

Stakeholders' Welfare and Arthashastra: Learning for Modern Business Management

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Abstract

The ancient scriptures of our civilization are sources of immense knowledge and Kautilya's Arthashastra is no exception. Teachings of Arthashastra which explains the politics and economics of governance was primarily written for the rulers and kings. Today's modern business can be compared to the ancient empires and the managers have to play a role similar to the kings. This study tries to highlight the learnings for modern business organization from the teachings of Arthashastra to ensure welfare of all stakeholders. The study specifically focuses on corporate governance, training and group dynamics, corporate social responsibility and value base management. The study further proposes a new SHASTRA model which models the teachings of Arthashastra and acts as a guideline for effective business management based on ancient wisdom. The proposed model if adopted by a business organization is expected to improve its performance without reducing its obligation towards the society.

1. Introduction

Deriving management principles and learning from ancient Indian texts specifically history, philosophy and culture are increasing (Kale and Shrivastava, 2003). However contemporary research in the domain is generic and has not been conducted in details which leave room or lot of research. Most of the researchers in the area have worked more on the philosophies and managements thoughts of the western part of the world as compared to the eastern part. Therefore management theories from the west have a greater influence on management thinking and decision making from over the last two centuries.

The investigation into the Eastern perspective of management learning for decision makers started with in depth understanding of the Japanese management several years ago (Maruyama, 1994). On the other hand the research based on ancient management dissertations in China, from this perspective accelerated in the last few years. Literature from Confucianism and Sun Tzu Art of War had a very important role to play in this. Not only China, a significant portion of tradition and

culture of several South East Asian nations derive their management lessons from heritage emerging from Confucian philosophy. Indian management also, following the other parts of the world has a strong philosophical convention which is continuing to sustain the cross cultural philosophies in Indian organizations (Chatterjee, 2007).

Indians and Indian literature have an enormous contribution in various fields of knowledge, arts and literature. The Indian civilization which dates back to several thousand years, with recorded history, is perhaps one of the ancient civilizations in the world. Indian epics like Valmiki Ramayana, Mahabharata, Puranas, etc offers significant knowledge and lessons which in several contexts are highly relevant to present times. Using the literature which is more than 5000 years ago the paper discusses the principles of ethical profit making in Arthashastra by Kautilya, with reference to business decision making.

2. Literature Review

Research papers analyzing the ancient works of

Indian sub-continent, for example Kautilya's Arthashastra in the perspective of modern day management practices are indeed limited. Due to the extensive amount of concepts of management literatures and concepts available on papers, Asians in particular, continue to use the theories and models of the western world. Another reason to substantiate this is that the modern day managers receiving their management degrees from western Business schools follow their tradition (Muniapan, 2006).

The relationship between companies' financial and social performance has been an important area of research for many years. Waddock and Graves (1997) and Preston and O'Bannon (1997) provided several evidences of research in the domain, testing and verifying the relationship between corporate social performance (CSP) and financial performance. Through their research they advocated a strong support for the hypothesis that perceived high quality of management. The researcher further explained corporate performance with reference to the various stake holders like consumers, suppliers etc.

Preston in his research tested different hypotheses to explore the relationship between corporate social and financial performance and found significantly negative lead lag relationship. Earlier studies did not attempt to express any causation. Cochran and Wood (1984), on the other hand found a positive relationship between the two factors in question. However, Aupperle et al. (1985), found either no relationship or insignificant results due to the method used to measure CSP has been varied and contentious.

Specifically, researchers like Brown and Perry (1995) demonstrated the presence of a "financial halo" in the *fortune* data, declaring the same as Inappropriate measure of social performance. Their research used publicly-reported information for both financial performance data and confirmation of a broad concern for stakeholder interests.

Another study by Hofstede in the year 1983 on "National Cultures in Four Dimension" and studies conducted by researchers like Deresky (2006) show that eastern nations are high in power distance. It was delineated by the studies that Indian employees recognize and accept the top manager's authority. The basis of the same is that they seldom bypass the chain of command. Besides the above mentioned factor, Indian markets are highly volatile, which means managers have a tendency for safer decisions. India also has low eccentricity, which implies that country, society as well as peer groups, are more important than individuals.

Suresh and Janki (2012) from their research said that the current business scenario is highly volatile because of several causes like unethical practices, declining values and shortage of value-based leaders at decision making level. In their research the authors explored value-based principles adapted from Holy Scriptures especially Bhagavad Gita, the teachings of which remains valid even in the present day. Incorporating these value based principles with modern management theories may lead to good Corporate Governance. The fruits of which can be realized only when ethical means are adapted as policy and are practiced in an organization.

Value-based management is a source of providing a strong foundation to quality systems and such organizations are very active in CSR initiatives. Ethical leadership of the organization is like a parenting a child, infuse the value systems, beliefs, culture in the organization to shape a good corporate governance. This will help organizations to achieve their prime objective of enhancing stake-holder's value while protecting the environment. Though a corporation is a single/small entity but definitely its governance, policies etc. make an impact on the whole corporate world. Muniapan and Dass (2008) also explored the philosophy of corporate social responsibility (CSR) from an ancient Indian viewpoint. Previous studies in the domain shows that there are very few references mentioned in the literature in the form

of articles which discusses the concept of CSR as derived from the philosophical, historical and from the ancient perspectives. The study, discussed the subject area with reference to India by tracing the origin of CSR from the Vedic literatures such as the Valmiki Ramayana and Mahabharata including the Bhagavad-Gita and the ancient Puranas.

By using the appropriate methodology, the authors in their research discusses some corporate teachings on CSR, providing lessons to corporate leaders/ decision makers of today. It was further concluded that *Arthashastra* provided an inclusive approach to CSR, i.e expansion of the individual leader's self conscience, as compared to American and European perspective that talks about only outside-in aspect. The roles of decision makers in corporations are very critical as these are the people who ensure transparency, good conduct and governance leading to CSR.

Muniapan and Satpathy (2010) through their study praised *Valmiki Ramayana* as one of a masterpiece discussing the different dimensions of *Ramayana* ranging from philosophy, spirituality, economics, technology and others have been explored by researchers over the centuries. However, the researchers were of the view that the epic had not been studied from management perspective despite *Valmiki Ramayana* having several lessons for managers. The researchers tried to explore the consequences of Valmiki Ramayana for growth of present day managers by employing a technique called hermeneutics. This is a qualitative methodology, where the researchers deduced dharmic organization, decision taking, humanism and equanimity from Valmiki Ramayana. The same principles are applicable to managers for enhancing managerial effectiveness. Valmiki Ramayana can further be explored in other areas of management such as strategic management, people management to derive more corporate lesson.

3. Kautilya's Arthashastra

The Arthashastra an ancient text *written* in several

hundred years ago by Kautilya (believed to be written in 4th Century B.C.) in the ancient India is a treatise on political economics. Kautilya also known as Chanakya was the chief adviser and one of the significant ministers for a very powerful Emperor Chandragupta Maurya, the first ruler of Mauryan empire. Kautilya is believed to be instrumental in finishing the Nanda Empire in Magadha. He helped establish the Maurya empire which is believed to be larger than the Mughal empire and even British empire in India (Singh, 2016). Arthashastra was written by Kautilya as a guide for those who govern and deal with economics and politics. In the text the great master discusses three important aspects namely national security, administration of justice and economic growth policies. It is clearly evident that although the text was written for King Chandragupta Maurya but the author had acknowledged in its introduction that it has been written as a rulebook for “those who govern” or in simple words for decision makers.

The study specially focuses on the teachings of Arthashastra which lay special emphasis on stakeholder benefits and development. The study divides the learnings into four parts viz. corporate social responsibility, training and group dynamics, corporate governance and value based management.

4. Corporate Social Responsibility

CSR can be understood as the responsibility or obligation of an organization to take care of all its stakeholders which includes its employees, suppliers, customers, shareholders and also the community and society. From modern business perspective, CSR may be defined as the commitments of any business to contribute to economic development for improving the quality of life of the all stakeholders and the society in an ethical way. It can be said that CSR requires that organization not only thinks about its profits but also about the welfare of shareholders and society as a whole. Right from Rig Veda, CSR has always been stressed in ancient Indian wisdom as a king is

expected to work towards welfare of his subjects and not just concentrate on wealth accumulation. The Arthashastra by Kautilya focuses on running the empire/state efficiently and covers all the aspects of administration and governance. It stresses that a ruler or king (in organizational context CEO) should not care about his own self interest but rather work towards the happiness and well being of all the people of his kingdom i.e. *Bahujana sukhaya bahujana hitayacha* (stake holders of organization). The king should find happiness in the happiness of his people i.e. *Praja Sukhe Sukham Rajy*) and similarly the CEO and management should work towards maximization of shareholders wealth and welfare of all stakeholders.

Kautilya write that there are three prime responsibilities of a king viz. *raksha*, *palan* and *yogakshma* (Muniapan, 2008) which mean security of people, sustainability/growth and welfare of people. This is very much aligned to today's corporate world where an organization need to look after the security, growth and welfare of its employees and other people who are part of its ecosystem. Arthashastra says that only a king with strength and wealth can protect the interest of its subjects and similarly a financially strong firm with good profits can only think about and in practice protect the interest of its stakeholders. Indian rules mandate the firms to spending 2% of net profit on CSR related activities and this money by organization is spent on health, education, environment protection etc. Thus the activities of organization closely resemble the responsibilities of welfare state in olden times. Kautilya had "stressed the importance of happiness to all stakeholders of an organization as in the stakeholders' theory" which suggests that organization should not only work for benefit of themselves but also towards betterment of all (Singh, 2016; Muniapan and Raj, 2014).

5. Training, Development and Group Dynamics

In modern management the critical role of training and development cannot be denied. Most

organization spends a substantial amount of money in training and enrichment of its employees which include even the top management. Kautilya has also stressed the importance of learning and suggests that the king should keep an open mind, despise nobody and listen to everyone. Arthashastra says that wise men make sense of even child's words. This is very much applicable in business today as new business ideas come from listening and learning from others.

The Arthashastra lays emphasis on the training, learning and discipline of king. Even the learning and training of crown prince has been greatly emphasized in Arthashastra. This has been stressed so that the prince is able to gain the necessary skills that are required to become a good king whenever the time comes. The prince was supposed to take Veda education from gurus, had to practice celibacy till 16 years and devote most of their time in education and skill development. This concept is very much aligned to the idea of training which is given to junior employees so that they gain the skills required for higher positions.

In today' organization there is emphasis on continuous training and development of employees specially the management. This has been even stressed in Arthashastra which says that a king should learn new things and revise already learnt things during the free time in day and also in night. Business organizations too expect their managers to continually strive for learning whenever they get time.

Moreover, group learning and group dynamics are being attached high importance in modern business firms and important decisions related to product development, future planning et are taken at group level. Focus group discussion and brainstorming are being emphasized so that diverse thinking from different points of view can achieve better solutions to business problems. Arthashastra too has laid the importance of discussion with councilors and ministers. It points out that "just as a single wheel cannot move a cart, the king alone cannot ensure the welfare of the

State” and thus a king should consult advisors and experts of respective fields before taking decisions. Thus, the advices of Kautilya in Arthashastra to kings regarding learning, continuous development and collaborative decision making are very much applicable to managers of modern businesses.

6. Corporate Governance

Corporate Governance is an ancient concept and is relevant in contemporary business as development of welfare concept. Kautilya in his work took a holistic and integrated approach to governance and provided an innovative dimension to corporate governance, which unfortunately remains neglected in pursuit of profit maximization. Manjula and Ramalingam (2015) recently described that welfare of business means not only growth and advancement of business in terms of holistic growth of the society. There is a requirement of lot of answerability and commitment among the various authorities within the organization in this process. The history of effective Corporate Governance can be traced back to Ancient period. They state “Arthashastra advises never to forget the two pillars of the art of governance: *Nyay*, the justice and *Dharma*, the ethics”.

Lot of archeological evidences, scriptures and religious text give indication to the existence of efficient Corporate Governance practiced in the past times. The contemporary approach of Corporate Governance is talked is more concerned with business as compared to over all administration of state in Ancient India. Research focused on concept of Corporate Governance which existed during Ancient times had focus on administration and management of policy. Chanakya's Arthashastra also explores the lessons in corporate governance, signifying his contribution towards organizational science in ancient India.

Another significant study recently conducted by Hassan (2015) delineated that major research and

practices in the domain and its sustainability have been largely dependent on the West and its concepts and models of governance, versus good governance as well as global governance. On the other hand Indians claim these concepts and models of governance as well as its patterns and indicators are of Indian origin. Not only this, the area of governance had found prominence in Asian scholastic works and government in the ancient times. For an in-depth understanding of the eastern concepts Kautilya's Arthashastra is an essential reference. Kautilya teaches that the internal enemies should be conquered first in order to be successful. The internal enemies in an organization are those managers who are not working towards benefit of the organization but are pursuing their own goals. To keep a tab on such managers by putting proper check practices is termed as corporate governance in the modern world.

7. Value based Management

With the augmented growth in corruption level in business organizations there is a necessity of value based management in organizations. Every now and then one sees irregularities and cases of cheating in the Indian stock market, clearly points out to the worsening tendency in the ethical attitude of people in the decision making authorities of big organizations. Kumar and Rao (1996) through their research delineated that there is a burning requirement for guidelines for promoting moral behavior among these decision makers. The relevance of Kautilya's framework is that it offers a scaffold for the practice of value based management. A prominent feature of Kautilya's Management philosophy as compared to other modern management thinkers is that it has a high degree of similarity with the accessible models of ideal behavior of manager. Following the Kautilya's approach the contemporary models researchers recognizes the significance of various components like organization philosophy, for the effective practice of value based management.

Arthashastra uniquely defines that this value based

framework is an elevated order of an organization. This is further explained in terms of YOGA-KSHEMA also known as social interests leading to the foundation of the value based management framework. Social progress, development and welfare are the principals based on which an organization strives a sense of self fulfillment to the employees.

Kautilya's framework would be most useful to such a business corporations which are of the thought or mindset that the objective of business must be to keep society in attaining progress and welfare. The decision makers of such firms would realize a sense of personal fulfillment through contributing to welfare of the society. The integrated framework developed in Arthashastra would be a guide lines as a holistic approach towards the practice of value based management.

According to Kautilya the organization's philosophy should be clearly defined and the leadership should be such that it complements the organization philosophy. Kumar and Rao (1996) state that Arthashastra suggests development of a corporate culture based on organization philosophy and leadership and this culture should imbibe the values that are supposed to guide the organization's members and should be able to check unethical practices. All this should then be supplemented with general value guidelines such as truthfulness, uprightness and compassion. It is also suggested the leaders should take continuous feedback of the system. The organization philosophy, value based leadership, organization culture and the general value guidelines will help the organization in achieving its objectives. Arthashastra thus has provided a comprehensive framework for value based management of an organization which was valid in ancient times and is still relevant for business organizations in modern times.

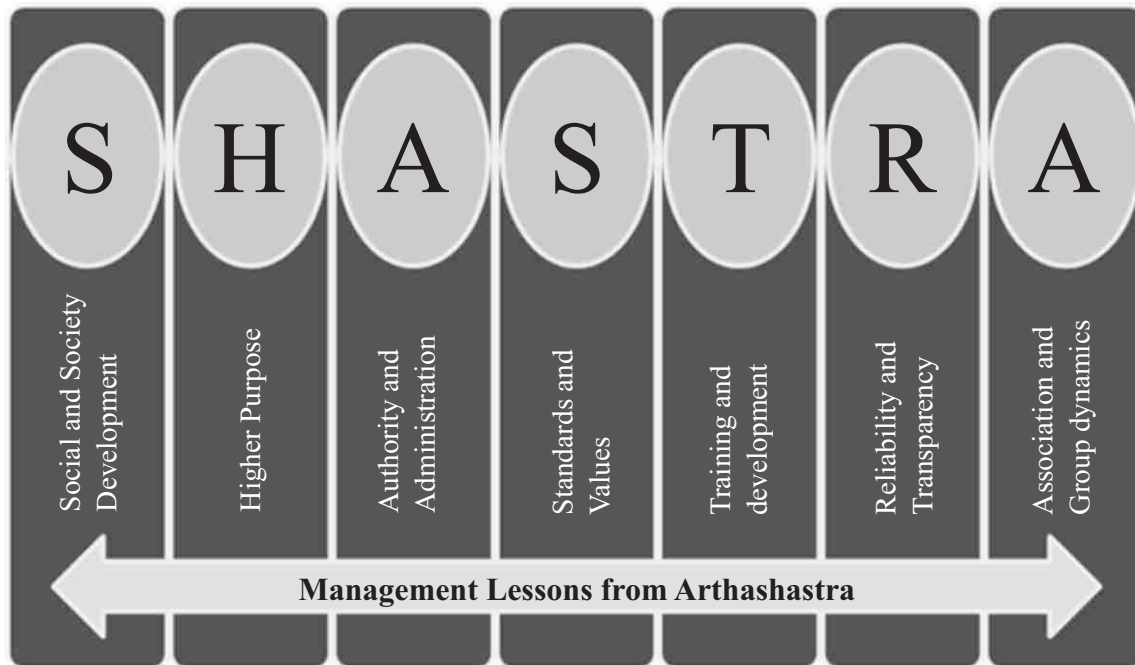
8. The SHASTRA Model

The above discussion clearly indicates that even hundreds of years ago Kautilya through his shastra

which is known as Arthashastra had given critical principles of management which are valid even today. These philosophies are being applied to modern business as they strive for shareholders' wealth maximization. These principles of Arthashastra can be modeled and abbreviated as SHASTRA.

- S** stands for Social and society development
- H** stands for Higher propose
- A** stands for Authority and administration
- S** stands for Standards and values
- T** stands for Training and development
- R** stands for Reliability and transparency
- A** stands for Association and group dynamics

The proposed SHASTRA model is self explanatory. 'S' highlights that the purpose of all business organizations is social development of all stakeholders of the firm and not just profit maximization. 'H' stresses that top management should not just concentrate on self development but must be devoted for higher purpose which is maximization of shareholders wealth and growth of all stakeholders. 'A' signifies the importance of good administration and authority which stresses the principles of effective corporate governance as suggested by Kautilya. The next 'S' lays emphasis on the importance of having higher standards and values in management. This derives from the principles of value based management. 'T' signifies the importance of continuous training and development of all employees including top management to increase their skill and knowledge level. 'R' lays high emphasis on reliability and transparency of the system. This is achieved if the business follows effective corporate governance practices. Finally, 'A' highlights the importance of association and group dynamics i.e. it stresses on significance of group discussion, consultation with area experts and brainstorming. Thus the SHASTRA model derived from teaching of Arthashastra is able to act as a guideline for effective business management. The SHASTRA model is depicted Figure 1.

Figure 1: SHASTRA Model

Conclusion

Indians look into ancient study based models from cultural roots, and Kautilya's Arthashastra is one of such text which is testimony to the same. On studying the various aspects of Kautilya's Arthashastra the existence of Kautilya's Arthashastra and its management relevance on the foundations of management in organizations can easily be gauged. It is important to look at this ancient management text, from time to time as they provide intelligent interpretation to apply effectively in the context of modern day management.

There are several lessons that can be learned from Kautilya's Arthashastra but still not many managers are aware that the lessons of Kautilya's Arthashastra are relevant to the corporate world. This study tries to relate the teachings of Arthashastra on stakeholders' welfare to the modern business management by discussing corporate governance, corporate social responsibility, training and value based management. The principles of Arthashastra and

Chanakya Neeti can directly be applied to present day corporate world to achieve profits from multinational corporations without following any unhealthy/unethical business practices. This concept is called as Shubh Labh i.e. auspicious profit.

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