

## CORPORATE GOVERNANCE - ITS ORIGIN IN ANCIENT INDIA

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### ABSTRACT

*Corporate Governance is a very important concept and its relevance today in business can be seen as development of welfare concept. Welfare of business means not only growth and development of business in terms of profit and market share, 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 with in the organization. Corporate Governance is not a new concept and this existed long back. 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. Today 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. It talked about how the king used to manage his subjects through effective Governance.*

*In this paper, I 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. For this purpose, ancient period is studied under three heads namely-Vedic period, Mauryan period and Gupta period. Special reference in this paper is made towards Mauryan period which was regarded as a period of good governance, as the structure of administration was so well established and governed which became model for lot of empires world wide. 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. Study of Ancient system of Corporate Governance throws some light on the evolution of the present Corporate Governance which is more specific to business approach. Lot of ideas practiced and the system in usage in governing business entity today has been borrowed from the ancient system and its relevance can be even seen today.*

**Key Words:** Governance, Vedic, Welfare, Corporate

### Introduction

British Rule in India resulted in two important changes. Firstly, it started changing the mindset of Indians by destroying various texts and scriptures on

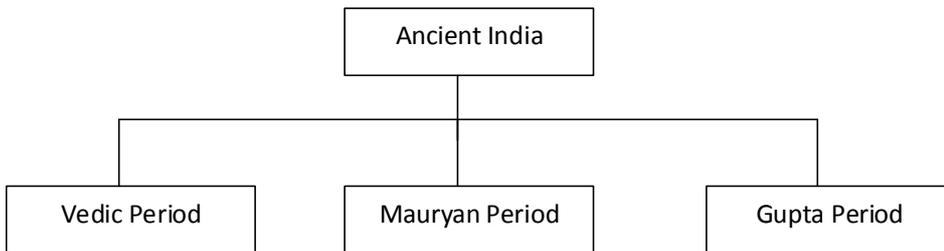
which our history stood. Secondly, it tried to impart western thinking on Indians through changes in education policy. Some Indian Politicians also danced to their tunes

and they shifted the focus from our rich traditional values and ethos to western ideas and thinking. In this process, our ancient texts lost its sanctity and more and more people started propounding western ideas in every walk of life. But, there were small group of thinkers, especially those who practiced yoga, ayurveda and other forms of ancients system some how got interested in revisiting our ancient texts for effective administration and decision making. This resulted in successful revealing of lot of secrets about the ancient practices which are even relevant today. Among these one of the areas is Corporate Governance. Corporate Governance refers to effective Governance mechanism of king towards his

subjects. It is more of welfare objectives of not only the king but also the entire state and his subjects.

**Corporate Governance in Ancient India**

Corporate Governance, a term which is more commonly used in business today was a common term used for effective governance during ancient times. Since, all the property of the state came under the king there existed a Governance module in which King was the head. For purpose of studying the Governance module in Ancient India, important periods are classified and shown according in Figure 1 below -



**Governance during Vedic Period**

Vedic Aryans who occupied the lands of five rivers were mainly tribal and they elected one person who was called as Leader. Usually, the person with strong personality who used to protect them from

eventualities was elected as the leader. There existed a simple set up of administration namely, the King and the general assemblies of people called as Samithi and Sabha.

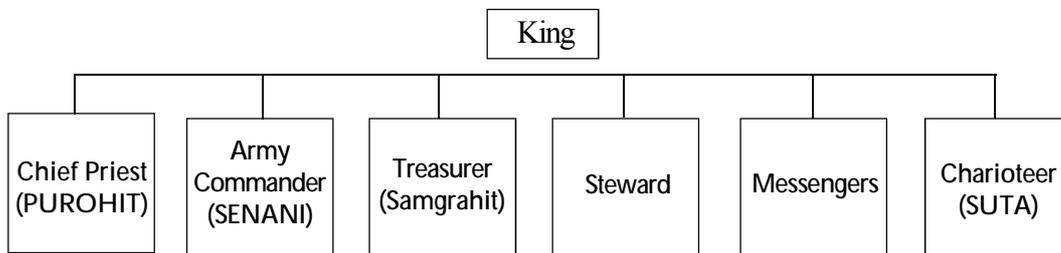


Figure 2 - Governance Module

Vedic King who was head of the state was charged with the maintenance of law and order. He used to employ the agency of spies in discharging his duties more effectively and efficiently. The administration was based largely on the household system. King used to collect necessary information for decision making from the Chief Priest and he used to involve all his reporting at time of taking vital decisions. So, there was collective decision making which was in place during Vedic period. Some of the Buddhist scriptures gives the clear idea of how the king used to manage his subject and the happiness and richness of the society during various king rule. This period was characterized by very good Centralized Administration under the leadership of the King. The king enjoyed supreme executive, judicial and military authority over the kingdom. Raja Dharma was to protect the people and kingdom from enemies. It was during the Vedic period that many invasions took place due to which there was destabilization of power to some extent in Northern India. After the departure of Alexander, the dismantled kings started establishing their individual powers and resulted in local quarrels. It became very difficult for the kings to have effective governance as they were often busy fighting among themselves and there was no

structured form of governance module introduced in to the system.

#### **Governance during Mauryan Period**

The Mauryan period is regarded as the period of good governance. It was one of the largest empires in Ancient India and its administration was considered as one of the best administration over the entire world. The Mauryan King was the head of the state administration holding legislative, executive and judicial powers. Judicial system was well organized and there was continues supervision and inspection process which was installed in every walk of administration. Secret services played a major role in maintenance of law and order in the kingdom. Local authority was controlled by Parishad who in turn used to report to king. As the Mauryan empire extended almost to whole of India, it became very difficult for king to have proper control. So there were many provincial heads appointed by the king and the king used to take the updates from the provincials on regular basis. Functions of the states were defined under two main categories namely, Constituent functions and Ministrant functions. Delegation of power and authority on basis of law and order, security of the people and property, defense, welfare services, economic activities and moral development of individuals were carried out effectively and

efficiently. Administration was carried out on the basis of consultation and collective decisions and such decisions were implemented by centralized bureaucracy.

#### **Chanakya - Arthashastra**

Above all these it was Chanakya's Arthashastra, written during the period of Chandra Gupta Maurya which made Mauryan Empire stronger in terms of administration. Arthashastra contains 6000 sutras divided in to 15 chapters and 18 sub-chapters instructions about administration, management, law and justice, economy, foreign policy etc.. King is the central point in Kautilya's Arthashastra. It is mentioned in the Arthashastra that "In the happiness of the subject lies the benefit of the king and in what is beneficial to the subjects is his own benefit". This clearly indicates the governance module which Chanakya insisted, it is more or same what we practice in corporate governance today, where in we say that the directors should act in such a way so as to benefit the stakeholders, investors, institutions and other who work in the organization. According to Chanakya, good governance should avoid extreme decisions and extreme actions. He suggests to take Soft action (Sam,Dam) and also Harsh action (Dhand,Bhed) whenever there is a wrongful act. He goes on to explain the selection process to be followed to select right person for right jobs. According to Chanakya, King should appoint trusted

people for administration purpose, while selecting the people he should be very cautious and should see in them qualities of high birth, wisdom, heroism and loyalty. He propounded few tests for selection and tests were conducted in areas of judiciary, wealth, pleasure and fear. A minister would be selected if he successfully clears all the mentioned four tests. Selecting the right person through such tests will help in fighting corruption, better management and also will help in delivering good governance. Salaries were fixed based on the efficiency and high performers were recognized and rewarded with high incentives. Even King was regarded as servant and also he received salaries just like others. It was council which has powers to decide upon salary structure and salaries for all including King's family members. According to Arthashastra, king should act according to Dharma and should stick on to the ethics and principles of what is told to him. Chanakya was very much against corruption and he is of the opinion that corruption will destabilize the king and country and as such the person who is involved in any act of corruption should be penalized severely. He insisted on accountability, sharing of work and delegation as the key mantra for good governance. Unless and until a right person is given a right job the objective of clear and good governance cannot be

achieved. A King should work towards the welfare of society and his subjects. He should also be part of the working class and the successor of king should also possess such qualities and should not be selected based on the dynasty rule. The administrative structure under Mauryan Empire was assigned in such a way that each of them had clear cut duty assigned and also the accountability and responsibility was clearly fixed. Delegation was left to each higher levels down the structure and they were given freedom of span of control and were at liberty to discharge duty as laid down under the Arthashastra.

Megasthenes who visited during rule of Chandragupta Maurya in his Indika had mentioned and praised the administration set up during Mauryan empire. Special reference was also made of Arthashastra and it is believed that even some western countries developed interest in the philosophy of Chanakya and they copied some of the styles of Mauryan administration.

#### **Governance during Gupta Period**

The Gupta period is called as the Golden Period in the history of Ancient India. During Gupta period lot of reforms were carried out, the empire was divided in to several provinces each of which was headed by viceroy appointed amongst the member of Royal family. Local

administration were given full powers to frame their own decisions so there were no controls from center except in few cases where they used to report to center. Villages were governed by Village heads who in turn used to report to district heads. During Gupta period, Urban and Rural administration were more decentralized compared to Mauryan empire. So, each of them understood their responsibility and they worked towards achievement of welfare objectives. There was lot of integration among different levels of administration and all were clear about their duties and thrived to work for the well being of the people and king. Salaries during Gupta period were given in the form of land, more effective and efficient people were benefited with extra land which they can use for cultivation and earn extra income. Gupta period had good contact with outside world, they had good communication system and also well developed foreign policy. Fa-Hien, a Chinese traveler who visited the court of Chandragupta II has praised the administration system and governance of Gupta period. As Kings of Gupta period embraced Buddhism, they were kind enough to the subjects. They worked for the welfare of the society and were part and parcel of the development initiatives for poor and needy.

**Ancient Governance - How relevant today?**

As discussed earlier, we can see that the principle of good governance what was talked of during the ancient period is what which is gaining more prominence today. In today's competitive world of business, the question of survival depends on effective corporate governance. The concept is slowly shifting towards welfare objectives, it can be welfare of stakeholders, investors, environment, society, nation etc which the business should try to achieve. This is exactly what it was told in ancient period. According to Chanakya "The Kingdom should be enjoyed by all". The delegation of authority and span of control discussed in Maurya and Gupta period is what it is propounded today in business. Today's Management Principles focuses mainly on delegation of authority, responsibility and span of control as the main principles for better performance of duties. Discharge of duties according to professional and business ethics which is much talked about today can be traced back to Ancient period. According to Arthashastra, the king should discharge his duties in the best manner keeping in mind his responsibilities and ethics and he should not do anything for his own welfare. This shows that he is bound by his duties and ethics which is driving force today to run the business effectively and efficiently. There is much weightage given today for selecting right person for right job, he is evaluated based on certain criteria for appointing him as Director or

CEOs of the Company, this is same as what is mentioned in Arthashastra. A person who assists King should be a right person and he should be selected based on series of test. One of the important areas in corporate governance is decision making. A collective decision making is what it is talked out today and such decision should be taken keeping in mind not only to help the promoters and owners but also to benefit those who rely and depend on the company. In Mauryan and Gupta period also the major decisions relating to welfare of the kingdom was taken on collective basis. Each of district and provincial heads were involved and consulted before taking any decision at central level. One important thing about good governance in Mauryan empire was the appointment of spy's to monitor and control illegal activities and corruption in the administration. This can be related to appointment of internal auditors today in business. Internal Auditors almost perform the same duties, they check the areas where there is chances of embezzlement and corrupt practices and warns management to take appropriate decisions.

To sum up, governance module under the above periods can come as a big relief and can help in providing solutions to some of the problems faced today in business. The key areas where we can use the ancient period governance in present day situation are -

1. Learning on Leadership qualities and skills
  2. Selection of right person for right job (Chanakya's Arthashastra gives lot of information on process of selection)
  3. Accountability and Delegation of Authorities
  4. System of Spy and Intelligence agency to control corruption and monitoring of work.
  5. Social welfare ideas of king and his team (which can be linked to present days Corporate Social Responsibility)
- syllabus a subject on Arthashastra. There is also a subject called as Pracheena Vanijyam which talks about ancient system of wealth management, accounting and taxation, weights and measurement etc which help in understanding the ancient practices and how that can be applied in today's business. It is important today, that instead of copying the western system or ideas in our business we can go back to our ancient treasures which have every solution to the problems and for which lot of research works need to be done.

#### Conclusion

Governance module is not new to our country. Our ancient literature like Vedas, Manu Smruthi, Somadeva neeti stuti, Baharspatya Neeti stuti, 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 and also have introduced in the

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