

INFLUENCE OF ANCIENT INDIAN SCRIPTURES ON CORPORATE GOVERNANCE FRAMEWORK

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Abstract:

CG has become one of the most commonly used phrases in the current global business vocabulary. It's a hot topic across the globe, these days and in India. It is the most talked about subject after the collapse of Satyam in 2008. Till about two decades ago, it was relatively an unknown subject. The subject came into prominence in late 80's and early 90's when the corporate sector in a number of countries was surrounded with problems of questionable corporate policies or unethical practices. In this paper an attempt has been made to explore the influence of corporate governance from ancient Indian Scriptures. In the Indian context the origin of corporate governance can be traced from different ancient scriptures namely Ramayana, Mahabharata, and Vedas. While this study based on the Kautilya's Arthashastra which was also written in 4th century BC. A qualitative research methodology, named hermeneutics, was used for the present study, in which Kautilya's Arthashastra, one of the ancient classical texts in India were subject to deep study and interpretation. The study reveals that various aspects of corporate governance, which is relevant today, were also mentioned in the Arthashastra.

Key words: *Arthashastra, Corporate Governance, Hermeneutics*

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Introduction:

The subject of corporate governance is not a recent origin. This term has gained its importance and momentum since the early nineties in the western part of the world. In India the concept got its importance after the introduction of voluntary code by the confederation of Indian Industry. The introduction of liberalization, privatization and globalization was made astonishing changes in our economy. The magical combination of three letters 'LPG' facilitates for the establishment of various corporations in the private sector and public sector, besides that the total number of investors who were investing in various corporations was also amplified.

Corporate entities are the most important organizations in modern society. They not only satisfy market needs but also provide employment opportunities and creating wealth for the country¹⁵. Their action affects the lives of everyone- whether as customers, employees, suppliers, investors in society at large. Given the significance of companies, they clearly need rigorous management.

They also need good governance. Governance is different from management. Managers run the enterprise: directors ensure that it is being run well and run in the right direction. Governance is the work of the governing body, typically board of directors.

Universally there is swelling, evidence to advocate that investor confidence has assumed a vital role in the economic development of a country. The veracity of the financial markets and economic welfare of the country hinges on corporate accountability and investor confidence. The global concern is actually for making the capital market safer and transparent, for thus it is urgent to reinforce the financial system of the country. Through a constricted corporate regulatory system, any country can attain the same. Only those nations, having such a fitted monitoring system, can offer free market entry and also to keep alive the investor confidence.

Corporate governance is essential to evade corporate scams, frauds and irregularities. Major scams like Harshad Mehta's, Satyam's, and Kethan Parekh's have shaken the confidence of public in corporate investment. This requires an exhaustive review of company management. Governance implies voluntary & legal enforcement for a company to manage & control its affairs in the best interest of the public. Every company should look after the interest of its shareholder which includes the environment in which the business operates. This ensures both short run & they run survival of the business.

Corporate governance helps companies in strengthening the foundation for long-term economic performance and attractiveness. It plays a vital role of transparency in all individual business transactions through accounting and auditing procedures. Corporate governance procedures advance the administration of a firm in emerging company strategy and performance. This permits companies to entice investment and enhance their performance. By espousing standards of transparency in dealing with stakeholders, a robust system of corporate governance aids to avert crises. Improving the public faith in the truthfulness, it guarantees the finest return on investment, which, in turn, rouses economic progression¹⁵.

The Confederation of Indian Industry (CII) took the lead in the introduction of desirable code on Corporate Governance in India. A serious exertion was made in India in the years 1999, 2000, 2002, and 2006 when certain corporate reforms were announced by amending the listing agreement and the companies' law⁶. The country also witnessed the formation of various committees during these years.

Research Gap:

The review of literature indicates that even though there is a plethora of research literature on corporate governance, most of the studies have been done its conceptual framework, the practice of corporate governance and the CEO characteristics influencing company performance, the role of the board and shareholders wealth maximization for the efficient markets of the developed nations of the world. In India lot of studies were undertaken during these years after the collapse of market giant Satyam Computers. But very limited studies were undertaken from philosophical and from the ancient perspectives. Some of the important works which were carried on hermeneutics background are mentioned below.

Related Studies:

B Mahadevan (2008) pointed out the relevance of Sri mad Bhagavad Githa for doing management practices. The goal of this article is to stimulate thinking in the minds of management researchers and practitioners the enormous potential that ancient Indian literature has in suggesting better alternatives for management. *N Raveendranth (2013)* describes the concept of governance is not new to a country like India. Our ancient scriptures give more information on the type of governance, which existed ancient period. The study focused on the concept of corporate governance, which existed during ancient times and how it was relevant

during those days in the proper administration and management policy. He pointed that lot of ideas, practices and the system in usage of governing business entity today has been borrowed from the ancient system and its relevance can be seen today. *Muniappan & Mohan Das (2008)* suggest that Arthashastra provides an inside-out approach to CSR, which is the development of the individual leader's self-conscience, contrary to the western approach that takes an outside-in perspective. The study also mentioned about the leaders and the role they play in corporations are crucial in ensuring transparency, good conduct and governance towards the ultimate aim of achieving CSR. *Anindo Bhattacharjee (2011)* establishes the relevance of the teachings of ancient Indian scriptures like Vedas, Upanishads, Gita, Manu smriti, Arthashastra, in the practice of modern management. The researcher created a model which depicts a 6 fold path of Jnan or knowledge through which we can not only better manage on an individual as well as institutional and global level.

Methodology

A qualitative research methodology was applied in this study, i.e., popularly known as hermeneutics. The term Hermeneutics came from the Greek deity Hermes. He is to be known as the interpreter of the messages of the gods. In the current situation, hermeneutics can be labelled as the interpretation and understanding of ancient books and sacred texts¹³. The present study was mainly based on, one of the ancient Indian masterpieces Arthashastra (Kautilya's). The studies were made by interpreting the opinions of the Kautilya on the present corporate governance framework.

Scope of the Study:

The subject of corporate governance is not a recent origin. The concept has been gaining importance during the last decade in India after the collapse of software market giant Satyam Computers. There are a number of research paper has been carried on various elements of corporate governance. Our country has been splendid with numerous Scriptures which is part of our culture. The present study is limited to the ancient Indian Scripture named Arthashastra.

EVIDENCE FROM ANCIENT INDIAN SCRIPTURES**Arthashastra**

Kautilya's Arthashastra is considered to be an ancient Indian discourse on statecraft, economic policy, and military strategy, written in Sanskrit. Kautilya also known as Chanakya was a scholar at Takshashila¹³. He was also the teacher and guardian of Emperor Chandragupta Maurya, creator of the Mauryan Empire.

The Arthashastra literary means the discipline of politics, but the book has very wide scope. The scope of the books includes on the nature of government, law, civil and criminal court systems, ethics, economics, markets and trade, the methods for screening ministers, diplomacy, theories of war, nature of peace, and the duties and obligations of a king¹³.

Corporate governance is an ethical code of business of companies. It is a system by which companies are directed and controlled. The board of directors is responsible for the governance of companies and to ensure that appropriate governance structure is in place.

While interpreting Kautilya's Arthashastra we can find so many similarities with the present corporate governance framework. Arthashastra preserves that for good governance, all administrators, including the king were considered servants of the people. If the monarchs are accountable, responsive, removable, recallable, there is stability. If not, there is instability. These tenets hold good even today.

Arthashastra obviously itemized the duty of a king in a clear cut way. The fourfold duty of a king as per Arthashastra is depicted in figure No.1¹³. While we substitute certain old characters and situations with new one, we can identify the relevance and influence of Arthashastra during these days. The items which need substitution involve State, King and Subjects (people).

The State can be substituted with the Corporation, the King with the CEO or the Board of Directors and the subjects with the shareholders, bring out the essence of corporate governance.

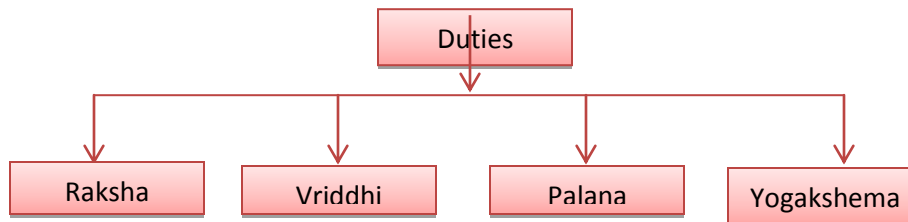
**Duties of a king as per Kautilya's Arthashastra**

Figure No.1**Duties of a King:**

Raksha: literally means protection. As we all know protection means keep safe from harm or injury. So it is the obligation of the king to protect his subjects (people) from dangers. When we compare the same (Raksha) with corporate governance, it is the responsibility of the CEO or Board of Directors (King) to protect and safeguard the interest of the shareholders of the company.

Besides that the notion of Raksha is linked with the risk management feature in corporate governance guidelines. Thus, as per risk management aspect, it is the responsibility of the board, its Audit committee and its executive management should collectively identify the risks impacting the company's business and document their process of risk identification, risk minimization, risk optimization as a part of risk management strategy or policy.

Vridhhi: literally means development and growth. Therefore, it is the responsibility of the king to make his nation splendid with resources and facilities, thereby ensure the growth of the country. In the contemporary situation the Vridhhi duty has been matched with stakeholder's value enhancement. The object of any business is maximization of wealth through maximization of profits. Efficient corporate governance aims at this enhancement. Well managed and motivated companies would definitely ensure corporate success and finds ways for stupendous growth and development in the long run. If the company follows better corporate governance practices it will definitely pave for expansion, diversification, and takeovers of companies as it enjoys goodwill, corporate image and reputation in the competitive environment.

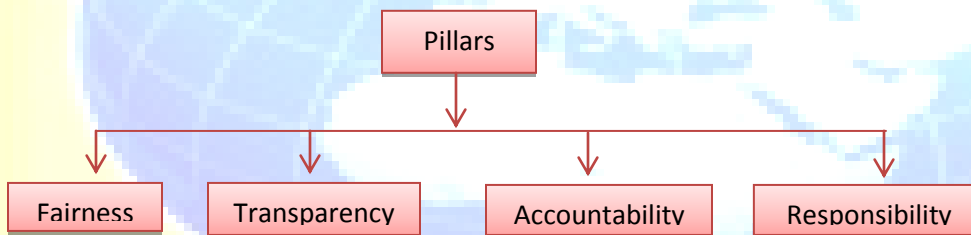
Palana: literally means maintenance/compliance. In present day world we can associate it with, following the rules and regulation of the land. While considering the duty of Palana we can come into conclusion that the same is highly absorbed in our corporate governance practices.

When we consider the corporate governance practices of SEBI there is a separate clause entitled compliance. The clause specifically states that the company shall obtain a certificate from the auditors of the company regarding compliance of conditions of corporate governance as stipulated in the clause and annex the certificate with the director's report, which is sent annually to all the shareholders of the company, the same certificate shall also be sent to the stock exchanges along with the annual returns filed by the company⁸.

Yogakshema: literally means welfare and in Kautilya's Arthashastra it is used in context of a social security system. Currently we can associate it with corporate social responsibility. The duty of the yogakshema state that the king has to consider and protects the interest of the people. It is one of the prime responsibilities of the king to ensure the welfare among the peoples.

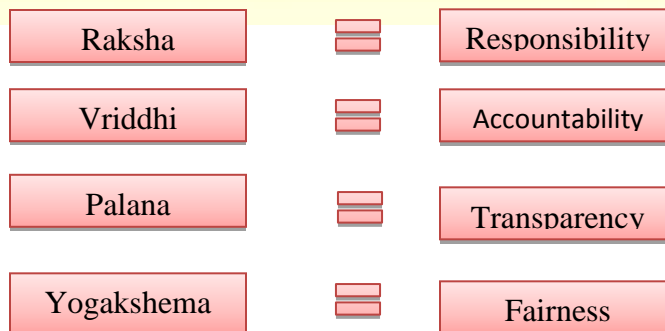
Today, businessmen are aware that society is the biggest force which controls the entire business operations, right from acquisition of land to finally produce. Now they feel that they cannot operate in societal isolation. The success of a business depends on the growth of the society because the goods and services are ultimately consumed by the society. So, an organization must take initiate steps which ultimately lead to economic upliftment of the people. This all necessitates the relevance of Corporate Social responsibility.

Corporate Governance is based on certain principles. These principles are considered to be the main pillar of corporate governance. It has four main pillars¹⁵. The four pillars of corporate governance are shown in Figure No. 2.



Pillars of Corporate Governance
Figure No. 2.

The fourfold duties of a king as per Arthashastra can be interpreted with the four pillars of corporate governance. The pillar denotes the basic principles of corporate governance. The relationship between the duty of a king and principles of corporate governance are shown in Figure No.3.



Relation between CG Principles and Duties of a King**Figure No.3**

Raksha: literally means protection. This is extremely matched with the pillar of responsibility, i.e. it is the responsibility of the board or CEO to protect the interest of all stakeholders of the company.

Vridhhi: exactly means growth. This is obviously matched with the pillar of accountability, i.e. the CEO and the Board will have to use the resources of the firm such a way that maximizes the value of the firm. That is maximum wealth creation is of urgency at this juncture.

Palana: factually means maintenance/compliance. The duty of Palana was absolutely matched with the pillar of transparency, i.e. corporate governance ensures timely and accurate disclosure of all material matters. Disclosure regarding the corporate performance, ownership and governance should be of high quality in accordance with the financial, accounting and auditing standards.

Yogakshema: literally means welfare and in Kautilya's Arthashastra it is used in context of a social security system. The duty of yogakshema is harmonized with the pillar of fairness. It refers to the manner in which the business is conducted without any detriment in the interest of the stakeholders, shareholders, employees and the public as a whole. Business ethics play a vital role in this context; hence they have to be on par with the ethical code of the society in which a business operates.

Conclusion:

Corporate governance is a process to ensure that the company is managed to suit the best interest of all. It assigns the directors with responsibilities and obligations in relation to the direction of corporate affairs. It deals with the accountability of person who is monitoring and managing the company along with different characteristics such as morals, values and ethics. It emphasizes on transparency, integrity and accountability of the management. The present study has been made an attempt to cross check the influence of ancient Indian scripture Arthashastra on the corporate governance framework in India. The study reveals that there is clear cut evidence for the application of various aspects of Arthashastra in the formation of an Indian Corporate governance framework. The study also suggests that the effect of holy and ancient scriptures is excessive not only in the corporate governance framework, but also universally applicable in the formation of various management principles. The study also noted that the selected scripture

Arthashastra also have influence in the development of other areas of corporate management like Human resource management and strategic management.

Democracy, good governance and modernity cannot be imported or imposed from outside a country

Emile Lahud

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