

Business Groups in Pakistan : Why did Muslim Merchants who Migrated to Pakistan form Business Groups?

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I Introduction

This study focuses on business groups operating in Pakistan and discusses why these groups originated. In this study, business groups are defined as “a legal group of several independent companies operating in different markets through various formal and informal relationships. The family influences the management of the independent company and the direction of the group as a whole.”¹ Specifically, we discussed why *Muhajir*² Muslim merchants, who had emigrated to Pakistan from British India or other countries and regions immediately before and after the independence of India and Pakistan in 1947, were able to form business groups in Pakistan.

Pakistan gained independence from British India in 1947. At the beginning of the partition, Pakistan had very few physical and human resources, which are necessary for economic development. However, contrary to most assumptions, industrialization during the 1960s contributed to the achievement of substantial economic development. It was the business groups in Pakistan that were responsible for the economic development of Pakistan. Mahbub-ul Haq, the Chief Economist of the Planning Commission of Pakistan, told a management seminar in Karachi in 1968 that Pakistan’s economic power was in the hands of 20 families (later 22 families) and that Pakistan’s economy was controlled by them. He later recalled, “I pointed out that these family groups controlled at that time about two-thirds of the

1 Leff, Nathaniel H. (1978), p.663 ; Granovetter, Mark (1995), p.95 ; Khanna, Tarun (2000), pp.749-750 ; Granovetter, Mark (2005), p.429 ; Colli, Andrea and Asli M. Colpan (2016), p.274.

2 *Muhajir* refers to Urdu-speaking Muslim refugees who immigrated to Pakistan during the country’s partition from India in 1947.

industrial assets, 80 percent of banking, and 70 percent of insurance in Pakistan.”³

According to White, 32.7% of Pakistan’s manufacturing industry in 1968 was controlled by 10 private business groups and 51.8% was controlled by 30 private business groups.⁴ For better or for worse, the trends of ”specific business groups,” such as business groups responsible for Pakistan’s economy and business groups that cause concentration of wealth—have attracted attention in Pakistani society.

Business groups do not exist only in Pakistan. Business groups have been around since the start of the modern era in most countries and still exist today.⁵ For example, in Japan, they existed as *zaibatsu* before World War II and continued as *keiretsu* afterwards. They manifest as *chaebols* in South Korea and *economicos* in Latin America.⁶ They also exist in Pakistan’s neighboring countries such as India,⁷ and other countries as well. The diverse activities of business groups, especially in developing countries, have become driving forces of the economies of those countries and their influence is tremendous. Business groups centered on families are particularly important.⁸

Therefore, many researchers have studied business groups from many perspectives. In 2016, Maria Ines Barbero and Nuria Puig played a central role in compiling a special feature on business groups in countries such as Italy, Portugal, Turkey, and Mexico in the journal *Business History*.⁹ Further, *The Oxford Handbook of Business Groups*,¹⁰ which addresses business groups in 16 countries around the world, was published in 2010. Moreover, research is being conducted on the activities of business groups in each country in a multifaceted and comprehensive manner. These studies include the assessment of activities of affiliated companies, relationships with governments, international competition, succession of ownership, and management.

In recent years, Geoffrey Jones and others have questioned the business history research on developing countries that was conducted using measures formulated for developed countries. They discuss research from an economic perspective, while considering what developing countries have experienced¹¹ (e.g., foreign rule, government intervention in the

3 Mahbub-ul Haq (1976), p.6.

4 White, Lawrence J. (1974), p.65.

5 Granovetter, Mark (1995), p.97.

6 Khanna, Tarun and Yishay Yafeh (2007), p.331.

7 India’s Business Group refer to Dutta, Sudipt (1997); Tripathi, Dwijendra (2004); Kudaisya, Medha M., ed. (2011); Khanna, Tarun and Krishna Palepu (2000); Khanna, Tarun and Krishna G. Palepu (2005); Roy, Tirthankar (2012); Roy, Tirthankar (2018).

8 Colli, Andrea and Mary Rose (2008), p.201.

9 *Business History*, 58(1), 2016.

10 Colpan, Asli M., Takashi Hikino, and James R. Lincoln, eds. (2010).

11 See, Austin, Gareth, Carlos Davila and Geoffrey Jones (2017).

economy, and inefficient and fragile institutions). Pakistan is a developing country, and it is not possible to fully understand Pakistani business groups by analyzing them from the perspective of the business history of developed countries such as the United States, the countries of Europe, and other developed countries. This is because Pakistani business groups operate in response to Pakistan's culture, religion, history, and fragile institutions in the market.

Research has also been conducted on business groups in Pakistan. Representative studies include those by G. F. Papanek, S. A. Kochanek, L. J. White, and Shahid-ur-Rehman.¹² G. F. Papanek revealed the factors behind the development of Pakistan's economy since its independence from India. Prior research has also clarified the background of business groups, which have been responsible for Pakistan's economy, the characteristics of the communities to which business groups belong, the evolution of business education for family members, and the social background underlying their success. Focusing on Pakistan's economy during the 1960s, White examined the problems of industrial concentration and economic control caused by business groups and clarified the characteristics of economic power concentration by business groups. S. A. Kochanek examined how business groups approached the government as interest groups, and the characteristics of the behavior of interest groups. Further, Ichiro Yamanaka has been studying business groups and entrepreneurs in Pakistan since the 1960s,¹³ and has clarified the behavioral principles of business groups in Pakistan, their group cultures, and their family dynamic.

Why and how were business groups formed? Mark Granovetter¹⁴ and Tarun Khanna¹⁵ speculated that their origin may be related to high costs of capital, human resources, and information, among other factors. These costs are high when intermediary institutions are dysfunctional, for example in developing markets; business groups can perform some of the functions that more mature institutions might. They also stated that business groups might be formed in response to State-mandated exclusive factors, such as exclusive import licenses, foreign-exchange credits, government contracts, and state bank credits. L. J. White has also mentioned some of these factors in relation to Pakistan.¹⁶ There is little academic dispute about the factors that led to the formation of business groups in most countries, including Pakistan. However, H. Papanek has stated that "Although political influence obviously played

12 Papanek, G. F. (1967); Kochanek, Stanley A. (1983); Shahid-ur-Rehman (1998); White, Lawrence J. (1974).

13 Yamanaka, Ichiro (1992); Yamanaka, Ichiro (1993), etc.

14 Granovetter, Mark (1994), p.469.

15 Khanna, Tarun and Krishna Palepu (2000), p.868.

16 See, White, Lawrence J. (1974).

an important role in the development of the Big Houses, it was not in itself sufficient for large-scale growth of the enterprises.”¹⁷

In this study, we discuss in light of prior research why Muslim merchants who migrated from India or other countries or regions to Pakistan soon after its independence, were able to form business groups in Pakistan. The characteristics of the founding families of business groups, such as the Habibs and the Adamjees, who emigrated to Pakistan due to the separation of India and Pakistan and who supported Pakistan’s nascent economy, are described below in Section 2. Section 3 examines the reasons why, from the perspective of regional and personal connection factors, the Habibs and the Adamjees were able to form business groups in Pakistan. Section 4 presents a summary of this study and discusses areas for further research.

II Pakistani Business Groups

This section clarifies the characteristics of business groups in Pakistan, reviews the history of the Habibs and the Adamjees—Muhajir families who immigrated to Pakistan upon the separation of India and Pakistan—and examines both families’ activities before and after the independence of Pakistan.

1. Business groups and economic development of Pakistan

In the early days of independence, Pakistan lacked material and human resources necessary for economic development. Under such circumstances, some Muslim families, such as the Habib and Adamjee families, established commercial banks, airlines, and steamship companies, among other enterprises, which supported Pakistan’s early economy. Hence, owing to the business activities of several families and their business groups, the country achieved industrialization and witnessed substantial economic development during the 1960s.

The business groups supporting Pakistan’s early economy have several common features. First, the businesses were started by Muhajirs, who had immigrated to Pakistan from India and other countries. Second, many business groups’ owners were Muslim converts from Hinduism, or were descendants of Muslim merchants engaged in the spice trade and other trades. Third, the business groups belonged to different communities ; many business groups responsible for Pakistan’s economic development belong to influential business communities such as the Khoja, the Bohra, and the Memon. During the early days of independence, only Muslim merchants belonging to business communities, such as the Memon, Bohra, and Khoja could

17 Papanek, Hanna (1972), p.17.

contribute to the economic development of Pakistan. They established various companies such as banks, insurance companies, airline companies, and construction companies, among others needed to support the country's economy. It is no exaggeration to say that the business activities initially conducted by these communities in Pakistan laid the foundation for the country's economy.

The formative era of the business groups in Pakistan can be divided into three periods. The first period spanned the late 1940s and the 1950s. The territory that later became present-day Pakistan was originally rural. In the period immediately after independence, several active business groups established companies to build social and economic infrastructure, such as the spinning, transportation, and finance industries. Despite the lack of manpower in Pakistan, these business groups greatly contributed to the economic development of the country.

The second formative period began in the 1960s. At the time, business groups diversified from the spinning industry into natural resources and the automobile industry. Business groups such as the Bibojee Group and the Atlas Group actively diversified into other sectors. Additionally, Pakistan's economy witnessed growth and stability in the 1960s, under President Ayub Khan's administration.

The third formative period was after the 1980s. During this period, new business groups, mainly in the consumer goods and service industries, emerged because of the government's policy of privatization. The Lakson Group is a representative case to explain this phenomenon. After the collapse of Z. A. Bhutto's regime in the 1970s, Pakistan emphasized the "privatization route," and aggressively started seeking foreign capital. As a result, the Lakson business group signed technical partnership agreements with foreign companies such as Colgate Palmolive and McDonald's, and established joint ventures.

2. Background of Muslim business communities

Muslim merchants played a key role during the initial period of economic development in Pakistan. Most Muslim merchants have always been a part of a community, such as the Memon, Bohra, or Khoja communities. As numerous previous studies¹⁸ have already described the Muslim business community, we summarize and introduce the various communities in the following section. Many Muslim business communities trace their origins to the Kathiawar Peninsula in Gujarat, western India. The representative business communities are the Memon,

18 While there are several studies, I refer to the following literature on the Memon, Khoja, and Bohra communities: Blank, Jonah (2001); Hollister, John Norman (1953); Enthoven, R. E. (1990); Pearson, M. N. (1976); and Yamanaka, Ichiro (1992).

Khoja, and Bohra. Families belonging to those communities emigrated to Pakistan both before and after the partition and played a key role in the country's economic development.

The Memon community belongs to the Sunni Islam denomination and comprises Muslims who converted from Hinduism in the 12th century. Initially called Mortimer, the community was renamed after the local Arabic term Momin. Memons were originally engaged in commerce. The Khoja community belongs to the Shia Islam denomination and comprises Muslims who converted from Hinduism under the influence of an Ismaili missionary around the 14th century. The Bohra community also belongs to the Shia Islam denomination. It comprises Muslims who converted from Hinduism under the influence of a Shia missionary around the 11th century. The name Bohra is derived from the Gujarati word *vohrvun* (to trade), which indicates the type of business engaged in by most members of the community.

Concerning the characteristics of these three communities, Pearson states,¹⁹ “Both Khojahs and Bohrahs retained many Hindu characteristics in such matters as inheritance and even in religious matters... This less than complete conversion to Islam helped the commercial activities of these two sects.” The author further states: “Thus, by retaining Hindu succession practices, the Khojahs and Bohrahs avoided too great a division of property on death. It seems clear that these two sects were also not hindered by the Islamic prohibition of usury.”

On this point, Yamanaka mentions: “They were originally from Gujarat, and, even after their immigration to the current-day Pakistan, they were identified as Gujarati-speaking, Muhajir merchant families.”²⁰ He further remarks: “The affiliated power, such as the relatives down the family tree, and the emphasis on blood relationship have a strong influence. Though they have a common association through Islam, there is no solidarity as Muslims in the behavior of individuals and profit groups, and the interests of the community to which each family belongs are prioritized and emphasized. These denominational communities are not necessarily identified as religious sects built on a strong faith. It can be said that it is a social group with a hereditary character similar to the merchant caste of India.”²¹ Furthermore, S. A. Kochanek argues that family control and community origin also have a profound effect on employment and recruitment practices. A common language, shared traditions and values, and feelings of competency have led business families to recruit employees from their own communities.”²²

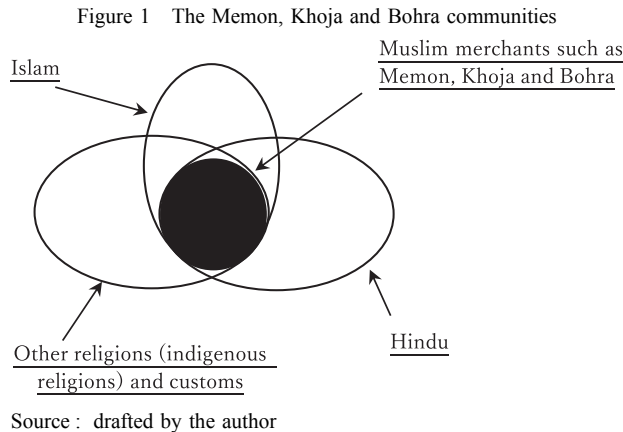
From the foregoing discussion, it appears that the Memon, Khoja, and Bohra

19 Pearson, M. N. (1976), p.27.

20 Yamanaka, Ichiro (1993), p.217.

21 Yamanaka, Ichiro (1992), p.305.

22 Kochanek, Stanley A. (1983), p.99.



communities exhibited both Hindu and Islamic values while operating in India. Figure 1 shows the relationships among the Muslim business communities in India. Each oval represents a discrete religion. The areas where the ovals overlap represent communities such as Memon, Khoja, and Bohra. As the figure shows, the Muslim business community that established itself in Pakistan is influenced by all religions. They appear to display a culturally distinct existence and are considered “marginal men,”²³ who are not bound by the taboos of either religion.

3. Pre-separation and post-separation activities of the Habibs

The Habibs belong to the Khoja community, who converted from Hinduism to Islam.

The founder of the Habib Group was Habib Esmail. He was born in 1878 as the child of Esmail Ali and was named Habib. Esmail had a factory in Bombay and was a pioneer in the Bombay industrial world at the time.²⁴

Esmail passed away suddenly in 1891, after which Habib turned to Cassum Mohamed, his relative on the maternal side, and owner of Khoja Mitabhai Nathoo, which manufactured and sold tools made of materials such as copper and brass, to work for him.²⁵ At the age of 18, Habib became a junior partner at Khoja Mitabhai Nathoo and president of the Copper and Brass Merchants Association. He expanded his business into Bombay, Karachi, Madras, Calcutta, and Rangoon, after which he expanded into East Africa, Italy, France, and the United Kingdom.²⁶ Habib opened offices in Vienna and Geneva in 1912, and at the same time

23 The term marginal man refers to “a person who has a vague cultural, racial, linguistic, or social structural stance.” For more information, refer to Seoka, Makoto (1980); Park, R. E. (1928); Stonequist, Everett V. (1961).

24 Habib Bank AG Zurich, *A Brief History*, p.4.

25 Habib Bank AG Zurich, *A Brief History*, p.4.

26 Habib Bank AG Zurich, *A Brief History*, p.4.

Table 1 Control of banks by monopoly houses, 1970 (INR million)

Bank	Controlling Group	Deposits	Loans and Advances
Habib Bank	Habib	4,270.8	2,622.7
United Bank	Saigol	3,234.5	2,032.4
Muslim Commercial Bank	Adamjee	1,326.4	843.7
Commerce Bank	Fancy	375.4	312.9
Australasia Bank	Colony (F)	338.8	245.0
Premier Bank	Arag	41.9	23.7
Sarhad Bank	Faruque	20.2	7.1
As per cent of all banks, domestic and foreign		59.3%	51.0%
As per cent of all domestic banks		65.4%	57.0%
As percentage of all domestic private banks (i.e. excluding those which were state-controlled)		86.9%	84.2%

Source : Amjad, Rashid (1982), p. 48.

traded with Japan and China.²⁷ Established in 1921, Habib & Sons Ltd. assumed the trade business of Habib. There were very few Muslim entrepreneurs on the Indian subcontinent before the partition. One reason is that there were no Muslim-specific financial institutions. The Habib family—primarily Habib’s sons Mohammed Ali Habib and Dawood Habib—established Habib Bank²⁸ in Bombay (now Mumbai) in August 1941, with capital of 2.5 million Indian rupees. Habib Bank was the first Muslim bank on the Indian subcontinent. Soon after establishment, Habib Bank opened branches in major cities in India. In 1968, Habib Bank had a 27.4% share of deposits and a 21.9% share of earning assets in Pakistan’s banking sector.²⁹ Table 1 shows the size of Pakistan’s banks in 1970, which indicates the magnitude of the influence of Habib Bank in Pakistan.

The Habibs moved the headquarters of Habib Bank from Bombay to Karachi at the request of Pakistan’s founding father, M. A. Jinnah ; it played an important role as the kind of financial institution required to establish a country. It expanded to Sri Lanka in 1951 and later opened branches in Hong Kong, New York, and Manchester, among other cities.³⁰ After the partition, the Habibs relocated their operations from Bombay to Karachi and established several companies, such as Habib Insurance and Muhammadi Steamship—aside from Habib Bank, thereby playing a leading role in the economic development of Pakistan.

27 Shahid-ur-Rehman (1998), p.139 ; Habib Bank AG Zurich, *A Brief History*, p.5.

28 Habib Bank became a state-owned bank in 1974 under the nationalization policy of Z. A. Bhutto and in 2003, the Pakistani government sold 51% of its stocks to the Aga Khan Fund for Economic Development.

29 White, Lawrence J. (1974), p.75.

30 Habib Bank AG Zurich, *A Brief History*, p.10.

4. Pre-separation and post-separation activities of Adamjees

The Adamjees are part of the Memon Community of Islam. The founder of the Adamjee Group is Sir Adamjee Haji Dawood. Adamjee was born in Jetpur in Kathiawar Peninsula, Gujarat in 1880 to his father Haji Dawood and his mother Hanifa Bai³¹.

The foundation of the Adamjees' business group was laid by Adamjee's father Haji Dawood, who established a trading company in 1896 to handle daily necessities. At the time, Adamjee was working in Prom, Burma for his uncle Saleh Mohammad Gaziyani. He is said to have learned business under his uncle. Later, Adamjee joined the trading company created by Haji Dawood, and the business flourished. Around that time, Adamjee married Mariam. In 1914, Adamjee himself led the establishment of Adamjee Haji Dawood & Co,³² after which he expanded into the manufacturing industry. The Adamjee Match Factory was established in Burma in 1920, and production began in 1923.³³ Adamjee and M. A. Jinnah met for the first time in Delhi in 1928, and their friendship dates from this time. Adamjee also established Adamjee Jute Mills in Calcutta, which started production in 1929. The factory was the third largest jute factory in India at that time, and was the first Muslim-owned jute factory in Calcutta.³⁴

In addition to his own business, Adamjee also served as an executive in other companies. For example, during the 1920s, he was the Chairman of the Advisory Committee of the Burma branch of the Central Bank of India, as well as the Director of Rangoon Tramway Co.³⁵ He was also involved with the Indian Merchants Chamber of Rangoon, founder of the Calcutta Muslim Chamber of Commerce, and the first president of the Muslim Chambers of Commerce and Industry.³⁶ He was at the same time appointed to key positions in several of these groups, thereby helping the region, and the industry, as well as Muslim business owners. Adamjee was a leader of Memons in Calcutta and Rangoon in the early 20th century.

Adamjee was also actively involved in educational and social issues and played a leading role in social activities. On the educational front, he solicited donations to universities and oversaw the establishment of related funds. In addition, the Adamjees established an organization dedicated to the education, the Adamjee Boarding House, and the Adamjee Muslim High School and made efforts to extend education especially to Muslims and to

31 Qureshi, Yasmin (2004), p.1.

32 Qureshi, Yasmin (2004), p.16.

33 Qureshi, Yasmin (2004), pp.34-35.

34 Qureshi, Yasmin (2004), pp.76, 78.

35 Qureshi, Yasmin (2004), p.25.

36 Qureshi, Yasmin (2004), p.28 ; Kochanek, Stanley A. (1983), pp.339-340.

develop local communities. In 1933, Adamjee organized the Memon Educational and Welfare Society and established educational institutions, including colleges, to facilitate community activities. A large earthquake in Bihar in 1934 and another in Quetta in 1935 caused much damage and affected many people in the area. Adamjee organized a volunteer effort centered on the Memon Educational and Welfare Society and was actively involved in helping the victims of the Bihar and Quetta earthquakes. Adamjee was awarded a knighthood in 1938 by the United Kingdom for his long-standing education and welfare activities on the Indian subcontinent and his assistance to earthquake victims.³⁷

At the request of M. A. Jinnah, Adamjee relocated to Pakistan after the separation of India and Pakistan. After the Adamjees relocated to Pakistan, they contributed to the economic development of Pakistan by establishing banks, jute factories, and an airline. For example, the Adamjees founded Orient Airways in 1946 and the Muslim Commercial Bank Ltd. (now MCB Bank) in 1947, along with several other families.

III Discussion : Why were Muhajir able to form business groups in Pakistan?

At the time of the separation of India and Pakistan, the Habibs and the Adamjees immigrated to Pakistan. This section looks at two reasons why Muhajir immigrants to Pakistan were able to form business groups ; one is a “regional factor” and the other is a “personal connection factor.”

1. The territory of Pakistan, before independence from British India, was centered on agriculture

I introduce two key concepts before examining the regional perspective. First, the regions that became East and West Pakistan during the British Indian era were areas where industry was not thriving. Before independence, the territory of Pakistan centered on agriculture. Second, Muslim merchants in Pakistan were “outsiders.”

During the British Indian period, the regions that became East and West Pakistan were regions where cotton, jute, and other crops were cultivated and supplied to large cities such as Bombay. Table 2 shows the ratio of establishments and workers in the Indian and Pakistani regions as of 1945, as estimated by C. N. Vakil. The ratio of establishments was 90.4% in Indian regions to 9.6% in Pakistani ones. The percentage of workers was 93.5% in India and

37 Adamjee Insurance Co., Ltd., *Adamjee Insurance*, p.5.

Table 2 Industrial establishments and employment, 1945

	Establishments	Employment
India	90.4%	93.5%
Pakistan	9.6%	6.5%
Undivided India	100%	100%

Source : Vakil, Chandulal Nagindas (1950), p.247.

6.5% in Pakistan.³⁸ It can be seen from Table 2 that before independence, the East and West Pakistan regions were not industrial regions.

Prior to separation, non-Hindu and Muslim merchants were responsible for the distribution of primary products, such as cotton and rice. The India-Pakistan separation in 1947 disrupted distribution, as well as the relationship between the supply source (the East and West Pakistan regions) and the supply destinations (urban areas in India) that had formed before independence. The activities of the non-Muslim merchants who had managed the trade were restricted, and in effect, many non-Muslim merchants abandoned their activities in the Pakistan region and were forced to withdraw. As shown in Table 2, there were some factories in the Pakistan region, but not as many as in India ; Pakistan as a state was unindustrialized. Muslim merchants immigrated to the areas of Pakistan where industry was not thriving. Most citizens were engaged in agriculture and few were engaged in industry. Therefore, Muslim merchants were able to develop commercial and industrial activities relatively freely in Pakistan. They started by exporting primary commodities, such as cotton ; then they established spinning factories, among other businesses, and set up some of the nation's foundational companies and industries from scratch. The Habibs, the Adamjees, and other families who were mentioned earlier, played a part in these developments. These others played a modest role in the Pakistan Founding Movement. Moreover, they established highly public companies needed for the birth of independent Pakistan.³⁹

The “outsider” status of Muhajir merchants in Pakistan is considered another reason for the formation of business groups. As discussed in Section 2.2, the background of Muslim business communities such as Memons, Bohra, and Khojas is that they retain Hindu values (characteristics), despite being Muslims ; they are groups that are out of the Hindu framework because they are Muslims, but have both Hindu and Islamic characteristics. Therefore, they saw themselves as “marginal men,” their behavior and identity not bound by either Hindu or

38 Vakil, Chandulal Nagindas (1950), p.247. Also refer to *Twenty Years of Pakistan : 1947-67*, Pakistan Publications, 1967, p.183 ; Ministry of Finance, Government of Pakistan (1968), p.75.

39 Papanek, Hanna (1972), pp.8-9.

Muslim conventions. The Muslim business community is believed to have been free-flowing to some extent, and they immigrated to Pakistan from India and other regions because of separation. As Colli and Rose noted, family and business cannot be culturally separated in South Asia.⁴⁰ Further, as India has the family at the center of its social identity,⁴¹ Pakistan also places the family at the center. There were many farmers in the regions that became independent Pakistan, and there were many who lived according to traditional practices rooted in the land. Muslim merchants therefore immigrated to such places as Muhajir.

Muslim merchants are “outsiders” in the region that became Pakistan and were able to act freely (regarding commercial activities) to some extent, not being bound by the traditional customs of the land. This did not negatively affect their business activities in Pakistan, or perhaps, as they were building their businesses from the ground up, they were free to create their own structures and relationships. Muslim merchants set up a company in Pakistan—an area where industry was not thriving on the Indian subcontinent, and started the industry from scratch, making it possible to obtain first-come profit. In addition, the Pakistani government promulgated the Industrial Policy Statement in 1948, which prioritized the consumer goods industry and fostered and strengthened private companies, promoting their business activities. Although Islam does not recognize castes, the Muslim communities of the subcontinent do have a system of social stratification. This is partially based on a history of foreign rulership, partly a mirroring of the Hindu caste system. In a Pakistani society with social hierarchy and status, being able to act freely without being bound by these customs would also have been a factor in the formation of business groups.

Government intervention in developing markets, as described in some previous studies, was less intense in Pakistan than it was in such South Korea, India and some developing countries. After independence, the Pakistani government gave freedom to the activities of private companies under a policy of *laissez-faire*. While the private sector’s advance in the spinning industry was in line with the government’s expectations, private sector investment lagged in other industries. The Government of Pakistan established the Pakistan Industrial Development Corporation (PIDC) in 1952, and established many companies under this authority.⁴² Pakistan’s private sector was attracted by the expectation of the various types of assistance available to establish a company through PIDC, and for PIDC to bear the risks of establishing the company. However, PIDC activities did not imply national intervention in the

40 Colli, Andrea and Mary Rose (2008), p.201.

41 Dutta, Sudipt (1997), p.91.

42 Government of Pakistan, Dept. of Advertising (1956), p.2.

economy, but emphasized stimulating private industrial investment and promoting industrial development. The purpose of PIDC was to eventually sell the company established by PIDC to the private sector. This is also believed to have contributed to the formation of business groups.

2. About personal connections

Personal connections are also important in the formation of business groups in Pakistan. Regarding entrepreneurial ability in Pakistan, Ichiro Yamanaka stated that

It is a concept that includes not only diligence, effort, the introduction of new technology, and acquisition of management know-how, but also the sense of approaching persons with authority, such as relationships with the government, contact with important people, and personal connections.⁴³

In addition, Pakistan's former Foreign Minister Zafarullah Khan also stated that "corruption had become 'the lubricant of society' without which the wheels of industry and commerce could not move and the machinery of government would not function."⁴⁴ Therefore, personal connections are an important factor in business activities in Pakistan.

M. A. Jinnah led the founding of the country of Pakistan. He was born in Karachi as the son of a leather dealer and belonged to the Khoja community. It was at his request that the Habibs and the Adamjees emigrated to Pakistan following the independence of India and Pakistan. In response to Jinnah's request, some Muhajir merchants settled in Pakistan, mainly from India, and set up some of the key companies in the economy when Pakistan was founded. Geoffrey Jones et al. point out that migrants are an important source of entrepreneurship,⁴⁵ and that many of Pakistan's early economic leaders were migrants from India.

The Habibs and Jinnah belong to the same Khoja community. Although it is not possible to know what they did within the Khoja community, as Yamanaka states regarding the characteristics of the Muslim business community⁴⁶ in Pakistan—"There is no sense of solidarity among Muslims, and the interests of the communities to which they belong are given priority"—the solidarity within the business community was solid. As stated earlier, The

43 Yamanaka, Ichiro (1992), p.339.

44 Mushtaq, Ahmad (1970), p.302.

45 See, Gareth, Carlos Davila and Geoffrey Jones (2017).

46 Yamanaka, Ichiro (1992), p.305.

Habibs founded the Habib Bank, the first Muslim bank on the Indian subcontinent, in 1941. At Jinnah's request, Habib Bank relocated to Karachi after the separation of India and Pakistan. It is clear that Jinnah appreciated the Habibs' business activities, and although this cannot be substantiated, Jinnah and the Habibs, who belong to the same Khoja community, are believed to have trusted each other because they belonged to the same community.

The Adamjees, like the Habibs, relocated to Pakistan at the request of Jinnah. The relationship between the Adamjees and Jinnah dates from the time when they first met in Delhi in 1928, as mentioned above. After relocating to Pakistan, the Adamjees founded several companies that contributed to the economic development of Pakistan. The relationship between Adamjee and Jinnah is best depicted by Jinnah's encomium when Adamjee died in 1948.⁴⁷

I was deeply grieved to hear the sudden and unexpected death of Hajee Adamjee Dawood. He was a very loyal Muslim and rendered great services in our struggle and fight for Pakistan. His loss will be felt all the more now, when having achieved our goal we needed his services for building up Pakistan. His death will leave a gap in the Muslims' commercial life which will be very difficult to fill. His death is really a national loss for Pakistan.

As mentioned earlier, the Habibs and the Adamjees both immigrated to Pakistan and established some of the key economic players in the newly founded Pakistan, at Jinnah's request. Considering this request from the perspective of the Habibs and the Adamjees, who were doing business in British India, the birth of independent Pakistan provided a new place for business activities; they must have thought that it would be a place where they would be able to conduct business freely as Muslims, whereas Islam is a minority community in India. Jinnah offered them an entirely new and free market.

In addition to the above, the relationship between Ayub Khan, who took control of the government by military coup in 1958, and the Khattaks during the 1960s can be cited as another example of personal connections. The Khattaks is also a family that gave birth to many servicemen and politicians. And, as mentioned later, The Khattaks had family ties with the President of Pakistan. In the 1960s, the Khattaks formed the Bibojee Group, centered on Lieutenant-General Habibullah Khan Khattak. Two points should be mentioned regarding the relationship between the two. The first point is the direct relationship between the founder of

47 Qureshi, Yasmin (2004), "Foreword."

the Bibojee Group—Lieutenant-General Habibullah Khan Khattak and Ayub Khan. Habibullah is a former military officer and started his business after retiring from the military. Ayub Khan was Habibullah's superior officer in the Pakistani army. It is not clear why Habibullah resigned from the army; as can be seen, however, his superior officer from his military days became president of the country. The second point is the familial relationship between the Ayub and the Khattaks. Ayub Khan's son, Gohar Ayub Khan,⁴⁸ married Habibullah's daughter, Zeb (Zeb Gohar Ayub).⁴⁹ In 1963, Habibullah purchased the General Motors factory in Pakistan with Gohar Ayub Khan and changed the company name to Ghandhara Industries Ltd. This company then became the main company of the Bibojee Group. The Bibojee Group flourished under the Ayub Khan administration. Z. A. Bhutto, who came into power in the 1970s, confiscated the passports of key figures in the main business groups and kept them under house arrest to prevent them from leaving the country. One of these figures was Habibullah.

As a final example, the Nishat Group, led by Punjabi M. M. Mansha, was one of the fastest growing business groups in the 1990s. The rapid growth of the group can be ascribed to the Muslim Commercial Bank, which was nationalized in 1974, and sold to the group by the Pakistani government in 1991 during the Nawaz Sharif administration. Nawaz Sharif was also Punjabi. As a result, the Nishat Group topped the 1997 asset rankings for business groups in Pakistan.⁵⁰ As stated earlier, the Muslim Commercial Bank was founded in 1947, primarily by the Adamjees. The fact that it was sold to the Nishat Group, and not to the Adamjees (the bank's former owners) or to the Tawakkal Group, which tendered a higher bid,⁵¹ indicates the depth of the relationship between the Punjabis Nawaz Sharif and M. M. Mansha.

IV Conclusion

In this study, we discussed how it was that Muslim merchants, who relocated to Pakistan from British India or from other countries and regions around the time of the separation of India and Pakistan in 1947 were able to form business groups in Pakistan.

Regarding the factors that contribute to the formation of business groups, costs—such as human resources, information, and capital, are higher when intermediary institutions are

48 He is Pakistani politician who also served as Minister for Foreign Affairs and Minister for Water and Electricity. Khan, Gohar Ayub (2007), pp.264-277, pp.306-318.

49 Khattak, Muhammad Aslam Khan (2005), p.111.

50 Shahid-ur-Rehman (1998), pp.61-62.

51 Yamanaka, Ichiro (1993), p.242.

vulnerable, as is the case with markets in developing countries. These costs can be reduced by forming business groups. Factors such as the government granting exclusive licenses for import/export, and the acceptance of monopolistic activities in the market to support the government's development policy should be considered. This was also the case in Pakistan. There is no doubt that the Export Bonus Vouchers Scheme and the tax incentives announced in 1959 during the Ayub Khan administration influenced the formation of business groups. However, is that the only factor behind the formation of business groups in Pakistan? The Export Bonus Vouchers Scheme is a system. These systems also exist in other countries and influence the formation of business groups. We can then ask what the perspective is when the focus is on society in Pakistan, and examine the factors that contribute to the formation of business groups from perspectives other than those of functions or institutions. This study brought the perspective of regions and personal connections as factors.

The regions that became East and West Pakistan during the British Indian period were centered on agriculture, and therefore unindustrialized regions. Before and after the independence of Pakistan, some Muslim merchants emigrated to Pakistan from India and other regions. After migrating to Pakistan, they were involved in the establishment of companies that supported the economic foundation of the new state, Pakistan, and contributed to the industrialization of Pakistan. It is also possible that they were seen as "outsiders" in Pakistan and were therefore able to operate without being bound by the culture and customs of the region. As they were outsiders, they would have had to take some action (e.g., business activity) independently. It is believed that these actions were the catalysts for the formation of business groups by some families migrating to Pakistan.

Yamanaka states that entrepreneurial ability in Pakistan encompasses establishing relationships with the government, contacts with important people, and personal connections. Both the Habibs and the Adamjees knew M. A. Jinnah from the era of British India and relocated to Pakistan at his request. Considering M. A. Jinnah's migration request from the perspective of the Habibs and the Adamjees, who were doing business in British India at the time, the birth of Pakistan offered new markets and new business activities. For them, the birth of Pakistan would provide a place where they could freely conduct business activities as Muslims, a minority in India. Hence, their relationship with Pakistan's founding father, M. A. Jinnah, appears to have worked in their favor. We also discuss the relationship between the Khattaks and Ayub Khan, between M. M. Mansha and N. Sharif. This does not mean that the discussions based on personal connections were definitive, given the nature of the matter discussed. However, some personal connections are required to succeed in business, as

mentioned in this study and as pointed out by scholars and politicians. Building relationships with key personnel was a necessary tool in the process of establishing business groups in Pakistan.

This study focused on two factors : regional and personal connections. However, there are other factors that contribute to the formation of business groups in Pakistani society, such as PIDC investment activities and the relationship between PIDC and business groups. These issues provide topics for future research.

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