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CORPORATE GOVERNANCE THROUGH ANCIENT INDIAN SCRIPTURES



Daammyat: Self Control, Data: Charity, Dayadhvam: Compassion. Three pillars of the Ethical Philosophy as elucidated in Brthadaranyaka Upanishad

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CORPORATE GOVERNANCE IN ANCIENT CIVILIZATION
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CORPORATE GOVERNANCE IN ANCIENT CIVILIZATION

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Concept of Governance

With the beginning of civilization, there arose a need for smooth administration and division of responsibilities. Since the population started to increase, people grew concerned about their welfare and able ruling. This led to the rise of an organizational structure which dealt with the nuances of firm ruling and governance. According to the American Heritage Dictionary governance is defined as *“the act, process or power of governing government”*; the Oxford English Dictionary defined Governance as *“the act or manner of governing, of exercising control or authority over the actions of subjects; a system of regulations”*.

Legacy of Corporate governance was well acknowledged in the historical period. The concept of Corporate Governance is well supported by ancient Vedas, Puranas and Historical books. Corporate Governance is known for transparency and accountability in the business transaction. In ancient period, Corporate Governance was part of dharma. It was a moral duty of king to impart Governance in society. Genesis of Corporate governance is a historical question. There are many theories which support the corporate governance. For the time, immemorial Corporate Governance has been distinctive part of the society when all or most of the products consumed in a society is distributed in this way, the society is said to have a market or exchange economy. In a market economy goods are produced with a view to their being sold through wholesalers and retailers. Corporations vary as much in their social performance as their economic performance. Without doubt, corporations are essentially economic institutions with primary responsibility for maximizing the long term welfare of their shareholders.

The social performance of a large corporation comprises three dimensions, corporate philanthropy, corporate responsibility, and corporate policy. Corporate philanthropy includes charitable efforts undertaken by a firm that are not directly related to its normal activities. Corporate responsibility refers to the way in which corporation behaves while it is pursuing its

goal of profit making. The final categories, cooperate policy, encompasses the position of a firm on issue of public policy that affect both business and society.

Genesis, Meaning and Evolution of Corporate Governance

Corporate Governance is a legal system by which companies, stock exchange and officials of corporate sector are regulated, governed and managed. Success of Corporate Governance is based on complete transparency in companies matters. Corporate Governance has given the direction to market oriented economy. Since, 1970 the world economy has been facing many problems in the form of corporate frauds and corporate scams. Corporate Policies models of group politics differ from pluralism in that attempt to trace the implications of the closer links that have developed in industrial societies between group and state.

Corporation is a social theory that emphasizes the privileged position that certain groups enjoy in relation to government, enabling them to influence the formulation and implementation of public policy. Indian economic model is based on capitalistic model. In this model, Corporate Governance is very essential for balanced economy.

Corporate Governance, these days has been attracting wide attention of its relations with the health of economy particularly and contribution to the living standards of the people generally. The famous economist, Milton Friedman has defined, "**Corporate Governance is the conduct of business with owner or shareholders' desire, which generally will be to make as more money as possible while conforming to the basic rules of the society embodied in law and local customs.**"

"Corporate Governance is needed to create a corporate culture of consciousness, transparency and openness. It refers to combination of laws, rules, regulation, procedures and voluntary practices to enable the o companies to maximize the shareholders long term values. A good Corporate Governance regime are centered for the efficient use of corporate capital and also ensure, that corporation take into account the interest of wide range of constituencies including the communities within which they operates

Andrwe Heywood, Politics (Rep 2009)

Corporate Governance in Ancient India

The concept of corporate governance had deep historical roots in ancient India. Corporate governance was an important concept in the Indian ancient commercial world. Economy was the base of all civilized society. No society can exist without economic activities. But there must be some fairness, justice in economic activities. The concept of fairness and justice is known as corporate governance. But in ancient India Corporate governance was known by different names. In ancient India Dharma was the main regulator.

Corporate Governance during Vedic Era 1500-322 BC

The spirit of cooperation is a social instinct in men. From the most primitive period of which we possess any record, it has manifested in human society in some form or other. Nevertheless it is brought into prominent activity, and lends itself to some conscious organization, according to the temper of man and the circumstances in which he finds himself. The nature of these circumstances dictates the form of such organization, but the character of development depends to a great degree upon the peculiar genius of the society in which it is fostered. Thus it is that we find in almost all ages and countries cooperative organization, however rudimentary in different fields of human activity-social, political, religious and economic. The development of this organization has however varied in different parts of the world. An important aspect of economic life during the Gupta period is the vigorous activities of the numerous guilds and corporations. The guild life led to much economic progress in ancient India. For the individual craftsman could thus find scope to develop their skill and ingenuity, while the guild laws and regulations safeguard their interest against internal or external danger.

In ancient India corporate activity seems to have been manifest, in a marked degree, first in the economic field. This appears from a passage in the Brihad Aranyak Upanishad when read along with Sankaracharya's comments thereon. There was an analogy of the Brahmana, Kshatriyas, Vaisyas and Sudras in human society. Brahmana treated as similar classes among the Gods. But Brahmana and Kshatriyas could not acquire wealth hence were created the Vaisyas who were called Ganesha owing to the circumstances that it was by cooperation and not by individual efforts that they could acquire wealth.

According to the Arthashastra, although guilds, had to registered in the locality, where they functioned and required permission to change location, this may not have been strictly adhered to. But Shudras could not invest the money in these guilds accordingly dharma – Shastra

R.C. Majumdar, Corporate Life in Ancient India (3r ed).

Constitution of Guilds

The executive machinery which enabled the guilds to perform these multifarious works is also described in some detail in Brihaspati. There was a chief of president, assisted by two, three or five executive officers. Brahaspati says those only people who are honest, acquainted with the Vedas and are duty able, self controlled, sprung from noble families and skilled in every business shall be appointed as executive officer.

Vishnu Purana

By the Vedic period, the society had crossed the primitive stage of economic life, the various arts and crafts had come into prevalence. Rural industries also exist in society, and craft had tendency of being multiplied and subdivided. The crafts were in process of gradual evolution in the Vedic age. During the age of Buddhist literature servant craft also had made progress. But Vishnu Purana do not throw sufficient light on the topic of trade. It is clear from the Purana that the Vaisyas followed trade for their livelihood which was corporations of artisans and merchants respectively.

Corporate activities had become patent a fact that even soldiers and priests carried on their function on the principles of partnership.

Harendra Dayal, The Vishnu Puranas (Ed. 1983)

Sukracharya Nitisara

In Nitisara the larger towns, where there were many artisans merchants guilds were formed. Thus there were craft guilds, banking corporations and mercantile associations. There were, of course, religious organisations also. Gradually, as trade and commerce increased, the merchant class became rich and important and as it grew in importance, it was given certain privileges and freedom to arrange the domestic affairs of its guilds. But even then it had no real share in the power of the state." Elaborate law about corporate activities can also be linked with the rise of

local and autonomous units of production. The law books of Gupta time lay down detail rules regarding partnership in business and functioning of guilds. These corporate bodies not only performed important economic function such as carrying out joint contract, playing trade and receiving money deposits, but also performed judicial and executive functions in relation to their members. Epigraphic evidence of the period shows that the guilds not only issue coins and seals but also maintained their militia, which according to the Kalacuri inscriptions, was known as srenibala.

Governance is different from term management. Good governance has always been an issue that stimulated fundamental thinking from ancient time. The divine proclamation that your right is to duty alone and never to fruit thereof, and that the performance of duties should never aim at the fruit thereof, nor shall be indulged in inaction, sowed the seeds of ethical conduct.

Ram Sharan Sharma, Perspective in Social and Economic History of Early India (1995)
Corporate Governance, ICSI (7th ed., Dec. 2008)

Hindu Jurisprudence in context of Dharma

In ancient Hindu legal system the concept of dharma was symbol of justice. The Hindu jurisprudence or the legal system Vyavahara Dharamasastra is embodied in dharma as propounded in the Veda, Puranas, Smritis and other work on the topic. It is very elastic term like Jus, Recht and Droit having more than one meaning. We can distinguish at least five different senses in which the term is used in popular parlance. In the first place it means religion which is a category of theology, in the second place it means virtue as opposed to sin or vice's in this sense it is a category of ethics, in third parlance it means law which is category of jurisprudence in the fourth place, it means justice and in the fifth place, it means duty. Corporate Governance also assign ethical duty on the person while he performs the decision making function in corporate sector. Because means of production determine their nature as society change the moral values also change their name but basic always remains there.

Meaning of Dharma in context of Corporate Governance

Rigveda

The term dharma is clearly derived from the Sanskrit word dhri which means to uphold, to sustain or to nourish. The term dharma passed through several transitions of meaning and

ultimately its prominent significance came to be confirmed to the privileges, duties and obligations of man, his standard of conduct, as a member of Aryan community. Dharma can be defined in this way.

Dharma constitutes the foundation of all affairs in the world. People respond to one who adheres to dharma. Dharma insulates man against sinful thoughts and action. Everything in this world is founded as dharma, therefore is considered supreme. Dharma was founded as the solution to eternal problem confronting the human race, originating from natural human instincts. Dharma or rules or righteous conduct was evolved as a solution to this eternal problem arising from natural instinct of man. Therefore, it can be said that the principles of good governance are not unknown to the Indian traditions. We find innumerable references about good governance in our old Sanskrit literature including Mahabharata, Ramayana, Chanakya Arthashastra and various other Nitis and Smritis. An in depth study will help us in better understanding and implementing principles of good governance. Adoption of corporate governance in present situation is need of time. There must be transparency and accountability in business transactions.

M. Rama Jois, Legal and Constitutional History of India (Vol. 1, ed. 1984)

Corporate Governance and Arthasastra

The discovery of Arthasastra has contributed much to the enrichment of knowledge about ancient India. Our ancient economy was agriculture. Agriculture was way of life. Provision of routes for trade and commerce purposes was another state activity. All trade was under control of the superintendent of trade who fixed fair prices of the various commodities after taking into consideration such factor as investment of capital, interest charges, duties, paid rent and so on, but they were not competitive price, and yet they include exorbitant profit. The superintendent of market was another officer who looked after the customer interest and ensured that the trader and artisan did not cheat them by fraud in weighing and measuring or supplying inferior quality of goods or adulterated commodities. State exercised strict control over the artisans work. Delay or failure in delivery of articles according to instructions of customer was made a punishable offence. In ancient India breach of contract was regarded as criminal offences, but it was punishable only when it was intentional.

The employer was required to pay the wages as previously settled with the employer, on the completion of the work. If he delayed the payment or totally refused the payment, he was to be punished. Kautilya lays down that in the first case when he delayed the payment; the fine was to be five time amount of the wage or six panas whichever was higher. This provision dictates the message of corporate governance between relationship of employer and employee. The superintendent of commerce shall ascertain demand or absence of demand for the rise and fall in the price of various kinds of merchandise which may be the product land, water and which may have been brought in either by land or by water path. He shall also ascertain the time suitable for their distribution, centralization, purchase and sale.

There is a list of twelve kinds of income which it is said to derive. These were (1) malya, (2) bhaga, (3) a sort of sales tax, (4) the exact nature of which is not clear, but which appear to be kind of protective duty, (5) penalty for violation of state monopoly, (6) custom duty, (7) compensation for transfer of street rights of sale to private individuals, (8) danda fine, (9) rupee which seems to refer to the inspection fee, (10) rupika which appears to be a charge for manufacture (11) shestu metal (12) panya commodities manufactures from them.

Kautilya's Arthashastra also dictates the message of corporate governance in his various verses and in written document. Kautilya was firm believer in brahminical theory of universe and a strict adherent to a social system founded on brahminical religion and custom with its four caste and ashrams. But Kautilya was a lover of ahimsa and the prohibition of suicide and castration of animals are instances to demonstrate the influence of Buddhistic teachings.

M.B. Chander, Kautilyan Arthashastra (ed. 1998).

Bhagavad Gita (200 B.C. and 300 A.D)

The Bhagvad Gita is most beloved scripture of India. It is the Hindu's holy testament, the one book that all masters depend upon as a supreme source of scriptural authority. Bhagvad Gita means 'song of spirit' the divine communication of truth realisation between man and his creator, the teaching of spirit through the soul that should be sung unceasingly. The main theme through Bhagvad Gita is that one should be an adherent of sanayasa, a renouncer of this egoity through avidya, ignorance, within the physical self of man. By renunciation of all desire springing from

ego and spirit and by the reunion with cosmic primer through ecstatic yoga meditation, Samadhi, man detaches himself from the ultimate, dissolves the competent forces of nature that perpetuates, the delusive dichotomy of self and spirit.

Thus the Bhagvad Gita exhort the seeker to right action physical, mental and spiritual towards this goal. The Bhagvad Gita depicted the theory of Karma. Do your duty without any expectations. Bhagvad Gita's concept of governance also gives message to work with the compliances with certain rules. Sri Krishna, the blessed Lord says fearlessness, purity of heart and soul, steadfastness in knowledge and yoga alms giving, self restraint and worship, study of one's own curiosity and uprightness, harmlessness truth, absence of anger, renunciation, serenity, compassion to all creatures uncovetousness, gentleness, modest, absence of hatred, absence of pride, these belong to no one born of diving lot. The form of yarn varnasrama dharma briefly described idea is of universal appreciation. In fact the entire social and economic planning of the modern countries accept these stages in life of an individual's natural division and formulate programme in accordance, through elaborately prepared curriculum of studies and training for students and youth, prescribing duties and responsibilities for citizen and establishing institution for the welfare of the old and the firm. The vast sweep of the householders duties prescribed in Manu Smriti show how highly socialistic the concept of corporate life then was. The Indian rishis could lay down such precise rules of conduct and allocate responsibility to the citizen in different field of national life, was indeed remarkable. There is a need to understand Bhagvad Gita in this very sense that it is concerned with the discharge of man's duty and desistence from inaction. Bhagvad Gita is categorical that whatever the righteousness the exploitation of nobles goes to the extreme and the forces of evil have their swayn. In real sense Gita is a great moral treatise. Gita gives the message of humanity. It also assigns the duty of karma without expectation. As society change, with this change law is also changed. But basic principles always remain same. In similar fashion Gita also depicts picture of righteousness. In Mahabharata, the first duty of king is to keep his subject happy. He should give full respect to God and wise people. By doing so he will discharge an important duty and will earn esteem from the people. That is why Arbindo Ghosh says that the influence of Bhagvad Gita is not merely philosophic or academic but immediate and living and that ideas are actually at work as a powerful shaping factor in the revival and renewal of a nation and a culture.

Swami Abhedananda, The Bhagvad Gita (2nd ed., 1990)

Ramayana 400 B.C

The Ramayana is regarded as the Adi-Kavya of classical Sanskrit and rightly so as in these particular fields its great writer, Valmiki was first to have arrived intuitively at the true concept of poetry and to have created in the Ramayana a literature with object of providing aesthetic joy of its listeners and reader. It was he who discovered the great truth that true poetry is a spontaneous outflow of the poet's heart in response to the pain and anguished cry of the universe. Writing about the internal trade in India he drew his reference from the Ramayana mainly. Hence it would be interesting to know his view. And it is one evidence of the prosperity and well being of a country that the merchants can travel from one place to another place with perfect security to themselves and their merchandise. In the Ramayana we find that at the triumphant entry of Rama into his capital "all the men of distinction, together with the merchants and chief of men of the people went out to meet him, and procession is closed by warrior, tradesmen and artisans. The internal commerce of India could not have been inconsiderable as it was in certain degree personalized by nature herself for the sandy shores of the peninsula, not producing insufficient quantity the first necessities of life particularly rice, the import of these articles from the country bordering on the gangas becomes absolutely indispensable. In return for what the latter received chiefly spices and among other valuables, precious stone and the fine pearls to be procured only in the ocean which stir rounds the former. During age of Ramayana India was rich country abounding in natural resources and the ancient Indian, though highly spiritual in their outlook whenever indifferent to economic progress. They recognized the importance of material wealth in life by including art among the purusharthas, the objective of an individual's life. Cultivation was mostly done by men and agricultural village known as gramas though agricultural field could easily be seen at the outskirts of the town as well.

Cooperate activity in economic life, became the marked features of that period. The epic frequently refers in sreni's and nigams but it is very essential for getting correct idea about the Purana to deal with the meaning, definition and characteristics. Matsya Purana also say that Purana are record of past events originally therefore, the term Purana was regarded as ancient tall or old Narrative.

Buch, Economic Life in Ancient India 1979.

Corporate Governance during Medieval India

The historical value of Quran is great. It is a record of a careers and activities of the great prophets of the past and also gives the information about various people of the pre-Islamic age. The Quran is in its present form a book divided into 114 chapters and consist of approximately 6666 verses.

The Mughal Kingship - In theory the Mughal king was under the holy law, but the later was a region of speculation and vagueness when applied to the practical powers of king. Law and political theory are considered in the Muslim world to be as much derived from the divine revelation as is religious dogma. Islam did not recognize the institution of Kingship. It believed in the democracy of people. Hence the absence of any particular rules in the holy Quran for the guidance of kings who are subject to the same law as the law of the state. Law being of divine origin demands as such the obedience of the king as of the peasant. The king may be an authority of law, but his legal decisions are limited to an interpretation of the law in its application to such particular problems as may from time to time arise. He is in no sense a creator of new legislation. It is the duty of king to uphold the authority of Islamic law.

Tanzeem Fatima, Islamic Law and Judiciary (ed. 2001)

Corporate Governance in British Era

Towards the end of the fifteenth century some European nations came to India as trading merchants. In 1498 Vasco-de-Gama, a Portuguese discovered the passage to India round the Cape of Good Hope. He landed at Calicut on the Malabar Coast. During the second half of the 16th century the protestant nation of Western Europe got inspiration from the reformation movement. East Portugal began to compete for trade with India. The Dutch were the first in the field and English merchant followed them. Though, the French made earlier voyages to India the foundation of French trade were laid by Colbert only in the middle of the seventeenth century. The power of Mughal Emperor was at its zenith when the trade centre was first established by the European in India. In the 17th century the purely commercial attitude of foreign traders was suited to condition prevailing in India. But with weakening of the Mughal power in the 18th century in India, noble and chief were established separate kingdom and the English and French companies on the basis of their increased strength began to take sides in the war amongst the

local kingdom. The English East India Company finally emerged victorious and developed its area of influence and finally established an empire in India. The East India Company with its official title as the Governor and Company of merchants of London trading into the East India was incorporated in England on 31st December 1600 by the Charter of Queen Elizabeth which settled its constitution power and privileges. The Company was to have a life span of fifteen years, but the charter could be revoked earlier by the Crown on two years notice of trade carried on by it did not appear to be profitable to the realm. The Company was to enjoy an exclusive trading rights. The affairs of company were to be conducted on democratic lines. All its members were to form the general court which was to elect annually the court of Directors consisting of Governor and 24 Directors for managing the company's affair. The Governor and Directors were to behold office for one year though they were eligible for re-election. The general court could remove any of them before the expiry of his term if he did not find himself well in his said office and elect a new person to fill the vacancy for the remainder of the year.

C.L. Anand, Constitutional Law and History of Govt. of India (8th ed., 2008)

Conclusion

Corporate Governance is an important part of corporate sector. Corporate governance is an historical process. Corporate governance requires that there, should be transparency and accountability in corporate transactions . In ancient times, ethics was known as corporate governance. But in modern times, it has become fundamental rule for corporate sector. Government has made many laws for the development of Corporate Governance. Good Corporate Governance has eight major characteristics. It is participatory, consensus oriented, accountable, transparent, responsive, effective and efficient, equitable and inclusive and follows the rule of law.