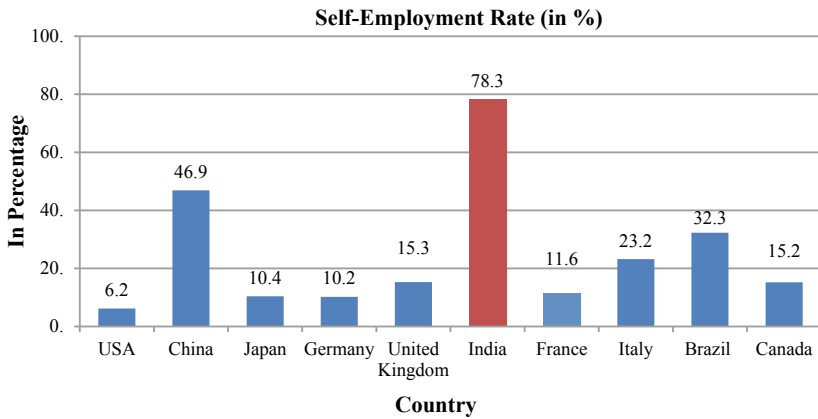


Fig. 9.1 Self-employment rate as a percentage of total employment in world, 2018 (Source International Labour Organization, ILOSTAT database. Data retrieved in September 2019)

in Mumbai. Dharavi is known to the outside world as the largest slum in India (Iyer et al., 2009). The locality is dominated by a population of ex- ‘untouchables’, conventionally stigmatized by poverty and low status (Saglio-Yatzimirsky, 2013). Despite being populated by poor people, it is not just a locality of labourers, it is a locality of small entrepreneurs. It presents a fascinating paradox: the convergence of stereotypes associated with the slum—poverty and misery—and an effervescent economic vitality, impelled by globalization and international capital flows. The annual turnover from Dharavi’s myriad enterprises is anywhere between Rs 1500 crore and Rs. 3500 crore (around \$2 billion–\$5 billion). According to official sources, there are 4902 industrial units in Dharavi, of which textiles form 1,036, pottery 932, leather 567, plastic processing 478 and Jari stitching 498 (Menon, 2004).

The non-corporate sector has the largest share in India’s national income, manufacturing activities, services, savings, investments, both direct and indirect taxes, credit market, employment and foreign exchange earnings (Vaidyanathan, 2004). Thus, the widespread dominance of non-corporate sector cannot be ignored. It is interesting to note that the entities in the non-corporate sector are not listed in any of the

stock exchanges; they are not even companies. They are mostly proprietorship and partnership firms. But it is they who dominate the fastest growing activities of the Indian economy.

They are organized or unorganized, depending upon regulations/reporting, etc. They may have a regular labour force or an informal type (of workforce), depending on the size. This non-corporate segment accounts for around 40% of national income (Vaidyanathan, 2014). Indian value system encourages one to be self-employed and supports decentralized economy consisting of small businesses. Small businesses empower people and avoid concentration of wealth in few hands (Gandhi, 1909; Schumacher, 1974).

Pre-eminence of Informal Sources of Financing

Though there are different formal sources of financing operational in India, informal financing continues to be a major source. Informal sources of finance refer to seeking financial help from family, friends, community, moneylenders, and rotating savings and credit associations (Shankar, 2019).

Out of the total financing that is available to MSMEs (micro, small and medium enterprises), only 22% comes through formal sources of finance like banks and other financial institutions, with the balance coming from self-finance or informal finance (Shankar, 2019). Caste/community plays a major role in promoting, organizing, financing, marketing and financing of business organizations (Vaidyanathan, 2012).

There are many community organizations which provide financing to the entrepreneurs especially budding youngsters from the community. Members of the community pool resources to finance businesses from the community. For instance, JITO (Jain International Trade Organization), a unique multi-stakeholder community of Jain industrialists, businessmen and professionals, provides a stable platform to young entrepreneurs by facilitating them with right business contacts and capital, as and when required. JITO is a worldwide organization of businessmen, industrialists, knowledge workers and professionals reflecting

the glory of ethical business practices. It is a global organization present across 11 countries and has around 14,000 members. Its vision and mission mainly focus on economic empowerment (Aarthik Sudradhata), knowledge (Shiksha) and service (Seva) and the community and the society at large. JITO is registered as a company under section 25 of the Companies Act, 1956 (now under section 8 of the Companies Act, 2013).⁵

Chit funds are indigenous financial institutions in India that combines credit and savings in a single scheme. In a chit fund scheme, a group of individuals come together for a predetermined time period and contribute to a common pool at regular intervals (Kapoor et al., 2011). There are chits that involve savings of Rs. 100 every month to Rs. 1,00,000 and more. In certain areas where chit funds are popular, when people need funds to promote a venture, they mobilize their relatives and friends and organize a chit so that it would help them with the funds (Kanagasabapathi, 2013). Chit fund is a popular financing mechanism in Indian states like Tamil Nadu, Kerala, Andhra Pradesh and Karnataka. Community funding and chit fund mechanism are not only indigenous but also relationship-based and state-independent. In all these cases, it is the society that comes out with initiatives like these, based on their conveniences and needs (Kanagasabapathi, 2013).

Cooperative credit society is another financing source for small sector. A cooperative credit society is defined as a cooperative society, 'the primary objective of which is to provide financial accommodation to its members and includes a cooperative land mortgage bank' (RBI, 1999). A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise. Ranging from small-scale to multi-million dollar businesses across the globe, cooperatives employ more than 100 million women and men and have more than 800 million individual members. Self-help, self-responsibility, democracy, equality, equity and solidarity are core espoused values of any cooperatives. Cooperatives are often floated

⁵ <https://jito.org/>.

by communities or social groups for helping each other and are popular in India.

Microfinance is another source of informal financing. It is an economic development tool whose objective is to assist the poor to work their way out of poverty. It covers a range of services such as savings, insurance, money transfers and counselling in addition to the provision of credit.⁶ Microfinance is being seen as a practical instrument to achieve the holy-trinity of outreach, impact and sustainability (Fischer & Sriram, 2002). Since 1970s, microfinance, that is, extension of small amounts of collateral-free institutional loans to jointly liable poor group members for their self-employment and income-generation, has become a major tool of promoting inclusive growth and sustainable development (Yunus, 1998). To support the microfinancing activity, in 2015, Indian government introduced MUDRA (Micro Units Development and Refinance Agency) bank that offered loans at low rate to microfinance institutions which then provided credit to MSMEs. MUDRA bank is an innovation meant for 'funding the unfunded' and 'banking the un-banked'. Provision of institutional finance to such micro and small business units and enterprises will not only help in improving the quality of life of these entrepreneurs, but also turn them into strong instruments of growth and employment generation (Kaur, 2016). The idea of cooperative economic activity to achieve beneficial social goals is valued in societal culture of India. Hindu teaching is also realistic about the need for interest rates to compensate for business risks and transaction costs, and emphasizes the importance of the repayment of debts. It is therefore no surprise that the Indian microcredit sector has grown rapidly in recent years (Ashta & Hannam, 2014).

National Bank for Agriculture and Rural Development (NABARD) introduced the idea of mobilizing small, cohesive and participatory groups, known as self-help groups (SHGs) (Fernandez, 2007), a channel of microfinance. A self-help group is a financial intermediary committee usually composed of 10–20 local women or men. Most of the SHGs are formed for the purpose of better financial security among its members. SHGs can exist with or without registration. SHGs in India often work

⁶ The definition of Microfinance is given by the Reserve Bank of India.

in association with banks (SHG—Bank Linkage Programme). SHGs strive to integrate the microfinance services into broader strategy to decrease poverty (Fisher & Sriram, 2002) and contribute to an increased income of poor through collective performance. What started as a pilot to link around 500 SHGs of poor to the formal financial institutions during the year 1992–1993 has now become the largest microfinance programme in the world, in terms of the client base and outreach. The SHGs, which follow ‘Panchsutras’, i.e. five key points, conduct of regular group meetings, regular savings within the group, internal lending based on the demand of members, timely repayment of loan and maintenance of proper books of accounts, are considered to be of good quality and over years have proved themselves to be good customers of banks.

The Non-Government Sector (NGO) has played a prominent role of working as a Self Help Group Promoting Institution (SHPI) by organizing, nurturing and enabling credit linkage of SHGs with banks. NABARD later co-opted many others as SHPIs including the rural financial institutions (RRBs, DCCBs, PACS), Farmers’ Clubs (FCs), SHG Federations, Individual Rural Volunteers (IRVs), etc. These stakeholders were encouraged to take up promotion of SHGs by way of promotional grant assistance from NABARD. This savings led microfinance model has now become the largest coordinated financial inclusion programme in the world covering almost 100 million households in the country. With more than 84% of the groups being exclusively women groups, the programme has provided the much needed push to empowerment of women in the country.⁷

The SHG-bank linkage programme has proved to be cost-effective for banks as group loans lower the operational costs and delinquency rates. This programme has been considered to be the world’s largest and fastest growing microfinance programme that goes beyond mere financial services provision to encompass wider goals of securing livelihoods, reviving local economies and empowering women through trainings, confidence building and leadership development (Fischer & Sriram, 2002; Seibel, 2005). As on March 2018, there were 8.74 million SHGs, of which 58% were credit-linked and 90% were all women groups

⁷ <https://www.nabard.org/contentssearch.aspx?AID=225&Key=shg+bank+linkage+programme>.

(NABARD, 2018). Around 100 million people are involved in SHGs in India that have an aggregate bank balance of Rs. 65 billion. An extensive use of various informal community-driven financing is very much in tune with Indian ethos.

High Savings Society

The Indian society avoids unnecessary consumption and is savings oriented. It is a part of Indian culture and a way of life, for both rich and poor. The father saves for the family and many a times the mother saves without the other family members even knowing about it, in small sums. Spending more than what is necessary is considered a sin in the traditional Indian system.

Indian citizens tend to save more, primarily due to their family orientation. The saving in India is sometimes called as dynastic savings as people save not only for themselves but also for the next generations.⁸

Indian culture teaches avoidance of indulgence and control over desires and impulses. As per survey by Hofstede Insights, India receives a low score of 26 in indulgence, meaning that it is a culture of Restraint.⁹ Indian thinkers right from Vedic times have advocated simple living and avoidance of excessive consumption. Gandhi recommended a frugal lifestyle to be followed by poor and rich (Gandhi, 1909).

Juxtaposing the gross domestic savings as a percentage of GDP of India, Brazil, Pakistan and USA between the period 1990 and 2020 (refer Fig. 9.2), it can be observed that the savings rate in India has been consistently higher than the aforementioned countries over the 30-year time span. It is worth noting that high saving rate in India is despite a very low per capita income. The data of USA is just used as a proxy representing the Western part of the world, Brazil as a proxy for an emerging economy and Pakistan as a proxy for an South Asian country. It is worth noting that high savings rate is maintained despite low per capita income in India.

⁸ CEIC data; www.ceicdata.com.

⁹ <https://www.hofstede-insights.com/country/india/>.

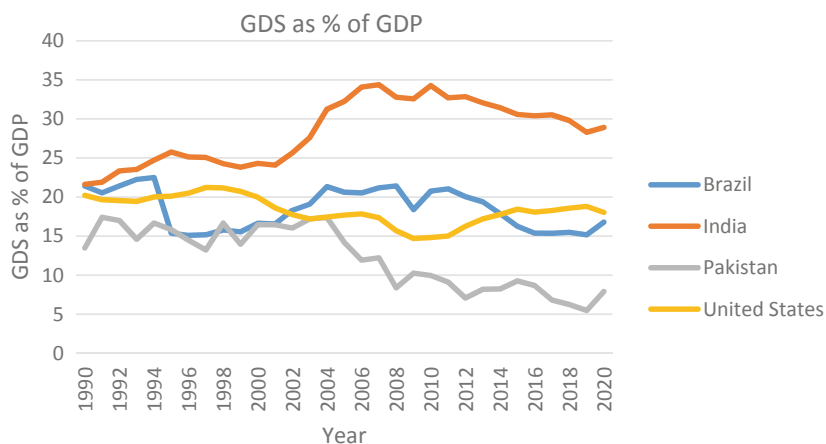


Fig. 9.2 Gross Domestic savings as a percentage of GDP of India, Brazil, Pakistan and USA (1990–2020) (Source World Bank)

Passion for Gold

Considering the high savings and strong family structure, the Indian economy is indeed feminine in its soul (Gurumurthy, 2015). India is one of the largest buyers of gold in the world. Gold is considered not just an investment in India; it is also treated as insurance and a social security for the large majority of people (Kanagasabapathi, 2013). The investment is done in gold mainly for cultural reasons. Table 9.2 shows the trend of gold consumption for India, China and USA. These three countries are compared since they are among the top global economies as well as the highest gold consumers in the world.

Table 9.2 Consumption of Gold in metric tons (2005–2020)

Country	2005	2008	2011	2014	2017	2020
India	722	713	933	843	650	850
China	293	432	811	813	1089	910
USA	377	267	195	179	170	190

Source World Gold Council, Bullion By Post

Gold demand in India is principally met through imports. The import of gold was a major cause for the country's trade deficit. To curb imports, the government changed India's gold import policy. This was done by introducing a higher import duty and allowing import only via nominated agencies which were notified by the Reserve Bank of India and the Directorate General of Foreign Trade. With respect to long-term investment in gold, majority of the times it has given stable return. Unlike investment in properties, even small amounts can be invested in gold making it a preferred choice in rural India.

It is also known that gold is considered to be a part of social security for most Indians and is close to their heart culturally. Most of the people in the country aspire to keep a certain part of their savings in gold. It is an essential part of most religious ceremonies and weddings in the family. As gifting gold is the core of marriage rituals, weddings are estimated to generate nearly 50% demand for the precious metal.

Remittances from Abroad

Another distinguishing factor of Indian economy is the remittances. Remittances are money transfers from people employed outside the country to family, friends or relatives residing in their own country.

One of the reasons for high remittances coming to India from Indian diaspora is the prevalence of strong family ties and family bond. Peter (2010) observed that migrants remit primarily to promote familial belonging. The migrants express their family membership through remittances that are considered to be disposable social goods. As a result, their socio-cultural values proliferate as the attached social, cognitive and affective meanings to the recipients of the remittances increase (MacKinnon & Langford, 1994) (Table 9.3).

India is the world's leading receiver of remittances, claiming more than 12% of the world's remittances in 2015.¹⁰ Remittances to India stood at US\$ 68.97 billion in 2017 and remittances from India to other countries accounted for US\$ 5.71 billion, for a net inflow of US\$ 63.26 billion in

¹⁰ <https://www.worldbank.org/en/news/press-release/2015/12/18/international-migrants-and-remittances-continue-to-grow-as-people-search-for-better-opportunities-new-report-finds>.

Table 9.3 Top five recipient countries of foreign remittances (in billions of US dollars)

Country	2008	2011	2014	2017	2020
India	50	64	71	69	83
China	23	40	61	64	60
Philippines	26	24	28	31	35
Mexico	19	23	25	33	43
Nigeria	19	21	21	22	17

Source Migration and Development Brief 29

Data source <https://www.migrationdataportal.org/themes/remittances> and <https://www.vanguardngr.com/2021/05/nigeriasdiaspora-remittances-fall-27-7-in-2020-world-bank/>

2017.¹¹ As per the Ministry of Overseas Indian Affairs (MOIA), remittance is received from approximately 35 million members of the Indian diaspora far ahead of the China (23 billion \$) placed second in the list.

Ancient and Contemporary Indian Economic Thoughts

The ancient Indian writings capture the economic thoughts and wisdom. The genesis of Indian ancient economic thoughts is since the Vedic age, which dates back to at least 8000 BCE (Kak, 1987). Upanishads, which are the earliest philosophical texts of human civilization extracted from Vedas (Gewali, 2013), also discuss economics.

Ancient Indian economic theory is different from modern economic theory in the sense that modern economic theory focuses on pursuit of material progress alone whereas ancient economic theory is based on fourfold life objectives—Dharma, Artha, Kama and Moksha. These aspects are explained by Pandey in Chapter 2 of this book.

¹¹ <https://www.pewresearch.org/global/interactives/remittance-flows-by-country/>.

Indian Economic Thoughts and Practices

The importance of money in Hindu Dharma is reinforced by the place assigned to Lakshmi, the Goddess of Wealth. Hindu Dharma also recognizes the mercurial nature of money and the need for Lakshmi to move: she should therefore not be hoarded but passed on (Ashta & Hannam, 2014). Hindu economic philosophy is characterized by the principles of hard and honest work to create wealth (Nadkarni, 2012), respect for wealth and wealth creators (*Lakshmi pooja*), earning wealth through ethical means (*shubhlabh*) (Garg & Saluja, 2017), restrained consumption, giving back to society. The first verse of Ishopnishad captures these ideals in the following words: (तेनत्यक्तेनभुञ्जीथामागृधःकस्यस्विद्धनम् *tenatyaktenabhunjitha; ma gridhabkasyasviddhanam*). Meaning, wealth, may be enjoyed after making sacrifice, and one should not steal others' wealth. The Hindu business philosophy values the satisfaction from the work and not from the rewards of work (*karma yoga*). Well-being for all (*sarvebhavantusukhinah*) is essence of most of the Vedic prayers.

Rig Veda, which has 1028 hymns, 10,600 verses, in 10 books, is the world's oldest religious text in continuous use till date (Klostermaier, 2006). There are many hymns which relate to matters on material prosperity, prices, bargaining and taxes. Hymn 112 of Book IX of the Rig Veda explains how one can follow his/her desires. It says, 'We all have diverse hopes and plans. We strive for wealth in different ways' (Griffiths, 1886).

Panchatantra by Vishnu Sharma written at around 200 BCE also drives home importance of money motive through his stories of the wise conduct. According to Kautilya, acquisition of material wealth is supreme, for the other things are dependent on it. In Kurals, wealth in the hands of great wise men is compared to the lake filled with good drinking water (Thiruvalluvar, 1990). According to Valluvar, wealth leads us to the joys of this world. Valluvar has devoted a complete chapter with ten couplets on wealth which suggests that wealth makes people important and wealth acquired with proper means will yield virtues and happiness. Kalidas, a Sanskrit playwright in fifth century CE, commented about the taxation system in one of the Sanskrit plays,

Raghuvansham (Rao, 2010), in Chapter 1.18: 'The state collects tax for the greater welfare of its citizens in the same way as the sun evaporates water, only to return it manifold in the form of rain'.

Basham and Rizvi (1956) noted that the ancient Indian business functioned on higher ideals. Even when making money was one of the most important objectives in the ancient India, the Indian society emphasized on higher principles in business and creating wealth. Indian writers have always integrated ethics with economics. Earning through unethical means is shunned. It emphasizes that one must not appropriate others' wealth (Bokare, 2009).

Access to borrowed funds is an important component of market facilitation. In the Indian tradition, debt (Rna) as well as its repayment has often been mentioned in Rig Veda but whether or not interest was charged is not clear (Keith & MacDonnell, 1912). However, circa 700 BCE, Panini, the grammarian, had laid down rules and symbols for expressing interest in percent terms (Datta, 1927). In fact, even the daily and compound interest was thought through. A grammarian would only systematize what is in vogue in society. Hence, expressing interest as a percent of debt must have been known to Indians prior to 700 BCE. This notion of expressing interest as a 'percent' originated in India and the Dharmashastras written after Panini's grammar confirm that money lending and charging interest was a legitimate occupation (Jain, 1929).

In the Vedic Civilization, there are evidences of financial system of states as well as borrowing and lending activities (Chugh, 2005). It is in the Rigveda that moneylenders lent money on interest. He who did not return debt had to serve moneylender for prescribed period of time (Mann, 2002). Belief goes that transition from money lending to banking occurred even before Manu, the shlokas or hymns of Manusmriti proves that in ancient India, banking and lending activities were not only performed but also there were specific rules regarding return of money, pledging and other related activities (Müller, 1886).

Regarding Pledge, the Manusmriti recommends that the pledgee should not use the pledger's goods. 'If pledgee uses them, then pledgee should not charge interest or should pay back the price of the goods to the pledger; otherwise, pledgee will be called thief of pledge and will be prosecuted as thief'. Rules regarding guarantee say that the person who

guarantee to lender or court for physically presentation of borrower, but when borrower is not coming then it is the duty of guarantor to pay the whole debt of borrower. A lending contract with drunkard, lunatic, very sick/old persons, mentally depressed persons, minor is treated as void (Kumar, 1995). Manusmriti also speaks of judicial proceedings in which credit investments were called for, interest of loans on bankers, usurers and even of the renewal of commercial papers. Even with regard to safety of deposits, Manu has made suggestions. The bankers in this period performed many functions that a modern banker performs these days.

Further, in Indian scriptures, *daan* or donation or charity has very important place in individual and social economic life. The importance of *daan* has been repeatedly emphasized in *Ved*, *Upanishad*, *Puran*, *Smriti*, as also other scriptures including Buddha, Jain and Sikh traditions (Agarwal, 2010). *Matsya Puran* devotes a chapter in praise of *daanas* (Ved Vyas, 2004). Generous *daan* can help a person win both the worlds—there is no one who is beyond the influence of *daan*. A generous donor is praised by all. Even persons who do not accept *daan* themselves start acting favourably towards a generous donor. *Daan* made in one place has the capacity to influence people in other places as well. According to Bhartrihari (fifth century CE), the hands of the worthy look better when adorned by *daan*, and not just by gold bracelets (Gopinath, 2002). According to Bhagwad Maha Purana, a man should divide his income into five parts: (1) dharma-oriented deeds, (2) contingency situations, (3) flourishment of business, (4) livelihood and (5) well-being of his family and relatives (Garg & Saluja, 2017). *Ramcharitmanas* compares *daan* with an axe in the battle of life. As you slay enemies with a battle axe, so you slay sins and hardships with *daan* (Sharan, 2001).

Important forms of *dana* included *godāna* (donation of a cow), *bhudāna* (भूदान) (donation of land) and *vidyādāna* or *jñānadāna* (विद्यादान, ज्ञानदान): sharing knowledge and teaching skills; *aushadhādāna* (औषधदान): charity of care for the sick and diseased; *abhayadāna* (अभयदान): giving freedom from fear (asylum, protection to someone facing imminent injury); and *anna*

dāna (अन्नादान): giving food to the poor, needy and all visitors (Dubois, 2007).

Tradition of *Daan* or charity had significant social benefits and helps in building social infrastructure like schools, hospitals, *Dharmashalas* (place for stay in the areas of pilgrimage) and community halls. Mandirs acted as great centres for education and social service. Education and health facilities were made available to everyone in society.

Indian Economic Thinkers

Economic thoughts were usually integrated with other social thoughts in the ancient times. We discuss in brief the economic thoughts of a few significant economic thinkers in India.

Chanakya (371 BC–283 BC)

Kautilya popularly known as Vishnugupta or Chanakya was an ancient Indian teacher, philosopher, economist, jurist and royal advisor. *Arthashastra* was the culmination of the thoughts that had appeared in sacred and secular texts over the millennia. Kautilya informs that his ideas of political economy were based on the synthesis and improvement of the accumulated knowledge received from ancient seers (1.1.1). The objective of the text was to have a manual for a centralized administrative system with economic and political stability. Sometimes Kautilya is compared with the Italian writer Machiavelli. However, one needs to remember that Machiavelli wrote *The Prince* almost a millennium after Kautilya and focused his attention solely on advice to the ruler for smooth continuance of his authority. Kautilya, on the other hand, devoted his attention to state administration, advice for smooth continuity of the ruler, as well as economic matters (Deodhar, 2018). Kautilya's treatise was more academic and universal in nature and did not make any specific reference to the historical situation of that period (Kangle, 1965). Spengler, while comparing Kautilya with Greek writers, opined: 'It is in the *Arthashastra* literature that economic discussion was most highly developed, much more fully than one finds it in classical

Greek economics' (Spengler, 1971). Kautilya's Arthashastra is a distinguished economic thought that stresses on the importance of economic growth and welfare of all. According to him, poverty is like a living death. He concentrated on devising economic policies to achieve salvation from poverty but without compromising with ethical values unless survival of the state was threatened (Sihag, 2005). Kautilya clearly mentions in (2.1.26) that the helpless among children, aged persons and those in distress must be looked after by the state. Thus, Kautilya makes the idea of welfare state and identification of public goods very ancient (Deodhar, 2018).

Remarkably, two millennia prior to Smith, it was Kautilya who proposed the real-world applications of political economy in his treatise Arthashastra (Kangle, 1965). Kautilya seems to be aware of the broader context of sciences within which he had written the treatise. He had identified four sciences, which in his opinion covered all branches of learning known at that time (1.2.1). The first was Anwikshiki or the philosophical sciences, both theistic and atheistic, which deal with logic, reason and the inquiry of the soul (Barnett, 1923); the second was Trayi or the first three Vedas which invoke the spiritual good (1.3.1); third was Vaarta or the economic livelihood which includes agriculture, animal husbandry, and trade and commerce (1.4.1); and the fourth was Dandaniti or political administration (1.4.3) (Deodhar, 2018).

According to Chanakya, in the absence of dharma (righteousness), there is no society. He opined that ethical values help the people to pave the way to the both: spiritual development and material. He understood both the intrinsic and instrumental value of ethics (Elster, 1989). Unlike the Greek thinkers, he believed that ethical values and prosperity were interdependent (Sihag, 2005). He also developed a mechanism to deal with conflict of interest arising from the growth and power of business. Integration of ethics and economics was the major contribution of Chanakya. He also explained the way of living in Chanakaya Neeti.

Kautilya gave significant importance to public finance. He opines that revenue generation by the state should be considered as compensation to the ruler for bringing order, well-being and security (1.13.5–7, 9) (Deodhar, 2018). Kautilya's theory of public finance was both comprehensive and probably one of the world's most ancient (Saletore, 1963).

Kautilya knew that it is not excessive taxes but market facilitation and increase in output that would result in increased material well-being as well as increased treasury. For example, he asserts that promoting prosperous activities, improved agriculture and control on crime would ensure increase in treasury (2.8.3). To him, upholding property rights was important to promote livelihood (8.3.28–29). Kautilya gave detailed account of weights and measures, specifications for coin content, and the strict punishments for their violations are indicative of his understanding of market failure due to asymmetric information. Kautilya's detailed documentation of prices, cost, domestic markets and foreign trade was exemplary for his times. Spengler (1971) acknowledges the recognition of the role of price and market in Kautilya's writings than in those of Aristotle, viewed by some as the founder of economics.

Kautilya suggested fixation of interest rates by regulatory authority. Kautilya's Arthashastra considers that the interest shall be 1.25% per month (15% per year) for the normal transaction. Further, the interest rates were linked to risk and uncertainty, and other situations characterizing the loans (3.11.1). Moreover, the interest rate has to be determined at the time of making a loan. Once interest rate is fixed for a loan, it cannot be changed. The Arthashastra also details the rules permitting a person to sue for recovery of debt. These rules indicate that debts might be passed on to the next generation. The obligation to repay shall devolve upon sons, grandsons and kinsmen who inherit the debtor's property (Rangarajan, 1992). Kautilya has suggested minimum wage for unskilled and skilled labour in different sectors and also recommends incentive plans for improving productivity. Kautilya prohibits slavery and provides for labourer's rights and occupational safety (Deodhar, 2018).

Mahatma Gandhi (1869–1948)

Mohandas Karamchand Gandhi was an Indian lawyer, anti-colonial nationalist and political ethicist, who employed non-violent resistance to lead the campaign for India's independence from British rule and in turn inspired movements for civil rights and freedom across the world. Gandhian economic thinking is based on simplicity, decentralization,

self-sufficiency, cooperation, equality, non-violence, human values, self-sufficient units, Swadeshi (indigenous) and the theory of trusteeship. Gandhian economics is largely characterized by rejection of the concept of the human being as a rational actor always seeking to maximize material self-interest that underlies classical economic thinking (Kumarappa, 1946).

Mahatma Gandhi's vision of a future India seeks a distinctive path for India, by rejecting the materialism of socialism and capitalism alike, by rejecting the individualism of modern society in favour of a holistic, varnadharma-based community, insisting upon an infusion of religious and moral values in politics, and seeking a culturally authentic mode of modernization that preserves Hindu values (Nanda, 2003). Where Western economic systems were (and are) based on what he called the multiplication of wants, Gandhi felt that this was both unsustainable and devastating to the human spirit. His model, by contrast, aimed at the fulfilment of needs—including the need for meaning and community.

Gandhi also espoused the notion of 'trusteeship' (Gandhi, 1927). Trusteeship is a socio-economic philosophy that provides a means by which the wealthy people consider themselves as the trustees of the wealth and looked after the welfare of the people in general. Gandhi believed that the wealthy people could be persuaded to part with their wealth to help the poor. Putting it in Gandhiji's words, 'Supposing I have come by a fair amount of wealth – either by way of legacy, or by means of trade and industry – I must know that all that wealth does not belong to me; what belongs to me is the right to an honourable livelihood by millions of others. The rest of my wealth belongs to the community and must be used for the welfare of the community'.

Gandhi's economic thought lays special emphasis on 'simple living' which helps in cutting down wants and being self-reliant (Mishra, 1999). He advocated for the distinction to be made between 'Standard of Living' and 'Standard of Life', where the former merely states the material and physical standard of food, cloth and housing. A higher standard of life, on the other hand, could be attained only if, along with material advancement, there was a sincere attempt to imbibe cultural and spiritual values and qualities.

Decentralization is another distinguishing feature of economic thoughts of Mahatma Gandhi. According to him, centralization, that is power in the hands of the state, harms the humankind and destroys individual diversity. Therefore, if India has to evolve, it has to follow the path of decentralization (Dalton, 2012). Gandhi advocated Swadeshi, which is a philosophy of political, economic, administrative and technological decentralization and diversity. It requires, among other things, the development and use of the simple, soft labour-intensive, non-violent human-faced, small scaled, decentralized, indigenous and local technologies (Bhole, 2000).

Bhimrao Ambedkar (1891–1956)

Dr. Bhimrao Ramji Ambedkar, popularly known as Babasaheb Ambedkar, was an Indian jurist, economist, politician and social reformer, with a doctorate in economics from both Columbia University and London School of Economics.

In his first thesis on Ancient Indian Commerce, Ambedkar (1915) described the well-developed economy, commerce and trade in ancient India. In his article, 'Commercial Relations of India in the Middle Ages', he has described about the business relationship in Europe, India and Arabia. He has analysed complex relationships between trades and political movements, rise of Muslim, wars and invasions in Europe and Asia characterized by geographical barriers in setting trade routes.

Dr. Ambedkar wrote three scholarly books on economics, namely Administration and Finance of the East India Company in 1915, The Problem of the Rupee: Its Origin and Its Solution in 1923 and The Evolution of Provincial Finance in British India—A Study in the Provincial Decentralization of Imperial Finance in 1925. Apart from the three books that he wrote, he presented his deep insights into India's economic problems by way of various memoranda and statements to the government under British rule as well as independent India. The Reserve Bank of India (RBI) was formed on the basis of his presentation to the Hilton Young Commission. Dr. Ambedkar's speeches are replete with stimulating economic thoughts. Ambedkar presented a perceptive critique of

Marxism in his essay, 'Buddha or Karl Marx' (Ambedkar, 1956; Omvedt, 2017). According to Ambedkar, humanity needs economic prosperity with spiritual values. Communist Dictatorship has paid no attention to spiritual values and does not seem to intend to. Marxist Philosophy is wrong for the aim of their philosophy seems to be fattening pigs as though men are no better than pigs. Man must grow materially as well as spiritually (Ambedkar, 1956).

Deendayal Upadhyaya (1916–1968)

Pandit Deendayal Upadhyaya was an Indian politician and thinker. He presented the concept of integral humanism that advocates the simultaneous and integrated program of the body, mind, intellect and soul of each human being. He stated that as an independent nation, India cannot and need not be dependent on Western concepts like individualism, democracy, socialism, communism and capitalism. He believed that Indian intellect was getting suffocated by the Western theories and ideologies, and consequently, there was a big roadblock on the growth and expansion of original Bharatiya thought (Upadhyaya, 1965).

'Integral humanism' is a critique of both communism and capitalism and put for the holistic perspective as an alternative for political action and statecraft. Upadhyaya pointed out that Western thought have looked at individual, family, society, and humanity as separate and non-interacting entities. When dealing with the individual, they lost sight of other organs of the society. The same applies to their thinking on family, society and humanity. Against this, Indian arrangement, which is not new but ancient, is an ever-expanding spiral. It begins with the individual but goes on enlarging to family, family to society, society to nation, nation to humanity and ultimately to the universe or Srishti without ever de-linking with the centre, i.e., the individual (Upadhyaya, 1965). Upadhyaya was of the opinion that integral humanism followed the tradition of advaita developed by Adi Sankara, which represented the unifying principle of every object in the universe, and of which humankind was a part (Bhatt, 2020).

Indian philosophy admits that human being is an economic being and needs food, sleep, fear and sex (aahaar, nidra, bhaya and maithunam). But this was not enough. Human being was something more than economic being. Human being is a physical, psychological, political, social and spiritual being too. Integral humanism attempts to develop all aspects in integral manner. Dharma is understood as dynamic principle of ethics and moral is considered as the governing principle in the integral humanism for the production, distribution and consumption of wealth. Society and nation are not just a conglomeration of individuals having living entity by itself. Like individual, human collectivity of society and nation also needs to discover their true purpose of existence. The purpose of existence at all the levels should be such that facilitates the well-being for all. He suggested a system based on Bharatiya values which advocates decentralized development and avoiding exploitation of nature. The philosophy of integral humanism, like Gandhian approach, opposes unbridled consumerism, putting restraints on one's desires and advocates contentment rather than ruthless pursuit of material wealth for realizing its purpose (Malik & Singh, 1995). Deendayal Upadhyaya recommended decentralization and self-reliance in the economy in terms of thinking, social arrangements, methods, ways of production, technology and so forth. Integral humanism aims at economic democracy through 'Antyodaya' which means the 'rise of the last person' and 'Sarvodaya' the development of all.

Conclusion

India was a recognized economic power for several centuries, the longest number of years for any nation recorded in the history. An accomplishment of such a high level of continual economic dominance would have been impossible without a strong economic thinking and business approach. Despite significant impact of colonization and globalization, Indian economy and business exhibit some unique features. Family system, family business, community orientation, entrepreneurial bend, community financing, high savings, gold, foreign remittances and sustainable business practices, among many, are the distinct features that

set apart India from its global counterparts. Family and community systems play a pivotal role in the financial and economic decision-making process. It is a decentralized economy where small business plays a major role in providing employment and contributing to GDP. These features stand on the strong foundation of Indian culture nourished by ancient Indian philosophy. The ancient Indian philosophy is characterized by the principles of hard and honest work to create wealth, respect for wealth and wealth creators, earning wealth through ethical means, restrained consumption, giving back to society, decentralization, sustainable thinking and higher purpose. In addition, the ancient Indian philosophy also entails business objectives of maximizing wellness for everyone, seeking satisfaction from the effort (and not from its rewards), recognizing the immense potential of human resources, giving importance to human resources and developing family-like relationship with all stakeholders.

Scope of Future Research

There is plenty of scope to undertake future research in this field. The researchers are encouraged to undertake studies related to Indian economic and business history. Further, thematic research on public finance, taxation, welfare policies, use of currency/coins, banking, lending, financing, role of donations, business structure, trade, services, accounting, business education and skill training can be considered.

In this chapter, the unique features of Indian economic and financial system that sets the country apart from its global counterparts are discussed. Some of the future research agenda includes: (a) studying the detailed impact of each unique feature like family system, family business, community orientation, entrepreneurial bend, community financing, high savings, gold, foreign remittances and sustainable business practices, role of women; (b) comparing the pre-independence India with post-independence India with special focus on the unique features stated in the chapter; (c) studying the impact of globalization, modern education and technology on Indian economic and business system; (d) analysing the economic ideas proposed in various ancient

scriptures, Vedas, Upanishads, Samhitas, Brahmanas, Vedang, Upaveda, Ramayana, Mahabharata, Jatak Kathas, Jain Agamas, as well as the economic thoughts of other Indian economists and thinkers, apart from the ones mentioned in this chapter; and (e) drawing relevance of the ancient texts in current times.

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