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## A study on Marwari accounting system and Marwari business tradition

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### Abstract

The talismanic tricks of the Marwari community lies in their bewildering way of doing business particularly in India which has brought a seismic shift in the landscape of trade and commerce. The eye-twitching financial business acumen and innovative strategic planning adopted by the Marwari businessmen saw them being perched among the most dominant players in the Indian marketplace. Their typical business practices have now become fundamental business laws and principles of conducting business. In this context, the Parta system of accounting often referred to as the Marwari Accounting system throws light on an effective Cost Management system developed over a 100 years back which is based on establishing return on investment. The present research study decodes the concept of Marwari Accounting and its indefatigable importance on financial control.

**Keywords:** Marwaris; marwari business tradition; marwari accounting; parta system; cost management accounting

### Introduction

#### Background of the study

The Marwaris are one of the most influential business communities not only in the territorial regions of India but also abroad. Marwaris are among one of the most prominent business classes in India especially known for their business operations and high dependability. The Marwari business community has been instrumental in shaping up the economy of India over the years. Marwaris are known for their ethical business operations and resort to aggressive business practices not letting go any prospective business opportunity and are believed to be very conservative and stringy in nature and extremely stern in terms of business finance. In this context, the Parta system (also known as the Marwari Accounting system) developed in the 19<sup>th</sup> century by late Mr. Ghanshyam Das Birla, the grandfather of the famous late Mr. Aditya Birla, has been prodigiously effective for detecting the financial performance of a business. It is probably the oldest Cost Management system in the world which is a system of establishing return on investment based on Cost Management. This system of financial performance monitoring is an effective mechanism for monitoring and controlling. Conducting an in-depth study on the Parta system and bringing out its relevance in financial control and performance is the essence of our purported endeavour.

#### Introduction to the study

Truth to be told, today's definition of Marwari has outgrown the precise geographical regions of Marwar, Rajasthan, India from where they are said to be originated. Initially the pioneers in the sectors of textile industry and stock markets, the Marwari business community extended its wings to dominate other sector, most notably the IT sector. One of the most influential figureheads of Marwari community is probably Mr. L. N. Mittal, the world's largest steelmaker who is the chairman of the heavy weight corporate Arcerol Mittal. Another famous Marwari businessman is probably late Mr. Ghanshyam Das Birla, founder of the gargantuan Birla empire. Marwari businessmen are little different and innovative in their terms of risk assessment and financing when juxtaposed to other businessmen. Their typical thinking of "every single penny saved is a penny earned" makes them inexorably conservative and stern. In this context, the famous Parta system established more than 100 years ago serves justice to the thoughts of Marwari businessmen. It is the oldest form of Cost Management Accounting which helps them to keep track of the business trend on a daily

basis. This system of Accounting ensures them of profit. The rationale behind the present research study is to explore to a great extent about Marwari Accounting system and its importance on firms' financial control.

### Objectives of the study

1. To explore the concept of Marwari Accounting system
2. To reflect on the Marwari tradition and culture and their business trends

### Theoretical framework (Marwari accounting system)

Marwari Accounting system commonly known as Parta Accounting system is probably the oldest Cost Management Accounting system in the whole world which was established over more than 100 years ago by late Mr. Ghanshyam Das Birla, the grandfather of late Mr. Aditya Birla. The meaning of the term "Parta" is "what will be the net return of pocket." It is a financial performance monitoring system which indicates profit or loss on a regular basis. It is an accounting system which focuses on establishing return on investment based on Cost Management. The system is imperative as it helps in keeping track of the firm on a daily basis. Parta system is basically of two types. First is the production based where the capacity of each element is based on the guarantee of production if given by the manufacturer of machinery and second is market based with increased capacity in items where demand is lesser than supply. It is based on market research and projected estimates. The importance of Parta system lies in the varieties of details in can help to get hold of which are i) Input Raw Material: (a) Capacity Utilization and (b) Number of days the plant operates in a year, ii) Production Cost, iii) Selling and Administrative Cost (per unit of product): (a) Fixed and (b) Variable, iv) Marketing and Advertising Cost: (a) One Time and (b) Regular.

Thus, we see that the Parta system is a convenient and extremely effective mechanism for control and monitoring. The simplicity and continuity in such controlling and monitoring mechanism on a daily basis makes this accounting system quite popular. However, the upsurge in globalization and the business environment becoming rapidly complex, the control parameters of business operations is becoming larger and this is where the Parta system is gradually losing its essence as the simple and convenient structure seems to be incongruous to handle the changing parameters and mercurial complexities. It is losing its position to Lean Management Accounting which is a robust concoction of accounting, control and performance measurement approaches oriented towards lean manufacturing and elimination of detailed transactions.

### Literature review

Revisiting the pages of history would reveal that Marwaris actually originated in the Marwar region of Rajasthan located in the heartland of India. The term Marwar is derived from the Sanskrit word 'Maruwat' where 'maru' means desert as the state of Rajasthan is largely covered by desert. These people of Rajasthan belong to the Indo-Aryan ethnic group. When the Rajasthani people were given the name "Marwaris" when they migrated to Kolkata for the purpose of doing business. One of the oldest Marwari businessman is probably late Mr. Keshram Poddar of

Kolkata who is said to have entered jute industry along with gargantuan Ghanshyam Das Birla, he operated a plethora of businesses ranging from umbrella to sugar and bricks to real estate. The renowned Marwari personality of the 19<sup>th</sup> century late Mr. Ghanshyam Das Birla and his establishment of Parta system is an inimitable historical feat that continues to keep itself upbeat in the ever transient modern world. Mr. L. N. Mittal, the behemoth steel manufacturer has etched his and the name of his company 'Arcerol Mittal' in the pages of history which is creating new records every day with its astounding progress and success.

The Parta system of accounting is very simple and easy to use mechanism where the performance of a firm is indicated on a daily basis. It is an accounting system emphasizing on the establishment of return on investment taking Cost Management as the base. However, due to complexities and diversified business environment, this shortcomings of the Parta system of accounting has been exposed albeit it is still very popular among the Marwari business community and used to an inexorable extent.

A closer analysis of literature review would reveal that there hardly exist any significant sources of literature that focuses on the Parta system of accounting and its relevance in monitoring and controlling the firm. Despite this shortcoming, an attempt has been made to explore the Parta system and its role in Marwari business.

### Research methodology

For the purpose of collection of data, secondary sources have been resorted to. Various authentic and reliable websites has been accessed for the purpose of gaining a robust knowledge about the topic of research. Based on this, a framework of study has been built on theoretical grounds.

### Importance of the study

The study albeit conducted on the basis of secondary data collected is still quite useful as this research has been conducted for the first time taking into focus the details of the Marwari Accounting system/Parta system of accounting and its role. This study will serve as a base for further research by the academicians and scholars.

### Conclusion

Marwari Accounting system or the Parta system is still the widely practiced entrepreneurial management strategy by the Marwari and many other communities in the contemporary era. Truth to be told, the Marwari Accounting system despite its robust and reliable nature is now slowly paving way for Lean Management Accounting system largely because of the intensified complex business environment. The Lean Management system has now put the pedal on the accelerator and is gaining momentum quite bewilderingly and finding acceptability in India. Nevertheless, the impregnable relevance of Parta system cannot be undermined as it has given a lot of success to the Marwaris businesses over the course of years and is continuing to do so albeit losing its position to Lean Management Accounting. The role of Parta system has been quite phenomenal as the daily cash based accounting helped the businesses to be monitored and controlled regularly something which is very difficult to match by the

contemporaneous sophisticated ERP systems. The continuity in the usage of such accounting system by myriad Marwari businesses bears a strong testimony to this fact. The impregnable significance of the Parta system is ineluctable as it the oldest Cost Management system in the world spectacularly a home grown one. Granted its precise nature and shortcomings, the Marwari Accounting system is still widely practiced and undoubtedly extremely effective in monitoring and controlling the performance of a firm.

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