

# Corporate Governance from Ancient Indian Scriptures : An Overview\*

## Introduction

Corporate governance is the broad term used to describe the processes, customs, policies, laws and institutions that direct the organizations and corporations in the way they act or administer and control their operations. It works to achieve the goal of the organization and manages the relationship among the stakeholders including the board of directors and the shareholders.

Corporate governance means to steer an organization in the desired direction by determining ways to take effective strategic decisions. It also deals with the accountability of the individuals through a mechanism which reduces the principal-agent problem in the organization.

Corporate Governance has a broad scope. It includes both social and institutional aspects. Corporate Governance encourages a trustworthy, moral, as well as ethical environment. In other words, the heart of corporate governance is transparency, disclosure, accountability and integrity. It is to be borne in mind that mere legislation does not ensure good governance. Good governance flows from ethical business practices even when there is no legislation.

## Good Corporate Governance : Boon to the Organization

**A culture of good corporate governance benefits the organization in various ways. Some key benefits are listed as below:**

- In developing appropriate strategies that would help the organization to attain results in the achievement of stake holder objectives.
- To attract, motivate and retain the talented resources in the organization.
- In creating a secure and prosperous operating environment and improving operational performance within the organization.
- To manage and mitigate risk and protecting and enhancing the organization's reputation.

## Governance from Indian Scriptures :

The concept of corporate governance in India has ancient connections. There is a great deal of similarity in the governance structures of the ancient kingdoms and modern corporations as is evident from our ancient text and scriptures like Vedas, Manu Smriti, Somadevaneetistuti, Baharspatya Neetistuti, Arthashastra etc. which focuses on good governance. All Upanishads, Vedas, and the Epic Kavyas like Mahabharata, Ramayana and Bhagwad Gita emphasize the essence of ethics being followed from within, be it Individual or be it the King or be it the whole kingdom. Further, all religious teachings or philosophical writing contain some directives on governance.

**Ramayana:** The Ramayana, the saga of Lord Rama's life written by Maharishi Valmiki, is widely acclaimed as among the greatest of all Indian epics. In fact, this famous Grantha carries useful tips on ethics and values, statecraft and politics, and even general and human resources management.

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With Rama Rajya as a model for good governance, the Ramayana is a must read for practitioners of statecraft.

The Ayodhya Kanda, the second chapter, contains comprehensive lessons on good governance. When Bharata, the younger brother of Rama, goes to meet the latter in the forest to request him to return to Ayodhya and rule, the two brothers enter into a long and instructive dialogue. Rama counsels Bharata on governance. From quality of ministers and the importance of strategy sessions, to temperance in administration to justice, Rama expounds on all the subtleties of statecraft in a lucid manner. Apparently, Rama seems to be inquiring of Bharata his well-being, whether all is well at Ayodhya - in fact, however, in the process, the lessons on effective governance are offered in a powerful manner. A critical factor in good governance is the quality of ministers. Rama asks Bharata whether he has appointed courageous, knowledgeable, strong-willed men with a high emotional quotient as his ministers, because quality advice is the key to effective governance.

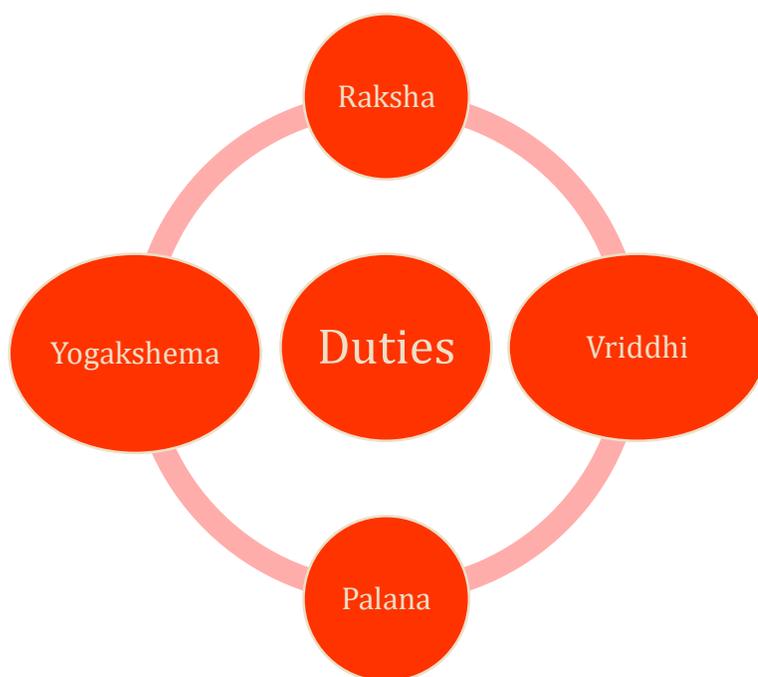
The emphasis is on competence and confidentiality. Rama's advice to Bharata is to take a decision on a complex issue neither unilaterally nor in consultation with too many people. There should be an efficient core group. A good administrator can ensure high returns from minimum investments. Rama tells Bharata to prefer one wise man to a thousand fools as it is the wise that can ensure prosperity during an economic crisis. Even if there is one minister who is really effective, the king will gain immensely. Appointing tested men of noble lineage and integrity for strategic positions is the key to successful government. Moderate taxes should be levied on the people, lest they revolt. Rama wants Bharata to treat his soldiers well and pay their legitimate wages on time. Delays in payment of wages and other allowances that make the soldiers disturb and depress which can lead to dangerous consequences. Trade and agriculture are important and Rama wants Bharata to ensure good irrigation facilities rather than being overly dependent on rains. Traders need to be ensured of a fearfree environment and their grievances should be redressed promptly. Protecting the forests and maintaining livestock have also been dealt with as important aspects of effective governance.

In fact, the vision of the Ramayana has eternal relevance. Law and justice, finance and business, corruption framing of innocents for monetary gains, injustice to the poor are all mentioned. Rama's words of advice to Bharata are as relevant today as they were in the ancient period. For the benefit of present and future generations, Rama gave valuable tips to Bharata on good governance.

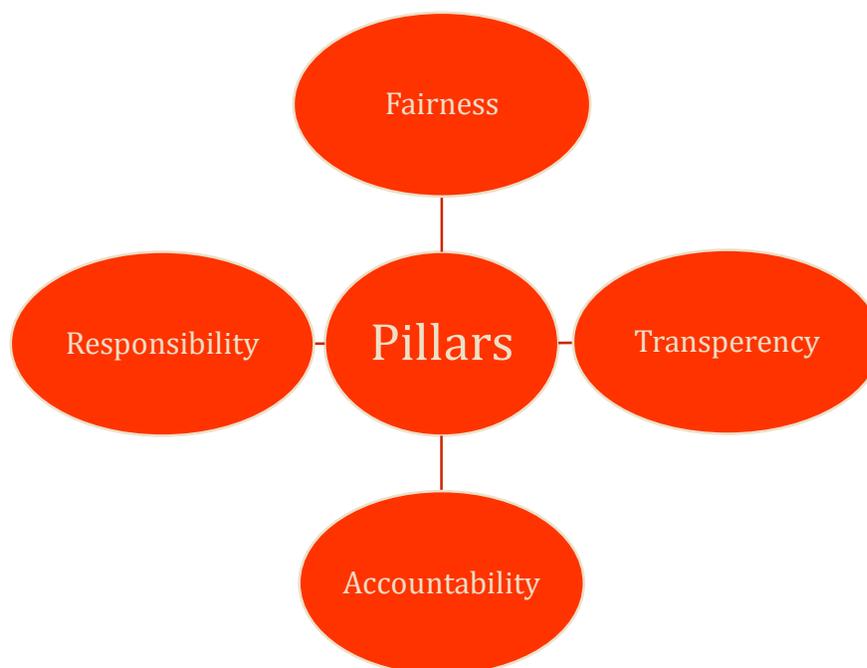
**Bhagwad Gita:** In Bhagwad Gita, Lord Krishna details the divine treasure as fearlessness, purity of heart, steadfastness in knowledge and yoga, charity, self control, and sacrifice, study of scriptures, austerity and uprightness. The Bhagavad Gita emphasized the concept of duty and its importance for good leadership. In the Bhagavad Gita, Lord Krishna motivates and encourages leaders who govern to do their duties and not to run away from the duties as he asserted that leaders should perform their prescribed duty, for doing so is better than not working. Besides, one cannot even maintain one's physical body without work. Lord Krishna further stressed that duty needs to be done without attachment and for those who do their duty without attachment will attain the supreme goal. By doing their duties without attachment, the leaders also set examples for their people. Lord Krishna asserted that whatever the leader does, the people will follow and whatever standards or example the leader sets people in general will follow. It is therefore imperative; leaders need to perform their work (duty) in governing effectively for the sake of educating the people in general (leadership by example). This has a great implication for sustainable development as it is a must for leaders to practice what they preach.

**Arthashastra:** Kautilya's Arthashastra maintains that for good governance, all administrators, including the king are considered servants of the people. Good governance and stability are completely linked. If rulers are responsive, accountable, removable, recallable, there is stability. If not there is instability. These tenets hold good even today.

<b>Kautilya's fourfold duty of a king-</b>	<b>The substitution of the state with the corporation, the king with the CEO or the board of a corporation, and the subjects with the shareholders, bring out the quintessence of corporate governance, because central to the concept of corporate governance is the belief that public good should be ahead of private good and that the corporation's resources cannot be used for personal benefit.</b>
<b>Raksha</b>	literally means protection, in the corporate scenario it can be equated with the risk management aspect.
<b>Vridhhi</b>	literally means growth, in the present day context can be equated to stakeholder value enhancement.
<b>Palana</b>	literally means maintenance/compliance, in the present day context it can be equated to compliance to the law in letter and spirit.
<b>Yogakshema</b>	literally means well being and in Kautilya's Arthashastra it is used in context of a social security system. In the present day context it can be equated to 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 pillars. The four pillars of corporate governance are shown in below figure:



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 below table:

<b>Raksha</b>	<b>Responsibility</b>
<b>Vridhhi</b>	Accountability
<b>Palana</b>	Transparency
<b>Yogakshema</b>	Fairness

**Raksha** : It 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 meaning 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** : It 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** : It 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.

Arthashastra talks self-discipline for a king and the six enemies which a king should overcome – lust, anger, greed, conceit, arrogance and foolhardiness. In the present day context, this addresses the ethics aspect of businesses and the personal ethics of the corporate leaders.

Kautilya asserts that “A king can reign only with the help of others; one wheel alone does not move a chariot. Therefore, a king should appoint advisors (as councilors and ministers) and listen to their advice.”

“The opinion of advisers shall be sought individually as well as together [as a group]. The reason why each one holds a particular opinion shall also be ascertained.”

Kautilya has emphasized on the imperatives of the king and his counselors acting in concert. Cohesion is key to the successful functioning of a board and the company it directs. A board that contributes constructively to sustainable success but does not compromise on the integrity and independence of the non-executive directors is the most desirable instrument of good corporate governance.

“If the king and his counselors do not agree on the course of action, it spells future trouble, irrespective of whether the venture is crowned with success or ends in failure.” There could be no stronger counsel relevant to modern day corporate governance structures for executive managements to heed the advice given by the non-executive independent colleagues on the board of directors.

Balancing the interests of the various stakeholders is again at the core of good corporate governance, is highlighted in the Arthashastra and the other ancient texts. There is no prescription in the scriptures that the interests of only selected few need to be the concern of the king. This generic approach to an across-the-board welfare of all the citizens in the kingdom lends credence also to the modern theories of corporate accountability to a wider group of stakeholders, than merely to a single component thereof comprising shareholders.

Corporate Governance is managing, monitoring and overseeing various corporate systems in such a manner that corporate reliability, reputation are not put at stake. Corporate Governance pillars on transparency and fairness in action satisfying accountability and responsibility towards the stakeholders.

**Teachings of Lord Buddha & Jain Sutra:** Lord Buddha also propounded five principles, which were known as panchsheel. These five principles are non-violence, truth, non-stealing, celibacy and non-intoxication. In the 23rd chapter of the Uttaradhyayana Sutra, Kesi Gautama discusses the five teachings of Lord Mahavira. There is no difference between panchsheel and these five teachings.

**Mahabharata:** Shanti Parva which is the part of Indian Epic Mahabharata recites the duties of the ruler, dharma and good governance, as counselled by the dying Bhishmato Yudhishtira and various Rishis. Shanti parva recites a theory of governance and duties of a leader. The Shanti parva dedicates over 100 chapters on duties of a king and rules of proper governance. A prosperous kingdom must be guided by truth and justice. The duty of a ruler and his cabinet is to enable people to be happy, pursue truth and act sincerely. The proper function of a ruler is to rule according to dharma; he should lead a simple life and he should not use his power to enjoy the luxuries of life. Shanti parva asserts rulers have a dharma (duty, responsibility) to help the upliftment of all living beings. The best law, claims Shanti parva, is one that enhances the welfare of all living beings, without injuring any specific group.

## Morals From Upnishads

The Upanishads presuppose ethical excellence on the part of the student set on a study of spiritual knowledge. They do not, therefore, discuss elaborately the principles of ethics though, here and there, they do contain teachings about morals.

The Brthadaranyaka Upanishad sums up a whole ethical philosophy in three words:

1. Daammyat : Self Control
2. Data : Charity
3. Dayadhvam : Compassion

In the Taittiriya Upanishad the teacher exhorts the pupil to speak the truth, practice virtue, not to be negligent of virtue, welfare and prosperity, to honour the parents and the teacher and so on.

The Chhandogya instructs the spiritual aspirant not to cause injury to any living creature either by your mind (dhambikam), by your speech (vachikam), and action (khayikam). It stresses austerities, charity, truth – speaking, straight forwardness among others.

The Maitrayani Upanishad, one of the minor Upanishads, speaks of anger, jealous, meanness, cruelty and rashness, among others, as vices to be avoided. The Upanishads also stress virtues such as chastity, austerity and silence.

Manu and Yajnavalkya, among the Hindu law – givers, stress the importance of ‘Achara’ or conduct. Dharma, which is traceable to the Vedic Rita, is exalted. Manusmriti proclaims: “Self – possession, patience, self – control, integrity, purity, restraint, intelligent, truthfulness, absence of anger – these ten are the marks of Dharma.” Manu points out that non – injury to other beings and truthfulness, among others, represents the essence of Dharma.

The whole of Dharma , says Yajnavalkya, consists of truthfulness, non – stealing, absence of anger, modesty, purity, intelligence, self – possession, self – control, restraint of the sense and learning.

The Vedas, which represent the storehouse of our ancient value systems, talk about the following key values as very important.

1. Sathyam – Truth;
2. Tapah – Austerity
3. Damah – Sense Control
4. Samah – Tranquility of mind;
5. Dharma – Righteousness;
6. Danam – Charity;
7. Daya – Mercy;
8. Nyasa – Renunciation.

## Conclusion

Corporate governance can be said a process which ensure that the company is managed to suit the best interest of all stakeholders. It assigns the board of directors with responsibilities and obligations in relation to the direction of corporate affairs. It deals with the accountability of person who is in-charge of 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. It can be said that the effect of holy and ancient scriptures is extensive not only

in the corporate governance framework, but also universally applicable in the formation of various management principles.

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