

The Economic History of the Corporate Form in Ancient India

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Some Background

- Recent papers examine the development of the corporate form in Europe (Hansmann, et al, Kohn,.....).
- Hansmann, et al suggest asset partitioning is a critical element of the organizational form and find support in the history of the organizational forms in Europe.
- I examine the development of the corporate form in Ancient India. The evidence suggests significant revisions to the history of corporations, but also supports the importance of asset partitioning.
- This paper also provides historical background for a series of papers, empirical & theoretical, that I am working on related to modern corporate governance reform in India.

The Evidence Reveals...

- Ancient India possessed the corporate form (the *sreni*) by at least 800 B.C., if not even earlier, and until at least 1000 A.D. Pre-dates Roman proto-corporations by centuries.
- The *sreni* possessed detailed rules of corporate governance that share many similarities with modern corporations.
- The development of the corporate form in Ancient India provides further evidence in support of factors identified as critical to the growth of corporate form elsewhere (e.g., Hansmann, et al).
- A greater sense of the importance of state structure to economic growth and the growth of the corporate entity as well as on prospects for convergence.

Basic Definitions

- **What are the key features of a corporation?**
 - **Separate Legal Personality**
 - **Centralized Management**
 - **Transferability of Interest**
 - **Limited Liability**

- **Factors Leading to Growth of Corporation or “Contracting Entity”**
 - **Demand: Growth of Trade & Technological Changes**
 - **Supply: Tools to assist in –**
 - **Monitoring Asset Partitioning: boundary patrol, bankruptcy & accounting.**
 - **Monitoring Conflict of Interest/Agency Costs: fiduciary duties & reputation and monitoring techniques.**

Ancient Indian Organizational Forms

- Precursors and close cousins of Corporate Form
 - *gana, pani, puga, vrata, samgha, nigama*
 - Some rudimentary fiduciary duty concepts.
- The Economic *Sreni*
 - Separate legal entity & prevalence:
 - Contract, sue and be sued in own name (e.g., *Bhandagarika*). Contract valid even if change location.
 - Used in a variety of activities (trade and craft/artisan).

Ancient Indian Organizational Forms Cont'd

- The Economic *Sreni*
 - Structure
 - Three tiers – members, headman (*Jetthaka, Sreshthi*), executive officers (*karya chintakah*).
 - Headman & officers possessed considerable control over entity (centralized management). Also, expected to be well qualified.
 - Positions generally elected, but subject to removal by members.

Ancient Indian Organizational Forms Cont'd

- The Economic *Sreni*
 - Internal Governance (*Sreni Dharma*)
 - *Sreni Dharma* generally upheld by monarch, put in writing and registered. Devised by discussion and debate amongst members.
 - Enforcement of *Sreni Dharma*: By Headman and Officers. Unhappy members had two avenues of redress:
 - Appeal to the king – requires “ill will” toward member.
 - Appeal to *sreni* members.
 - Shows insulation from liability, concerns with frivolous suits and likely presence of duty of loyalty type concerns.

Ancient Indian Organizational Forms Cont'd

- The Economic *Sreni*
 - Formation
 - Establish mutual confidence & vote of members.
 - Contributions likely and sharing of assets and liabilities.
 - Apprenticeship.
 - Exit – obligations and ability to transfer interests. Relatively easy – *but cf* caste system.

Ancient Indian Organizational Forms Cont'd

- The Economic *Sreni*
 - The Accumulation, Use & Division of Funds
 - Sources: capital contributions, profits, gifts, banking profits, fines for violations of *sreni dharma*.
 - Uses: costs of productive or trading activity, transport and security costs, and others (e.g., legal costs and incentives to members).
 - Division rules varied: equal, on contributions, on contributions, and skills.

Ancient Indian Organizational Forms cont'd

- The Economic *Sreni*
 - Other roles of *sreni* – banking, adjudicative, religious, charitable, and municipal.
- Political & Municipal *Sreni* – possibility of mergers?
 - Importance of committee structure in different states.
 - Qualifications of committee members.
 - Selection of committee members – fraud & independence concerns.

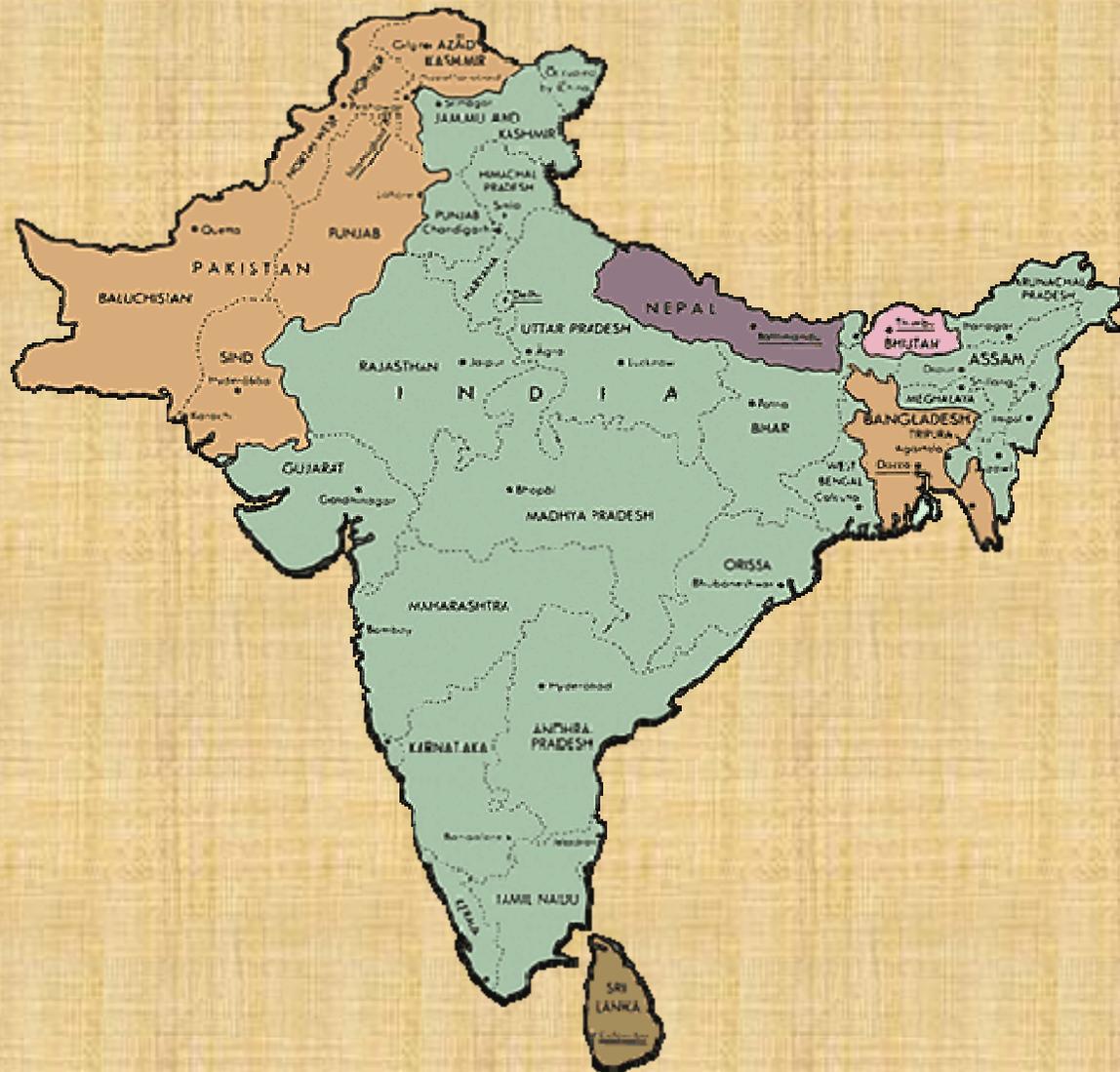
Comparison of US Corporation & *Sreni*

- Basic Features Are Similar
 - Legal personality, centralized management and transferability (no limited liability per se).
 - Internal Rules (*sreni dharma*) binding and based on open debate & discussion.
 - *Sreni* can move & have more than one profession.
- Member Powers & Formation
 - Formation is easy (register with state) & so is exit.
 - Share liabilities & assets.
 - Voting Regulation & transparency is valuable as is disclosure.

Comparison of US Corporation & *Sreni* cont'd

- Powers & Structure of Management
 - Use of Incentive payments. Management elected (and can be removed) by members.
 - Agent bind entity, duty of loyalty & duty of care.
 - Liability insulation, litigation screens, reimburse for legal costs
 - Board & Committee Independence & Qualifications
- In light of this: How did the *sreni* develop?

Map of Indian Subcontinent



Development of Corporate Form in Ancient India

- **Earliest civilizations in the Indian Subcontinent (7500 B.C. to 800 B.C.)**
 - Mehrgarh and others (7500 B.C. to 4500 B.C.): advanced civilization, but little written or excavational evidence to rely upon.
 - Indus Area (4500 B.C. to 1900 B.C.): highly developed, large, active trade. Surrounding environment is conducive to growth of organizational entities (i.e., localized professions, “property” seals, active trade), but written evidence is thin and dating is an issue.
 - Drift to Indo-Gangetic Region (1900 B.C. to 800 B.C.): active trade, clear evidence of *sreni* by end of period and surrounding environment is conducive.

Development of Corporate Form in Ancient India cont'd

- **Rise of Buddhism & Jainism – 800 B.C. to 400 B.C.**
 - These religions more favorable to inter-mixing and trade.
 - Much more written materials on *sreni*.
 - The *Bhandagarika* – inter-*sreni* arbitration.
- **Mauryan Dynasty – More Unified India (320 B.C. to 185 B.C.)**
 - Much evidence of *sreni* and good description. Surrounding circumstances very favorable: growing trade, security of empire, accounting practices, property demarcation, localized professions.
 - Role of Buddhism, *Arthasastra* & Ashoka's adoption of Buddhism.

Development of Corporate Form in Ancient India cont'd

- **Post-Mauryan – India Divides & Trade Grows (185 B.C. to 250 A.D.)**
 - Trade grows very briskly. Sea routes good and land routes not so terrible. Discovery of Monsoon by West and trade with Rome.
 - Considerable evidence of *sreni* and its operations. Follows a logic.

Development of Corporate Form in Ancient India cont'd

- Gupta Dynasty – Unified, Less Centralized (250 A.D. to 550 A.D.)
 - Trade in all directions – fantastic growth.
 - Clearly developed accounting and property rules, localized professions, and greater discussion of *sreni* regulation.
- Post-Gupta – Divisions & Trade Drops (550 A.D. to 1000 A.D.)
 - Many reasons for decline – much warfare, less trade with Rome, unsafe trade routes, and lesser significance of *sreni*.

Summary & Conclusions

- *Sreni* (corporate form) developed at least by 800 B.C., if not even earlier – predating Roman proto-corporations by centuries.
- Highly developed corporate governance rules – similar in many respects to modern corporate law.
- Growth and development matches factors set out by theory – monitoring agency costs, boundary patrol, trade growth.

Summary & Conclusions cont'd

- Impact of State Structure on Trade and growth of corporate form.
 - Gupta Dynasty had phenomenal growth. Flexibility for *sreni* and safety.
 - But other regimes had growth too. They also respected *sreni dharma* and provided some safety. Different regimes with different costs and benefits of achieving more trade and growth.
- Path Dependence ~ Convergence
 - Deference to *sreni dharma* and dispersed ownership.