

**KAUTILYA'S ARTHASASTRA:
AN APPROACH TO CORPORATE GOVERNANCE**

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ABSTRACT

Corporate Governance is not a new concept and this existed long back. Its relevance today in business can be seen as development of welfare concept. Kautilya by taking a holistic and integrated approach to governance had provided a new dimension to corporate governance, which unfortunately has remained neglected all this time. Welfare of business means not only growth and development of business in terms of profit, but also to see that overall growth is attained in the society. In this process, it requires lot of accountability and commitment among the various authorities within the organization. The history of effective Corporate Governance can be traced back to Ancient period. Lot of archeological evidences, scriptures and religious text give reference to the existence of effective Corporate Governance practiced during our ancient times. In the present day the approach of Corporate Governance is talked more from the point of business but in Ancient India, it was about over all administration of state. In this paper, the researcher tried to focus on concept of Corporate Governance which existed during

Ancient times and how it was relevant during those days in proper administration and management of policy. A reading in Chanakya's Arthashastra which was written in 4th century BC is worth mentioning here as it gives guidelines on administration and management practices which were to be followed in order to achieve the welfare objectives. This paper also explores the lessons in corporate governance from Arthashastra, highlighting the contribution of Kautilya in ancient India towards organizational science. This is an exploratory study based on secondary data.

Key Words: Arthashastra, Corporate Governance, Kautilya.

INTRODUCTION

The word 'governance' has been used with different meanings in different parts of India during different times. In ancient India, there were many forms of governance in different parts. Even within a given territory there were many kingdoms with different ways of governance. Basically

governance was the directives through which the king or the authority tried to control the administration. In modern business world, the word 'governance' is termed as 'Corporate Governance' which is basically an approach of managing efficiently and prudently all the activities of a company, in order to make the business stable, growth-oriented, maximally profitable to its shareholders, and highly reputed and reliable among all customers and clients concerned. The Board Structure and Top Management are trustily responsible for such governance. For this purposes, the top management must have perfect and effective control over all affairs of the organization, regular monitoring of all business activities and transactions, proper care and concern for the interest and benefits of the shareholders, and strict compliances to regulatory and governmental bodies. Thus, corporate governance is strict and efficient application of all best management practices, and corporate & legal compliances, amid the contemporary and continually changing business scenarios.

A careful analysis reveals that many of the recently popularized western management theories and concepts have been in practice in Asian countries especially in India for centuries. These

practices were not only in the context of business organization, but also in the context of state or political governance. For an effective management system, it has to be rooted in the cultural soil of the country, where it is practiced. Many communities and countries in the world are now trying to discover and explore their own system of management. The lessons from Arthashastra are relevant even today and can be integrated into the modern organizational science towards achieving the ultimate aim, which is to provide value to shareholders and stakeholders. Arthashastra gives understanding of the business dynamics and key focus areas, which help us gain an edge, helps an organization develop a long term corporate strategy plan. It helps to understand ancient Indian approach to management and restructure and reorganize companies' priorities in the modern business. There is a great deal of similarity in the governance structures of the ancient kingdoms and modern corporations. Kautilya's Arthashastra maintains that for good governance, all administrators, including the king is considered servants of the people. Good governance and stability are completely linked. There is stability if leaders are responsive, accountable and removable.

OBJECTIVES OF THE STUDY

1. To explore the concept of Corporate Governance in ancient India.
2. To analyze the relevance of Arthashastra in the context of Corporate Governance.
3. To understand the dimensions of Corporate Governance in India.

SOURCE OF DATA COLLECTION

Secondary data has been collected from text books, research papers and websites.

KAUTILYA AND ARTHASASTHRA – AN OVERVIEW

Vishnu Gupta known by the names Kautilya and Chanakya belonged to the Magadha State, which corresponds to present day South Bihar in India. Kautilya who studied at Takshasila University became the Professor of Politics and Economics in the same university. He later joined Chandragupta Maura's Empire and served as the Mahatma (Chief Minister) and had rich experience in political administration and defense matters. Kautilya was credited with bringing down the Nanda Dynasty and influencing the defeat of Alexander in India when the warrior was on his way to conquer the world. As a political thinker, he was the first to visualise the concept of a 'nation' in human history. He brought all the small split up kingdoms

together under one 'Central Governance', thus creating a nation called 'Aryavarttha', which later became India. Kautilya wrote Arthashastra during this period.

Arthashastra consists of 15 books, 380 Shlokas and 4968 Sutras. Arthashastra was written as a treatise for the king Chandragupta Maura and stated in its preface that it has been written as a guide for "those who govern". The first part of Arthashastra addresses itself to the effective and appropriate conduct of top management, to the problem of how decisions should be made, to the importance of the effective use of information, and to the delegation of general or topical authority. The importance of several managerial skills, such as the delegation of authority and the importance of decentralisation are clear from the titles of the chapters in this book. The purpose of these chapters is to help managers who will run their respective areas of concern with reference to the goals set by the top management of the organization. The second book generally deals with the allocation and control of resources, production, minimising expenditures, quality control, and distribution of agricultural/manufactured goods. It also deals with the extension of the control, decision-making systems, and information systems, to the level of the

common person's everyday life. The third book of Arthashastra deals generally with what could be classified as legal matters, such as the nature of contracts, legally binding agreements, loans, deposits, recovery of debts, and the laws concerning purchase and sale.

The fourth and fifth books of the Arthashastra are basically concerned with the subject of protecting the general public and the leader's position against the detrimental and unenlightened economic moves of special-interest groups in society and against the antisocial or criminal element of society. It also deals with motivation theories, ways of ensuring loyalty and /or compliance with the law, and punishment. The remaining books deal with the complex, predictive description of the relationships that exist between variously related states or corporate bodies. This includes consideration of these states' possible relationships with each other, their possible relative strengths and weaknesses, the various types of relationships that these various states could have with other states of various strengths, the relative advantages to each of the states involved in any given relationship, and the corresponding most effective courses of action.

RELEVANCE OF ARTHASASTHRA IN CORPORATE GOVERNANCE

The cardinal principle of economic administration was laid down in Kautilya's Arthashastra in the following words - "The root of wealth is economic activity and lack of it brings material distress. In the absence of fruitful economic activity, both current prosperity and future growth are in danger of destruction." Arthashastra includes all aspects of administration such as establishing a governing hierarchy, selecting people, levying taxes, to laying down laws, to decide punishments for breaking the law, etc. (Muniapan and Sheikh, 2007). Arthashastra has detailed policies for the society, individual industries, labour and employment, calamities and control of vices.). According to Kautilya, if rulers are responsive, accountable, recallable, there is stability. He states that the young leader should be trained in three specific areas: Arthashastra (economic administration), Nitishastra (foreign affairs) and Dandaniti (political science). Proper direction and guidance from the leader will ensure current prosperity and future gains. Inactivity of the leader in economic sphere will bring the kingdom close to destruction.

In ancient times a king with depleted treasury is a weak king and the easiest target

for a takeover. An ideal corporate leader is the one who has the highest qualities of leadership, intellect, energy and personal attributes. The essence of leadership, he stresses, lies in its acceptance by the subjects. He therefore, advises never to forget the two pillars of the art of governance: Nyaya, the justice and Dharma, the ethics. Kautilya used the word 'dharma' and righteousness in personal and social conduct. He described the basic ethical (dharma) values as, "Duties common to all - ahimsa (abstaining from injury to all living creatures); satyam (truthfulness); cleanliness; freedom from malice; compassion and tolerance." He advises to introspect to identify leader's atmadoshas, i.e. deficiencies to improve or develop one self. He further advises to study deficiencies of his cabinet members and take steps to improve upon them.

The first teaching of Kautilya is to conquer the internal enemies before you conquer the external enemies. According to Kautilya, by casting out the group of six enemies the leader should acquire control over the senses, cultivate his intellect by association with elders, keep a watchful eye by means of spies, bring about security and well-being by activity, maintain the observance of their special duties by

carrying out duties, acquire discipline by instruction in the sciences, attain popularity by association with what is of material advantage and maintain behavior by what is beneficial (Muniapan and Shaikh, 2007). Kautilya seems to have given a lot of thought to human resource development for the government machinery. He is specific about the qualities or qualifying standards for appointment of a Mantri. These qualities are: Drudhachitta (power of concentration), Shilavan (character), Pragna (thinking capability), Vangmi (communication skills) and Daksha (observation / vigilance). In addition, he highlights the competencies that a Mantri must possess. These competencies are the same as the competencies advocated by the management gurus of the present times, namely, Knowledge, Skills and Attitude. Kautilya's Arthashastra identified the significance of training and learning. It clearly stated that training imparted discipline. Thus, the lessons of discipline could be imparted to those whose intellect had the desire to learn, capacity to listen attentively, power to grasp what was taught, to retain it in memory, discriminate between the important and the unimportant, draw inferences, deliberate and imbibe the truth and not to others. Kautilya stated that investment in human capital especially in

higher education would have a greater impact on the growth and development of the economy. The Arthashastra also contains a section describing the mode of action which it demonstrates is the most effective and efficient in the management of the organization, the just and measured use of power (Kangle, 1956). The statement of the way in which the controlling body of an organization can implement its designs appears to be a significant improvement over the approach of modern theorists of strategic planning structures and objectives is made explicit rather than being left to the imagination of the particular manager involved. Kautilya refers to diplomacy as an important element in Nitishastra (foreign affairs). Diversified economy should consist of productive forests, water reservoirs, mines, productive activities, trade, markets, roads, ports, and storages. Efficient management means setting up of realistic targets and meeting targets without using over-zealous methods. Profitability should not only mean surplus over costs. It should also mean provision of investment for future growth. Kautilya stressed the importance of happiness to all stakeholders of an organisation. He stated that happiness is obtained not only by wealth and profit, but also by doing things rightly and doing right

things (sukhasya moolam dharma). Dharma without wealth according to Kautilya is toothless (dharmasya moolam artha), and wealth without dharma is useless because a poor person cannot support the entire society. Indian culture has always emphasised that sukhasya moolam dharma and dharmasya moolam artha taken together – namely, wealth does not lead to directly happiness. One must strive to generate wealth – resources and money – share it equitably to create happiness for oneself and others. Such generation of wealth must also be through ethical means, which alone would lead to overall happiness (Garde, 2003). Kautilya further stated to generate wealth you require an enterprise or an organisation or an asset (arthasya moolam rajyam). He then stated the support for organisation is the organs (rajyasya moolam indriyajayah), the functions, processes, activities, etc. The victory over organs of the body, which is the literal meaning of the word indiyajayah, is a well-known concept in the Indian culture and this refers to the control over the five organ of sense (Muniapan and Shaikh, 2007). The economic growth with equity and social welfare as propounded in Arthashastra is bound to render sustainability to corporate governance system.

ARTHASASTHRA AND MODERN ORGANIZATIONS

According to Arindam Chaudhuri, one of the preachers of Theory 'I' Management or Indian management, "India has some of the best management schools in the world, most Indian organisations have not been able to do well internationally". Among the reasons cited is the failure of Indian management to develop the indigenous management style, which revolves around Indian cultural roots and upbringing (Chaudhuri, 2003). Management is culture specific, and multidisciplinary. It applies the disciplines of psychology, social psychology, sociology, politics, economics, cultural anthropology, law, finance and philosophy (Muniapan, 2005). Several studies have been done on various aspects of Arthashastra, however studies specifically in the context of business organizations is limited. Kumar & Rao (1996) conducted a study of value based management from Kautilya's Arthashastra. Narayana (2002) integrated Kautilya's Arthashastra into strategic leadership, Muniappan (2008) into CSR perspective, Waldauer et.al (1996) into trade, taxation and labour theory.

Writing more than two thousand years before Hume, Smith, Ricardo and

J.S.Mill Kautilya anticipated their thoughts on the importance of conducting trade in accordance with the principle of comparative advantage, that imports are as important as exports in promoting a nation's economic development and growth, and that reciprocal demand will determine the value of commodities in bilateral and multilateral trade. His view of international trade is most clearly spelled in Book II, Chapter XVI which specifies the duties of the king's superintendent of Commerce. Kautilya had a highly refined understanding of the law of demand and supply and the pernicious effects of gluts in the market. He also clearly anticipated Smith and Ricardo on the principles of effective taxation that will result in an ideal system of taxation: one which will promote economic growth and development, ensure that resources are used efficiently, whose burden is borne fairly and which distorts economic decision-making as little as possible. Kautilya was far ahead of his time in developing a labour theory of value in trying to determine what 'just' wage was for workers. He explicitly recognized that the value of labour depends on the level of skills employed, time spent on the job, and the amount of output produced. He also was cognizant that the market value of labour also reflects the

market value of the product created. (Waldaeur, Zahka, & Pal; 1996) The key operational words used in the Arthashastra are the same as those used by managers today: organization, delegation of authority, effective information systems, and a forward-looking policy of management by objective (Starzl & Dhir, 1986).

Arthashastra provides a comprehensive guide for the formation and control of organizations. While the particular terminologies used in the text may at first sound strange, a closer look reveals that the basic problems addressed are the same as faced by modern managers, namely, those pertaining to educational, organizational (structure and standards of conduct), informational, and environmental imperatives. In explaining the Arthashastra in the context of management, the term rajya (state) is interpreted to the organisation, the raja or king is the leader or the Chief Executive Officer (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 and bal the work force and so on.

CONCLUSION

Corporate Governance is not new to our country. Our ancient literature like Vedas, Manu Smruthi, Arthashastra etc gives more information of the type of governance which existed during ancient period. Even though some of the areas which were suitable during those days like caste and class system are not relevant today, it is wrong to say that the entire ancient texts are irrelevant today. With some modification according to present day requirement one can definitely make use of what is said in our ancient text and can apply those things in the governance module. It is good to see that some of the management institutes have taken up initiative to set up special cell to teach Arthashastra. Kautilya by taking a holistic and integrated approach to governance had provided a new dimension to corporate governance, which unfortunately has remained neglected all this time. For him governance works well with resource management, efficient administration, a fair judicial system, knowledgeable people with integrity capable of taking up high positions. He was equally clear on the organizational aspects, human dimensions of an organization as well as the leadership requirement of an organization. Arthashastra

is the evidence of the intellectual capital India possessed in its glorious past. Since its relevance has not faded even after 24 centuries have gone by we need the attitude for resurrecting and recreating the intellectual capital for the future.

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