

Teachings in Corporate Governance from Arthashastra in Ancient India

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ABSTRACT: *This article examines the principles in corporate governance from Kautilya's Arthashastra, emphasizing the contribution made by Kautilya in ancient India (4th Century BC). The teachings from Kautilya's Arthashastra remain applicable even now and may be incorporated into the contemporary context of corporate management towards attaining the ultimate goal of corporate governance, which is to deliver value to shareholders and stakeholders. Swami Chinmayananda says that from time to time there is a need to examine and re-look at some of the old works and give an intelligent interpretation and re-interpretation to apply successfully in the setting of contemporary corporate management. The possibilities of study of Kautilya's Arthashastra in other areas of corporate management such as strategic management, financial management and human resource management may be explored for future research.*

KEYWORDS: *Arthashastra Corporate, Chanakya, Governance, Kautilya.*

1. INTRODUCTION

Kautilya or Chanakya was a minister and advisor of Chandragupta Maurya, who was the contemporary of Alexander the Great (4th Century BC). Kautilya was important in bringing short the reign of the Nanda kings in Magadha. He was also a Professor of Politics and Economics at Taxila University. Among the well-known writings of Kautilya are the Arthashastra (Principles of Economics and Administration) and Neetishastra, which is also known as Chanakya Neeti (Principles of Political Ethics). Kautilya's Arthashastra is frequently likened to Machiavelli's The Prince (15th Century AD), with which it has many similar philosophical and practical ideas. Kautilya's Arthashastra was composed in Sanskrit. The Arthashastra includes 150 chapters, which are divided by subject, in 15 volumes, which addresses three elements, namely, national security problems, administration of justice and economic development strategies. Kautilya authored this Arthashastra for his monarch Chandragupta Maurya and claimed in its preface that it was intended as a guide for 'those who govern'. Kautilya has been widely condemned by many people as a highly crafty guy, and as mentioned above, he is likened to Machiavelli, the author of The Prince, which includes techniques that may appear adharmic or unjust.

However, this analogy may not be warranted, since Kautilya puts a lot of emphasis on self-control and appropriate ways of winning over the adversary. Radhakrishnan elaborates on the 12 sutras of Kautilya with respect to self-control, which emphasizes the significance of control over the senses by giving up kama, krodha, lobha, mana, mada and harsha i.e., desire, wrath, pride, arrogance and foolhardiness. He (Kautilya) also provides numerous instances of monarchs who died, having over-indulged in the senses. Kautilya cited King Jamdagnya and Amarisa who enjoyed the earth for a long period, having controlled their senses. Therefore the first instruction of Kautilya is, to fight the internal foes before you battle the exterior ones. Radhakrishnan further addressed Kautilya's concept of Rajarishi or enlightened monarch. This Rajarishi idea was also put forth by the renowned Greek Philosopher, Plato more than 2500 years ago in his work, The Republic, which in many respects is comparable to Kautilya's Rajarishi. According to Kautilya, by casting out the group of six enemies a king should acquire

control over the senses, cultivate his intellect by association with elders, keep a watchful eye with the help of spies, bring about security and well-being by (energetic) activity, maintain the observance of their special duties (by the subjects) by carrying out (his own) duties, acquire discipline by (receiving) instruction in the sciences, attain popularity by association with what is of material advantage, and maintain (proper) behavior by (doing) what is beneficial. In the framework of contemporary organization, the Chief Executive Officer (CEO) assumes the role of the monarch described in Kautilya's Arthashastra [1].

Management and kautilya's arthashastra

Management is culturally specific. A management system, to be successful, needs to be entrenched in the cultural soil of the nation where it is practiced. Many towns and nations in the globe are currently attempting to develop and explore their own systems of management, which include accounting, and financial management, human resource management and corporate governance. We have studied many management models and theories from the west; however, a careful study of western management models and theories and ancient classics from the east, especially from India, will reveal and expose the fact that those western management models and theories are not something new but had already been revealed by ancient sages from India. Indian civilization is one of the oldest civilisations in the world, having a documented history of more than 5000 years. The contribution of India and Indians to our globe is tremendous in many areas of knowledge. India is also the birthplace of four main faiths of the world: Hinduism, Buddhism, Sikhism and Jainism. However this article is not about the Indian civilization and religions but about corporate governance in ancient India during the time of Chandragupta Maurya in the 4th Century BC. There can be no discussion of Chandragupta Maurya's governance of ancient India without Kautilya or Chanakya. Chandragupta Maurya was appointed the monarch and Kautilya became his Minister and Counsellor after Kautilya destroyed the rule of the Nanda kings in Magadha. Kautilya is also nicknamed the 'King Maker'; in fact he is also attributed with having masterminded the defeat of Alexander the Great in India while the latter was on his way to rule the globe [2].

Chandragupta and Kautilya succeeded in gathering together nearly all the kingdoms of the Indian subcontinent. As a consequence, Chandragupta Maurya was regarded to be the unifier of India during the 4th Century BC and the Mauryan Empire was maintained by his son Bindusara (whom also Kautilya counseled) and by his grandson the renowned Asoka. With a population of more than 50 million people, the Mauryan Empire was bigger than the Mughal Empire 2000 years later, and even larger than the British Empire in India. The Mauryan Empire also encompassed Afghanistan, all the way to the frontier of Persia (Iran) to the west, stretching to Bengal in the east. Kautilya was also a Professor of Politics and Economics at Taxila University. Taxila University is one of the earliest known institutions in the world and it was the main learning hub in ancient India. The breadth of topics taught at Taxila University includes science, philosophy, ayurveda, the grammar of different languages, mathematics, economics, astrology, geography, astronomy, surgical science, agricultural sciences, archery and ancient and contemporary sciences. Two notable writings by Kautilya are the Arthashastra (Principles of Economics and Administration) and Neetishastra, which is also known as Chanakya Neeti (Principles of Political Ethics). Arthashastra, in a broader sense, encompasses niti (polity), danda (administration) and management of resources and its continuous search (anvikshana). According to ancient Indian texts, among four human goals to be achieved are, dharma meaning righteousness, artha meaning wealth or economics, kama meaning fulfilment of desires, and moksha meaning liberation. Artha is next only to dharma or virtuous living, the

other two being desire and liberation. It simply demonstrates that gaining money and its effective administration was most essential both for the person and the state [3].

Kautilya chronicled his lifetime effort in Arthashastra. For centuries, monarchs throughout the globe have resorted to the Arthashastra for establishing a country on good economics, based on spiritual principles. Emperor Ashoka is believed to have established and extended his empire following the ideas outlined in this text. Chhatrapati Sivaji Maharaj, the Maratha king is also believed to have read this book in order to prepare and destroy the Mughals. The origins of the Arthashastra may be traced to the Rig Veda. The Arthashastra focuses mainly with economics and politics. In the Arthashastra we discover that Kautilya starts by invoking Sukracharya and Brihaspati. Kautilya summons the two great Acharyas (Gurus) of the Asuras (demons) and the Devatas (demigod). We discover in the Puranas that the Asuras and the Devatas were adversaries and therefore, had two distinct perspectives. This implies that Kautilya has examined both the opposing views of the extremes before making any conclusion. Edward de-Bono, the world-renowned proponent of Lateral Thinking' stated, "The most brilliant guy is the one who can look at two distinct conflicting views at the same time and come at his own decision". This is the characteristic that a leader needs to acquire when individuals come to him with conflicting views. Kautilya's Arthashastra is not the first Arthashastra. From a multitude of quotes and allusions in subsequent works, we know that there were at least four different schools and 13 unique instructors of Arthashastra before Kautilya. Throughout the book he makes allusions to these different Acharyas who include Bharadvaja, Visalaksa, Parasara, Manu, Pisuna and Kaunapadanta among others. In chapter 59 of Santiparva, of the Mahabharata, the details of state administration in an ordered society are given. It is called Niti Sastra, which was written by Brahmadeva and summarised by Sukracharya. Other sages like Bharadvaja, Gaurisira, Yajnavalkya and Manu also propounded this knowledge. In Santi Parva, the themes of Rajadharma, detailing the responsibilities of the kings are expounded. R. Shamashastry who was the Librarian of the Oriental Library in Mysore, discovered a copy of the Sanskrit text of Arthashastra in a palm-leaf book, and edited and brought out an English translation in 1909. It made ripples throughout the western world. Till then Machiavelli's 'Prince' (15th Century) was regarded a masterwork on statecraft. However, it was found that the Arthashastra, written hundreds of years earlier, offers a comprehensive handbook for administering the state effectively in all the branches, legislative, executive, and judicial. It also covers all elements of state administration such as creating a ruling hierarchy, choosing individuals, levying taxes, setting down laws, determining penalties for violating the law, etc. [4].

In explaining the Arthashastra in management, the term rajya (state) refers to the organisation, the raja or king is the Leader or the CEO, amatya or mantri (ministers) are the managers of various departments such as finance, marketing, human resources and operations, kosh refers to finances, danda the administrative or the management system, durg, the security system and bal the work force. The monarch, or the leader, and leadership are regarded to be a fundamental requirement for the state or organisation. Even Sri Krishna emphasized the significance of the leaders to Arjun in the Bhagavad-Gita. Manu and Sukracharya both expressed similar views. The Manusmriti recounts that when the world was without a ruler and people fled about in all directions out of terror, the Lord established a king in order to protect this whole land [5].

Kautilya takes a step further, when he argues that a leader (king) should have no self-interest, pleasure or joy for himself; his satisfaction should lay in the welfare (happiness) of his people, i.e., he needs to submerge his personality inside the greater personality of his people. This is founded on the cultural attitude of self-abnegation. Kautilya says that in the happiness of his

subject's lies the happiness of the monarch; and in their wellbeing lies his welfare. He should not regard as excellent just that which pleases him but treat as advantageous to him, whatever pleases his people. In reality, this idea of the pleasure of the many, has to be incorporated into the field of business management as a fundamental premise [6].

This old knowledge is also mirrored in various languages. Two thousand years ago, Thiruvalluvar in Tamil Nadu spelled forth in 1,330 lines of Thirukkural¹⁰ the three purusharthas of existence, dharma, artha and kama. In the chapter on artha, like Kautilya's Arthashastra, he also dealt with the qualities of a well-run government, or should we say the ethics of good administration. We have seen a real illustration of this in the Ramayana, when Sri Rama (king) had to make the agonizing choice to exile Sita (queen) from Ayodhya. Sri Rama, being an ideal king, had to preserve the dignity of his dynasty. He needed to establish examples for all generations to follow. Although Sri Rama's choice to exile Sita may appear to be cruel, the king sometimes has to be severe, since his primary responsibility is to govern his people, while other concerns are secondary, even if they harm his own happiness [7].

The same counsel may also be found in Shanti Parva of the Mahabharata, whereby the public interest (welfare) is to be given priority above his (leader's) interest. A leader (monarch) should, without doubt, look at the people as his offspring. In deciding their conflicts, however, he should not show sympathy. In the execution of his responsibilities he is obliged to remain unbiased. In the ancient India, the leader (royal) is frequently likened to the rain clouds, which give benefit, via rain (actions), to everyone and everybody, equitably [8].

In the framework of corporate management, the organisation's (state) leader is a catalytic transformation agent. The Arthashastra ideas are broader and more thorough in this respect. The leader (king) is the creator of his time. The essential characteristics and responsibilities of the king are: acquiring what has yet to be acquired, preserving what has been obtained, and expanding and correctly utilizing what has been obtained. Kautilya set forth three primary duties of a leader (king); they are raksha, which means security, palan, which means development and yogakshma, which means wellbeing. The definitions and the context of the three duties vary depending on the environmental situation [9].

2. DISCUSSION

Corporate governance is a topic which is gaining a lot of attention globally in recent years. Originally the term 'governance' meant 'what a government does'. However, 'governance' is being extensively utilized in the business sector, particularly following the 1997 financial crisis in Asia, and 'corporate governance' has become a prominent term in management circles. Corporate failures and scandals have helped to expose the fragility of companies, in particular those with governance issues. A succession of business scandals inside the Organization for Economic Cooperation and Development or OECD - Enron and WorldCom in the USA and Parmalat and Vivendi in Europe led to public anger. Malaysian instances like the BMF affair in the 1980s, Perwaja Steel in 1990s and Malaysian Airlines (MAS) lately, showed a laxity of corporate control. Millions of employees worldwide have been affected by the repercussions of corporate scandals [8].

Corporate governance implies the moral framework, the value framework and the ethical framework within which an organization makes business choices. We may thus consider that what the government accomplishes is public governance, in order to differentiate governance from corporate governance. Corporate governance may be generally described as the process and structure, which is needed to manage the business of an organization in order for it to achieve profitability and accountability to satisfy the expectations of shareholders and other

stakeholders. Tricker describes corporate governance as a process combining responsibility to shareholders, monitoring of management activity and establishing strategic orientations. Corporate governance, according to Pass, is concerned with the roles and obligations of a business's board of directors in managing the firm and their connection with the shareholders of the company and stakeholders groups. Executive directors of businesses have the authority in respect of the affairs of the firm they are hired to manage on behalf of the shareholders. The ultimate goal of corporate governance is to deliver value to shareholders and stakeholders [10].

Sheifer and Vishny offer a limited definition of corporate governance described in Mallin as 'corporate governance deals with the manner in which suppliers of financing to companies guarantee themselves of receiving a return on their investment'. OECD defined corporate governance as a series of interactions between a company's board, its shareholders and other stakeholders. The definitions help to show that corporate governance is concerned with both the shareholders and the internal elements of the business, such as internal control, and the external aspects, such as the interaction of the organization with its shareholders and other stakeholders. Mallin also highlighted some of the key elements of corporate governance as follows:

- Corporate governance helps to guarantee that an effective and suitable system of controls exists inside a business and thus assets may be protected
- Corporate governance also prohibits any one person having too strong an impact
- Corporate governance is concerned with the interaction between a company's management and the board of directors, shareholders, and other stakeholders
- Corporate governance strives to guarantee that the business is handled in the best interests of the shareholders and the stakeholders
- Corporate governance aims to promote both openness and accountability which investors are increasingly seeking for in both corporate management and business performance.

Vittal argues that good governance is meant to exist if three goals are fulfilled. First, there should be equality of law and efficient execution of laws. Second, there should be chances for people to achieve their full potential and thirdly, there should be effective production and no waste, in every area.

Vittal further argues that corporate governance basically consists of three elements. The first is transparency in operations. The higher the openness in operation, the less will be the opportunity for corrupt activities or mischief, since the risks and the rewards will be well known by everyone who are participating in a capital market or business. The second element is accountability since, in a transparent process, everyone knows how a decision is made and it is simple to identify those who are culpable and take action against them. The third element of effective corporate governance is providing value to investors in terms of generation of wealth, acceptable returns and good market capitalization.

There are numerous literatures and research on different forms of corporate governance, stakeholder protection and shareholders' value throughout the globe. However, what is less recognized is what the ancient writings have set down on the principles of good governance, which may be incorporated into the contemporary corporations? The remainder of this article examines insights on corporate governance from Kautilya's Arthashastra.

3. CONCLUSION

In this article we have dealt with the ancient principles of corporate governance from Kautilya's Arthashastra, which have also emphasized the contribution made by Kautilya who lived in ancient India (4th Century BC). There are numerous ideas from Kautilya's Arthashastra, which are still relevant in today's business management. A closer study of the book will uncover many new areas of management ideas, which are yet to be recognized and applied in the contemporary management. Besides corporate governance, Kautilya's Arthashastra has dealt with many other subjects relating to politics, economics, sociology, ethics, etc. It is our desire to see additional studies in other areas of corporate management such as strategic management, financial management and human resource management from Kautilya's Arthashastra being conducted for future study.

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