

### CH-3 VARIOUS MODELS OF CORPORATE GOVERNANCE

<b>Dimension</b>	<b>Market /Outsider/ Anglo-American Model</b>	<b>German Model</b>	<b>Japanese Model</b>	<b>Family-based Model (Indian Model)</b>
<b>Key Players in Corporate Governance</b>	<b>Management , directors, shareholders, regulatory agencies and stock exchanges</b>	<b>Banks, block holders of shares, other corporations and workers</b>	<b>Main bank, Keiretsu, management and government</b>	<b>Business families, regulatory agencies and stock exchanges</b>
<b>Focus of Corporate Governance</b>	<b>Shareholders</b>	<b>Stakeholders</b>	<b>Relationship</b>	<b>Business family</b>
<b>Ownership of Equity</b>	<b>Dispersed</b>	<b>Concentrated</b>	<b>Concentrated</b>	<b>Concentrated</b>
<b>Main Shareholders</b>	<b>Institutional shareholders, pension funds, mutual funds, retail shareholders</b>	<b>Block shareholders and banks</b>	<b>Family groups, banks and government</b>	<b>Families, institutional investors and retail shareholders</b>
<b>Equity Market</b>	<b>Large and highly liquid</b>	<b>Less liquid</b>	<b>Less liquid</b>	<b>Small and less liquid</b>
<b>Companies Listed at Stock Exchanges</b>	<b>Large number of companies</b>	<b>Not so large</b>	<b>Not so large</b>	<b>Comparatively small number of listed companies</b>

<b>Shareholders' Rights</b>	<b>Strong</b>	<b>Weak</b>	<b>Weak</b>	<b>Weak for outside shareholders</b>
<b>Conflicts</b>	<b>Shareholders vs. management</b>	<b>Bank vs. management</b>	<b>Bank vs. management</b>	<b>Controlling family vs. minority shareholders</b>
<b>Board of Directors (BOD) Structure</b>	<b>Single-tier board</b>	<b>Two-tier board – Supervisory board and management board</b>	<b>Single-tier board</b>	<b>Single-tier board</b>
<b>Composition of BOD</b>	<b>Majority of non-executive independent directors appointed through nomination committee</b>	<b>Mostly insiders appointed by main block shareholder</b>	<b>Directors appointed by business groups; includes government officials, bank officials and long-serving employees</b>	<b>Boards increasingly required to have independent directors, but often appointed by controlling families/groups</b>
<b>Participation of Employees</b>	<b>Absence of employee participation in strategic decision-making</b>	<b>Participation of workers and employees at board level</b>	<b>Long-serving and committed employees offered board memberships</b>	<b>Absence of employee participation in strategic decision-making</b>



## ANCIENT INDIAN MODEL( KAUTILYA’S ARTHSHAstra)

Arthashastra, a collation of 15 books, is an ancient Indian treatise on statecraft, governance, economics, administration, diplomacy, and military strategy, written by Kautilya around the 4th century BCE. It is one of the earliest and most comprehensive works on public administration and political science.

### SAPTANGA THEORY

According to Kautilya's, a state consists of seven elements (Angas)—Swami, Amatya, Janapada, Durga, Kosha, Danda, and Mitra. Just as the human body needs all its organs to function effectively, a state requires all seven elements for good governance and prosperity. These elements have strong parallels with modern corporate governance, where leadership, management, stakeholders, controls, finance, compliance, and external relationships collectively contribute to organizational success and sustainability.

Saptanga (Elements)	Meaning	Role	Corporate Governance Analogy	Role
Swami (Leadership)	King/Ruler who is responsible for all decisions and has final say.	The king was expected to be ethical, competent, and accountable.	Board of Directors / CEO who provide guidance and strategic direction	The Board members must be responsible, competent and ethical
Amatya (Management)	Ministers and officials who help execute and implement the policies of the king	Competent ministers ensured effective administration.	Senior Management and Executives who manage the company and report to the board	Skilled executives ensure efficient corporate operations.
Janapada (Stakeholders)	Territory and people for whose	Prosperity of people was the	Shareholders, Employees, Customers	Modern governance focuses on

	welfare the king works	ultimate objective.	etc. for whose welfare BOD and mgt. works	stakeholder value and CSR.
<b>Durga (Checks and Controls)</b>	<b>Fortification and infrastructure for the security of the kingdom</b>	<b>Forts protected the kingdom from threats.</b>	<b>Physical ,digital and cyber security, ,internal controls that safeguard co.</b>	<b>Internal controls, audit, and cybersecurity protect the company</b>
<b>Kosha (Financial Soundness)</b>	<b>Treasury of the kingdom</b>	<b>A strong treasury was essential for survival.</b>	<b>Capital, Reserves, and Financial Resources</b>	<b>Sound finances are vital for corporate sustainability</b>
<b>Danda (Compliance and Enforcement)</b>	<b>Army , enforcement mechanism</b>	<b>Laws and punishments maintained order</b>	<b>Compliance policies, Internal Audit, Risk Management, Discipline</b>	<b>Audits, compliance systems, and disciplinary actions prevent misconduct.</b>
<b>Mitra (External Relationships)</b>	<b>Allies and friends who support the kingdom</b>	<b>Alliances strengthened the kingdom</b>	<b>Investors, Creditors, Strategic Partners, Suppliers, Regulators</b>	<b>Good relations with investors, community, regulators, suppliers, and partners strengthen corporations.</b>

## THE KING AND RAJDHARMA

According to Kautilya, a king should embody the qualities of a *Rajarshi*. This term combines two words- raja meaning 'king' and rishi meaning 'sage'. He emphasized that a king should possess the wisdom of a sage. He must be educated and trained in *rajadharma* (the kings duty).

According to Kautilya, a king has four-fold duties-he must promote growth (Vridhhi), ensure welfare (Yogakshema), maintain compliance with laws and ethics (Palana), and provide protection (Raksha). Thus, Kautilya's four-fold duties of a ruler can be directly linked to Corporate Governance as follows:

<b>Kautilya's Principle</b>	<b>Meaning</b>	<b>Corporate Governance Connection</b>
<b>Vridhhi (Growth)</b>	<b>Economic growth and prosperity</b>	<b>The board should ensure sustainable growth, profitability, and long-term value creation for shareholders.</b>
<b>Yogakshema (Welfare)</b>	<b>Welfare of the people</b>	<b>Companies should protect stakeholder interests—employees, customers, suppliers, community, and environment. This aligns with CSR and stakeholder governance.</b>
<b>Palana (Compliance)</b>	<b>Obedience to laws and ethical conduct</b>	<b>Companies must comply with laws, regulations, accounting standards, and ethical codes. This reflects transparency, accountability, and integrity.</b>
<b>Raksha (Protection)</b>	<b>Protection of people and resources</b>	<b>Boards must safeguard shareholders' investments, company assets, confidential information, and manage risks effectively.</b>

## PRINCIPLES OF GOOD GOVERNANCE

According to Kautilya, good governance is based on the principles of Dharma (ethical conduct), Artha (wealth creation), Kama (welfare and satisfaction), and Moksha (higher purpose). These principles can be linked to modern corporate governance as follows:

<b>Principles</b>	<b>Meaning</b>	<b>Corporate Governance Parallel</b>
<b>Dharma</b>	<b>Righteousness and ethical governance</b>	<ul style="list-style-type: none"><li>• Integrity</li><li>• Accountability</li><li>• Fairness</li><li>• Compliance with laws and ethical standards</li></ul>
<b>Artha</b>	<b>Wealth and Economic prosperity</b>	<ul style="list-style-type: none"><li>• Profit generation</li><li>• Shareholder value creation</li><li>• Business growth</li><li>• Economic development</li></ul>
<b>Kama</b>	<b>Fulfilment of desires and well-being</b>	<ul style="list-style-type: none"><li>• Employee welfare</li><li>• Customer satisfaction</li><li>• Stakeholder interests</li><li>• Social responsibility</li></ul>
<b>Moksha</b>	<b>Self-realization and attainment of highest state of well-being</b>	<ul style="list-style-type: none"><li>• Sustainable development</li><li>• ESG goals</li><li>• Long-term reputation</li><li>• Purpose-driven leadership</li></ul>

## THE MANDALA THEORY- THEORY OF STRATEGIC ALLIANCE IN MANAGEMENT

The Mandala Theory is Kautilya's theory on interstate relations and foreign policy, explained in the Arthashastra. It views a kingdom as being surrounded by a circle (*mandala*) of other states, each having different relationship and strategic significance. A king should continuously assess surrounding states and build alliances, diplomacy, and strategies to protect and expand his interests. Kautilya argued that *"The immediate neighbor is likely to be an enemy, while the neighbor's neighbor is likely to be a friend."* Mergers and acquisitions are all extension of Mandala Theory.

### Elements of the Mandala

State	Meaning	Corporate Strategy Parallel
Vijigishu	The aspiring ruler (the focal king)	The company seeking growth
Ari	Enemy state	Direct competitor
Mitra	Friendly state	Strategic ally/partner
Ari-Mitra	Friend of the enemy	Competitor's partner
Mitra-Mitra	Friend of the friend	Extended strategic ally (ally of an ally)
Madhyama	Intermediate power capable of influencing both sides	Powerful regulator or industry leader
Udasina	Neutral power staying outside the conflict	Neutral stakeholder or unrelated firm

### Relevance to Strategic Management

1. Competitive Analysis - Understand competitors and their alliances.
2. Strategic Alliances- Collaborate with firms that can strengthen your position.
3. Stakeholder Mapping- Identify neutral, supportive and opposing stakeholders.
4. Dynamic Strategy – Relationships can change; enemies can become allies and vice-versa
5. Risk Management – Anticipate threats from competitors' networks.

## CSR and CONCEPT OF YOGEKHEMA

Arthashastra offers valuable insights into CSR.

<b>Ancient Concept</b>	<b>Modern Concept</b>
<b>Yogekshema</b>	<b>CSR</b>
<b>Kautilya emphasises that the happiness of the king lies in the happiness of his subjects and his welfare lies in their welfare.</b>	<b>A company's success is linked to the welfare of its stakeholders and society.</b>
<b>King should take those decisions/actions which please his subjects rather than which please him.</b>	<b>Companies should take decisions considering the welfare of its stakeholders—employees, customers, communities, and society—along with profitability.</b>

## WHISTLE BLOWING AND PREVENTION OF FRAUDS AND ERRORS

Arthashastra contains mechanisms that resemble the modern concept of whistle-blowing, where wrongdoing is reported to protect the organization or State.

<b>Arthashastra Concept</b>	<b>Meaning</b>	<b>Modern Corporate Governance Parallel</b>
<b>Suchaka</b>	<b>Informer who reports misconduct, corruption, fraud, or threats to the king</b>	<b>Whistle-blower</b>
<b>Bhritaka</b>	<b>Paid informant employed by the state to gather information</b>	<b>Internal auditor, compliance officer, or investigative agent</b>
<b>Spy Network</b>	<b>Secret intelligence system to detect corruption and abuse of power</b>	<b>Vigilance mechanism, internal controls, ethics hotline</b>
<b>Punishment of Corrupt Officials</b>	<b>Strict action against misuse of authority</b>	<b>Disciplinary action for fraud and misconduct</b>

<b>Rewards and penalty</b>	<b>If informer is successful in exposing embezzlement, he will receive reward one-sixth of amount involved incase of suchaka and one-twelfth of amount involved in case of bhritaka).</b>	<b>Whistle blowers are financially rewarded, or protected from victimisation, or their punishment or penalty may be reduced if they were also involved earlier in fraud.</b>
<b>Penalty</b>	<b>If informant backs out or changes his statement regarding accusations , severe punishment / death penalty be imposed.</b>	<b>Incase of frivolous complaint, penalty be imposed.</b>