STRATEGIC FINANCIAL MANAGEMENT IN KAUTILYA'S *ARTHASHASTRA*

*Venoth Nallisamy | Rajantheran Muniandy
Department of Indian Studies
University of Malaya, Kuala Lumpur
venoth2001@yahoo.com | rajanmun@um.edu.my

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**Corresponding author / First Author*

Abstract
Being largely an administrative manual, it comes as no surprise that Kautilya's Arthashastra touches on various aspects of financial management. In this qualitative article, the author uses hermeneutic techniques to analyse the various aspects of financial management covered in the verses of this ancient Indian treatise on statecraft, as well as their relevance in the modern corporate context. Furthermore, the author explores the possibility that these aspects of financial management in the Arthashastra could have been a precursor to Strategic Financial Management (SFM) due to the strategic nature of the treatise.

Keywords
Financial management, strategic financial management, Kautilya, Arthashastra

ஆய்வுச் சுருக்கம்
அர்த்தசாஸ்திரம் பெரும்பாலும் ஒரு நிர்வாக கையேடாக இருப்பதால், கௌடில்யா அர்த்தசாஸ்திர நூலில் நிதி நிர்வாகத்தின் பல்வேறு அம்சங்களைத் தொடுவதில் ஆச்சரியமில்லை. இந்தக் கட்டுரையில், நாட்டமைப்பு மேலாண்மை பற்றிய பண்டைய இந்திய நூல்களில் உள்ள நிதிநிர்வாகத்தின் பல்வேறு அம்சங்களையும், நவீனக் தொழில்முனைவர் காலக்கட்டச் சூழலில் அவற்றின் பொருத்தத்தையும் பகுப்பாய்வு செய்ய ஆசிரியர்கள் முனைந்துள்ளனர். இதற்கு *ஹெர்மெனியூடிக்* கோட்பாட்டினைப் பயன்படுத்தி உள்ளனர். மேலும், கட்டுரையின் மூலோபாய தன்மைக் காரணமாக அர்த்தசாஸ்திரத்தில் நிதிநிர்வாகத்தின் இந்த அம்சங்கள் மூலோபாய நிதிமேலாண்மைக்கு (SFM) எவ்வாறு முன்னோடியாக இருந்திருக்கக் கூடிய சாத்தியக் கூறுகளையும் இக்கட்டுரை ஆராய்கிறது.

கருச்சொற்கள்
நிதி மேலாண்மை, மூலோபாய நிதி மேலாண்மை, கௌடில்யா, அர்த்தசாஸ்திரம்

Introduction
The *Arthashastra* is an ancient Indian text which is approximately 2500 years old. It is believed to be written by Kautilya who was the prime minister during the rule of Emperor Chandragupta Maurya in India. Despite its antiquity, the text of *Arthashastra* went missing from mainstream history and literature in India for over a thousand years, fading away from the memory of the public and scholars alike. Dramatically, however, the text resurged in the year 1904 when a full text on palm leaf in the *grantha* script came into the hands of R. Shamasastry. He published not only the Sanskrit text (1909) and an English translation (1915), but also an Index Verborum in three volumes (Rangarajan, 1992, p. 8). A number of other scholars have also attempted to interpret, translate or analyse the text of *Arthashastra*.

The primary purpose of the original text of *Arthashastra* was to serve as a textbook for rulers on statecraft and management of a kingdom. A closer look into this text, however, will reveal the width and depth of the topics covered in this work of genius, which includes economic management, finance, accounting, environmental management, war and defence strategies, and diplomacy and foreign affairs.

On the other hand, Financial Management is a system of principles for the implementation of managerial decisions associated with the formation, distribution and use of financial resources toensure the necessary size and structure of assets in accordance with the goals and objectives of the enterprise (Khominich et. al. 2016, pp. 96 – 97). Meanwhile, Strategic Financial Management (SFM) can be defined as a collection of management decisions and actions to make strategic decisions and assessment of the organisation's long-term performance (Delkhosh & Mousavi. 2016, pp. 31 – 32).

Kautilya places a lot of emphasis on proper financial management to ensure that the state achieves financial success. In this article, we will also explore the possibility of Kautilya having applied the concept of SFM within his discussion of financial management.

Literature Review

Undoubtedly, some of the major aspects of management that modern corporations could learn from Kautilya are on accounting and finance. Agarwala and Ray (2017) state that the present accounting principles and standards existed in ancient India in the 4th century BCE. They have listed Kautilya's contributions to accounting under four distinct headings, as well as Kautilya's four policies to encourage capital formation in the private sector (pg. 48). It also highlights that Kautilya recognised conflict of interest between finance and auditing functions, thus stating that the Head of Finance and the Head of Audit should independently report to the king. The article also showcases the measures taken by Kautilya to prevent fraud and corruption.

Fraud detection and prevention is also a major theme in Bhattacharya (2002), who has highlighted some of the ways how public funds can be misappropriated, which are still relevant in today's corporate environment. If we systematically categorise the various financial frauds today, we may perhaps find that most of them can be placed under any of Kautilyan classifications (pg. 7). The article in question builds on the Kautilyan classification to create the "MI-Matrix" for the objective classification of financial fraud. Most significantly, it suggests that Kautilya's fraud classification scheme can be effectively combined with the mathematics of inverse transformation using Benford's Law and statistical audit sampling into a formidable toolkit for technology-savvy investigative accountants (pp. 15 – 16).

Mattessich (1998) also delves into the contributions of Kautilya in accounting and finance, and highlights that *Arthashastra* was the first known treatise to deal with accounting aspects from a theoretical point-of-view. Mattessich provides examples of Kautilya's accounting concepts which are modern in nature, and credits Bhattacharyya (1988) for highlighting Kautilya's contributions in accounting. Furthermore, the article has rightly pointed out that the *Arthashastra* is not only significant for business accounting, but also for government accounting, and that it may even be a forerunner of national income accounting (p. 203).

Sihag (2004) also believes that Kautilya had linked decisions on production and trade patterns to profitability, and considered innovation in accounting methods as a general-purpose technology which improved the efficiency of the whole economy (p. 127). Besides critically comparing the translations by Kangle and Rangarajan, this article also further explores Kautilya's contributions to accounting and how they are relevant till today. Kautilya's recognition of the importance of accounting to economic development more than a millennium before Pacioli's 'Summa de Arithmetica' was pointed out (p. 147). Besides that, this article discusses Kautilya's efforts in ensuring fair and ethical accounting through his framework.

The potential of management accounting within Mauryan organisations to facilitate wealth generation based on societal benefit is a theme in Murthy and Rooney (2016). This article also shows that Kautilya understood the importance of accurate measurement of economic performance through management accounting and linked it to economic growth and ethical behaviour, and thus on creation of social identity. Accordingly, the *Arthashastra* emphasised management accounting based on three key characteristics: hierarchy, shared social ethics, and an explicit control structure to reinforce duties to create wealth while behaving ethically.

Methodology

For this study, the author has selected the qualitative methodology as this study requires the author to make interpretations of the meaning of the data involved, such as the verses in the *Arthashastra* on financial management. Besides that, the author will use the library research method to collect data for this research. This mainly involves the document-type of information, which includes various printed references such as books, manuscripts and reports, as well as online references such as journal articles, websites and e-books. This method will require theoretical analysis after the data collection process is completed. Furthermore, the author will follow the interpretive social science (ISS) approach in conducting this research. This is the best approach for this particular study as the author needs to examine and interpret the social world during Kautilya's times based on the information in the *Arthashastra*.

Discussion

The *Arthashastra* views the pursuit of *artha* ('wealth of the nation') as the primary goal of human existence (Sharma. 1994, pp. 165 – 166). Another study has systematically divided this financial model by Kautilya into the Four Stages of Wealth - wealth identification, wealth creation, wealth management, and wealth distribution (Pillai & Sivananthan. 2016, p. 136). The importance given to the Treasury by Kautilya can be observed from the priority given to protecting the Treasury during calamities (Saad & Wenxiang, 2020, p. 136).

Kautilya approached economic issues methodically by addressing the *why* (importance of wealth), and the *how* (policies to create wealth) of wealth creation. Kautilya theorised that wealth complemented human effort in creating prosperity, which in turn created more wealth. As such, the pursuit of profitability and productivity was the key to stabilising the current income as well as expanding its growth in the future. Thus, a sound Treasury was a prerequisite to accomplishing other goals (Sihag, 2004, pp. 132 - 133). Furthermore, a strong and wealthy monarchy would be able to protect the interest of its people, since the king would have the means to invest in warfare to protect the borders (external) as well as to invest in public welfare during emergencies (internal), which shows Kautilya's concern on investment strategy management. In the modern corporate context, a company which is doing well financially will be able to maximise its profits in order to provide greater benefits for its stakeholders and fulfil its social responsibility (Das & Mahapatra, 2012, pp. 14 - 16).

Kautilya provided an extensive elaboration on possible means of creating and increasing wealth {2.8.3}. Besides that, the elimination of distractions may also increase productivity, which will strategically contribute to the increase in the Treasury {2.1.33-35}. The effort to maximise wealth does not stop at the public sector alone, as Kautilya also believed in setting economic policies which encourage the creation of wealth in the private sector (*Sihag, 2004, p. 132*).

Besides that, the wealth of the state can also be enhanced through a fair and efficient system of taxation which does not stifle economic growth (Waldauer et. al. 1996, p. 101). Recognising that a prosperous and stable kingdom had to be founded on a well-managed tax system, Kautilya had developed principles of taxation which was extensive and comparable to contemporary theories of taxation (Azzi. 1998. P. 109). Kautilya's principles of taxation were remarkably similar to and predate the modern canons of taxation developed by Adam Smith by over two millennia. Kautilya's ideal tax system aims to achieve the following objectives: gaining as much tax revenue as possible; promoting economic growth and development within the kingdom; ensuring that resources are used efficiently; and applying taxes that are fair and just. Thus, we may conclude that Kautilya enunciated a detailed, inclusive tax system long before the rise of classical economic thought (Waldauer et. al. 1996, pp. 103 – 106).

Kautilya's fiscal policy and the functioning of the treasury were even more detailed than the existing budget policies of some modern states (Skare, 2013, p. 8). Besides that, the Treasury did not exist for the pleasure of the king, but rather as a fund to be utilised wisely to defend the realm, ensure peace at home, dispense justice, and provide support for the development of economic activity and increase the wealth of the nation (Tisdell, 2003, p. 6). Thus, it is important that a king provides good governance to the state, as good governance and financial stability go hand-in-hand (Agarwala & Ray, 2017, p. 48 - 49).

Kautilya had a grand strategy for building an empire which was prosperous, secure, stable, and based on fairness. Accumulation of capital is crucial to achieve this, and Kautilya's genius lies in anticipating possible problems in eliminating the gap between his ideal economy and the actual economy prevailing during his time, as well as devising policies to address them. Thus, Kautilya developed a complete conceptual framework and suggested practical measures to achieve the objective of increasing prosperity. Each public enterprise was required to generate a maximum amount of profit without crossing ethical boundaries, thus accurate measurement of its economic performance and the prevention of opportunities for misappropriation of public funds by its officials was critical. Therefore, a system of recording data was necessary, and compliance with financial rules must be regulated instead of being left to the discretion of individual enterprises. Without uniform standards and accurate measurement of economic performance, resource could not be allocated efficiently (Sihag, 2004, pp. 139 - 140).

To mitigate such problems, Kautilya developed uniform bookkeeping rules for recording data systematically and advocated for periodic reporting and independent audits to reduce system failures. Kautilya considered innovation in accounting methods as a general-purpose technology which improved the efficiency of the economy. He considered accounting as an integral part of economics and as a scientific inquiry, and applied explanation and prediction to analyse the impact of economic policies on wealth creation. We may classify Kautilya's contributions to accounting into four categories, namely (i) developing accounting principles, (ii) specifying the scope and methodology of accounting, (iii) codifying financial regulations and creating an organisational structure to reduce conflicts of interest, and (iv) the role of ethics in the restraint of fraudulent accounting, maintenance of law and order, efficient allocation of resources, and pursuit of happiness (Sihag, 2004, pp. 126 – 140).

An often-overlooked fact was that detailed instructions on check-and-balance accounting and auditing was already provided by Kautilya more than a millennium before Luca Pacioli (Bhattacharya. 2002, p. 4). The *Arthashastra* shows that the prerequisites for establishing the discipline of accounting already existed in India during the 4th century BCE (Sihag, 2004, p. 131). For example, Kautilya has laid down some basic regulations for accounting such as the debit and receipt sides of an account {2.6.12 / 2.6.10 / 2.6.11}. Kautilya also suggested that good financial reports must be prepared for the arrangement of subject matter, connection or relevance, completeness, sweetness, exaltedness and lucidity (Shyam & Sunder. 2008, pp. 3 - 4). Another fascinating observation is that Kautilya might have conceived some of the accounting implications of price changes by distinguishing between different notions of income or gain caused by price increases, besides classifying expenses into various categories.

Kautilya has given emphasis on fraud detection and fraud prevention, and his reasons for it {2.8.4 / 8.4.49 / 2.5.4}. We can observe Kautilya's analytical prowess in identifying internal and external factors which affect financial health of the state. Among these, Kautilya has identified the failure of officials in collecting the revenue required among these factors, and has gone a step further in identifying the causes for this {2.7.10}. Kautilya has listed down ways how government servants may steal in transaction with the public {2.8.20,21}, and advised royal auditors to always be on the guard in identifying these fraudulent activities. Among these, some types which are relevant in the corporate setting today are falsification of date with a motive of personal profit, misrepresentations of income or expenses with a motive of personal profit, as well as discrepancies arising out of wilful fraud in personally supervised work, account heads, labour and overhead charges, work measurement, calculating totals, quantity, price, containers, weights and measures. If we systematically categorise the financial frauds happening in the modern corporate world, we may conclude that most of them can be placed in one of the classifications above in the *Arthashastra* (Bhattacharya, 2002, pp. 5 - 7).

Believing that excessive greed is the main contributor towards false accounting cases, Kautilya attempted to contain it through moral persuasion and legal means, as well as considering the conditions for ensuring honesty and systemic efficiency. The following three conditions have been proposed by Kautilya for this purpose: modifying and codifying the existing rules and regulations and getting citizens to be informed of the laws; designing an organisational structure that reduces scope for conflicts of interest; and creating comprehensive schemes of rewards and punishments to increase compliance (Sihag, 2004, pp. 127 – 128).

The *Arthashastra* prescribed a large body of officials for the safe custody of treasure and account keeping, which include job functions such as supervising, checking, and external auditing on a regular basis (Murthy & Rooney, 2016, p. 9). Kautilya established a complete system of governmental accounting comprising of bookkeeping rules, accounting conventions, financial reports, periodic accounting, and independent auditing (Sihag, 2004, p. 147). The following characteristics have been identified about Kautilya's organisational structure with relation to finance: preparation of budget and activity planning; reporting the revenue and expenditures; responsibility for both the revenues, expenditures and profits; personal responsibility for exceeding budget limits; and proper delegation of authority. This shows that individual responsibility for state profit was given a high place (Sharma, 1994, pp. 176 - 178).

Kautilya's awareness of the importance of accountability and the possibility of conflicts of interest was shown when he strategically divided financial responsibility between the Treasurer {2.5.8,10,11,13,21,22} and the Chief Comptroller and Auditor {2.7.2,17,18,24,30-33} (Sihag 2004, p. 141). This conflict of interest between finance and auditing functions could be avoided since there is no overlap between the officers doing the two functions, and they report independently and separately to the king (Agarwala & Ray, 2017, p. 48).

Despite setting out a well-defined framework and uniform standards, Kautilya recognises that it is not sufficient to prevent wrongdoing. Thus, an elaborate check-and-balance system was installed to ensure that the accounts for every transaction are submitted in a timely manner {2.7.26-29,35}. The audit process is elaborated in detail, with the accountability and responsibility of all parties involved spelt out clearly {2.7.19-23,25,39-40}. In case the audit unearths any discrepancies, the officers concerned must pay an appropriate penalty. Not maintaining a systematic and clear accounting record was considered a punishable offence {2.9.10-18} (Bhattacharya, 2002, p. 7). These audit checks were done periodically and everyone involved would be interrogated separately, and severe punishments would be meted out if anyone was found guilty {2.8.22,23 / 2.8.24,25}.

Conclusion

Based on the discussion above, we can conclude that Kautilya's concept of financial management includes various financial functions such as wealth creation, accounting, and audit (as shown in Diagram 1 below).

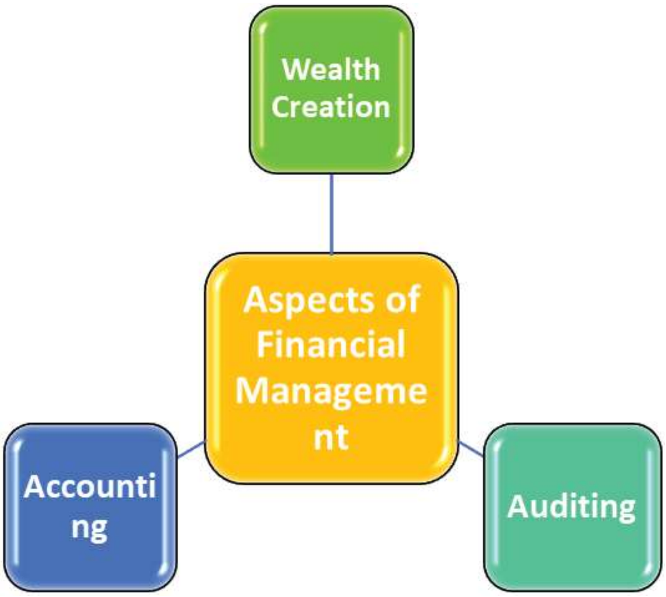

Diagram 1: Aspects of Strategic Financial Management in the *Arthashastra*

These functions are strategically structured to achieve the state's objectives of increasing its wealth, maximising profits and reducing losses, and investing funds in increasing the state's power against its enemies. This shows that Kautilya's concept of financial management includes various modern concepts of Strategic Financial Management (SFM) such as investment strategy management, financial provision, and profitability, despite being set in the context of an ancient monarchy. The author would like to encourage financial scholars to explore this topic further due to its exciting premise.

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