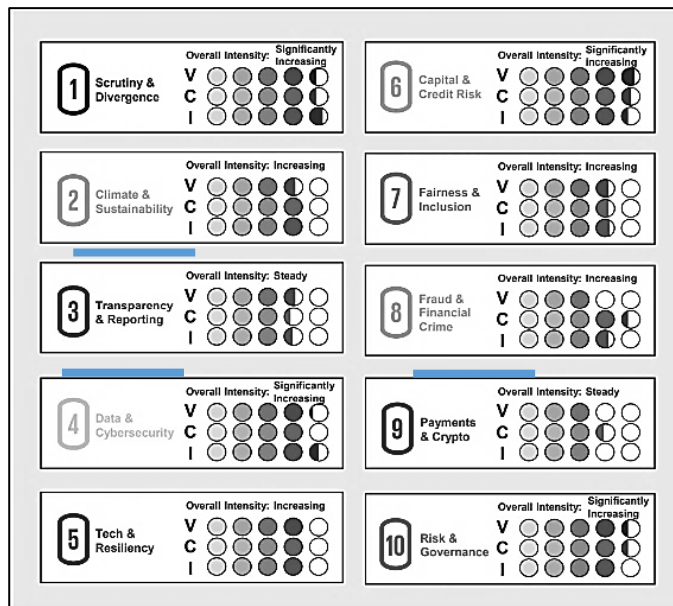


## Chapter 1: INTRODUCTION

Accounting is the language of business, which helps communicate an organisation’s financial, economic and sustainability health status to various stakeholders. Figure no. 1 shows the top ten regulatory challenges faced by corporate world, as per the KPMG 2023 report<sup>1</sup>.

**Figure no. 1: Top 10 regulatory challenges with Volume (V), Complexity(C) and Impact(I)**



Amongst these, this research deals with three such challenges.

### **Problem Statement No. 1: Climate Change & Sustainability Reporting:**

**Summary:** Two main challenges<sup>2</sup> exist in Sustainability reporting. They are:

- (i) There is a lack of clarity, consistency, completeness, and comparability (4Cs) in ESG (Environmental, Social & Governance) reporting standards.
- (ii) There is a lack of inner transformation w.r.t Sustainability reporting. Concepts like Triple Bottom Line and ESG reporting are being questioned for their inability to create a ‘sustainability mindset’. They have remained as accounting dressings.

<sup>1</sup> KPMG. (2023). Ten key regulatory challenges of 2023: Mid-year look forward. KPMG LLP <https://kpmg.com/us/en/articles/2023/ten-key-regulatory-challenges-of-2023-mid-year-look-forward.html>

<sup>2</sup> Norman, Wayne, and Chris MacDonald. “Getting to the Bottom of ‘Triple Bottom Line.’” Business Ethics Quarterly 14, no. 2 (April 2004): 243–62. <https://doi.org/10.5840/beq200414211>.

**Background:** Major developments of 20th century, led by Industrial Revolutions 1.0 and 2.0, focused on profit as the unidimensional growth objective of companies and their promoters. Financial return was the single parameter for decision-making relating to investment opportunities. This pure capitalist mindset was adversely affecting the social and environmental qualities, thereby having an irreversible impact on future generations. Multiple global interventions like the United Nations Environment Programme (1972)<sup>3</sup>, Coalition for Environmentally Responsible Economies (CERES 1989)<sup>4</sup>, Triple Bottom Line<sup>5</sup> (TBL) and Sustainability reporting standards<sup>6</sup> were initiated to transform the capitalist thinking to include purpose-based mind-set. The objective was to influence companies to commit to the causes of planet and people and report the resulting metrics. Among these mediations, TBL (Elkington, John, Enter the Triple Bottomline.) was quite popular due to its comprehensive model involving the economic, social, and environmental perspectives. However, in 2018, the co-creator of TBL announced a recall of this concept and put sustainability champions and global organisations into a reflection mode. Elkington intended to achieve a ‘triple helix for value creation, a genetic code for tomorrow’s capitalism, spurring the regeneration of our

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<sup>3</sup> ‘The first world conference on the environment.’ The United Nations Environment Programme (UNEP) was established in 1972 as a result of the United Nations Conference on the Human Environment, which was held in Stockholm, Sweden from June 5–16, 1972. The conference adopted the Stockholm Declaration, which set out 26 principles to preserve and improve the human environment. The declaration also marked the start of a dialogue between industrialized and developing countries on the relationship between economic growth, air, water, and ocean pollution, and the well-being of people around the world. <https://www.un.org/en/conferences/environment/stockholm1972>

<sup>4</sup> The Coalition for Environmentally Responsible Economies (CERES) is a national network of environmental organizations, investors, and other public interest groups that work with companies and investors to address sustainability issues. The CERES was formed in 1989 and published the Ceres Principles, a ten-point code of corporate environmental ideals, in the fall of 1989. <https://www.ceres.org/homepage>

<sup>5</sup> Triple Bottom Line reporting (1994): A sustainability framework that evaluates a company's performance based on three pillars: environmental (planet), social (people), and economic (profit) impact, emphasising the importance of balancing these aspects for long-term success. <https://www.johnelkington.com/archive/TBL-elkington-chapter.pdf>

<sup>6</sup> Global Reporting Initiative (GRI) Standards (1997): Guidelines for reporting on environmental, social, and governance performance. <https://www.globalreporting.org/standards/>

Greenhouse Gas Protocol (GHG) (1998): Provides standards and guidance for companies and governments to measure and manage greenhouse gas emissions. <https://ghgprotocol.org/>

Carbon Disclosure Project (CDP) (2000): Helps companies and cities disclose their environmental impact, particularly in terms of carbon emissions, water usage, and deforestation. <https://www.cdp.net>

economies, societies and biosphere’, through the second wave. The Environmental, Social and Governance (ESG) reporting is also plagued by challenges of not having a universally accepted list of reporting parameters, clear definitions, measurement scales, consistency, mandatory prioritisation and punitive actions for non-compliance. Hence the whole exercise remained as ‘window dressing<sup>7</sup>’ and not an inner transformation. At this juncture, we may need to study the time-tested, experiential wisdom adopted by long civilisations, through large successful empires, for practical hands-on insights. Indian Knowledge System (IKS) contains documented examples of such large community-realms which have incorporated all the principles of People, Profit and Planet and have been sustainable for multiple millennia.

### **Problem Statement No. 2: Fraud & Financial Crime:**

**Summary:** As against 31 significant accounting scams between 1900 and 1999, there have been over 75 cases in the last 20 years. The audit function is not effective in preventing or detecting accounting anomalies promptly.

### **Background:**

The Indian banking system has been hit with four major corporate fraud cases, viz., the ABG Shipyard's INR 22,842 crore loan fraud, the INR 11,400 crore Nirav Modi scam, Vijay Mallya's INR 9000 crore money laundering scandal, and the IL&FS group fiasco, which cost INR 9900 crore. The collapse of cryptocurrency exchange FTX and the falsification of sales report up to \$310 million by Luckin Coffee showcase international accounting frauds. As per the ‘Occupational Fraud 2022: A Report to the Nations<sup>8</sup>’ by the Association of Certified Fraud Examiners, organisations lose 5% of their revenue to fraud yearly, projecting a global loss of \$ 4.7 trillion. With technological advancements, accounting and auditing have become more complex, making it challenging to detect anomalies. As against 31 significant scams between

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<sup>7</sup> Testa, F., Boiral, O., & Iraldo, F. (2021). Greenwashing in Environmental, Social, and Governance (ESG). *Journal of Business Ethics*, 173(2), 241-255. <https://doi.org/10.1007/s10551-020-04679-6>

<sup>8</sup> <https://acfepublic.s3.us-west-2.amazonaws.com/2022+Report+to+the+Nations.pdf>

1900 and 1999, more than 75 cases have come to light in the last 20 years<sup>9</sup>. The impact of these accounting scandals ranges across stakeholders, including the top Management, institutional and individual investors, bankers, employees, and auditors. While the monetary and quantitative impact is investigated and reported, the physical, mental, and emotional impression on human lives is generally not documented. It is intriguing to know that such anomalies occur despite (a) a highly qualified and talented workforce, (b) high-end technological capability and (c) amplified awareness amongst investors. Today, we have the best of brains working in top positions, the sharpest and quickest technology and data to support decision making and a group of well-connected, well-informed, well-read investors with investment experts waiting to serve them. Yet prevention, timely detection or correction of such scandals are quite challenging. Strong legal interventions have been made by Governments from time to time. For example, the Foreign Corrupt Practices Act (FCPA) of 1977<sup>10</sup> was introduced in response to a wave of corporate scandals in 1970 in which many US companies were found to have been engaged in bribery and corruption overseas. The 2008 financial crisis led to the enactment of the comprehensive economic reform law called the Dodd-Frank Act of 2010<sup>11</sup>. Following the infamous Enron, WorldCom scandals, the US Congress passed the Sarbanes-Oxley Act of 2002(SOX)<sup>12</sup>. SOX was enacted to improve the reliability of financial reporting through more robust internal controls and auditing procedures. This law also requires the Chief Executive and Chief Financial Officers of public companies to personally certify the accuracy of their company's financial reports. James Tackett identified four root causes of audit failure and discussed them in his paper titled 'Sarbanes-Oxley and audit failure: A critical examination'. He highlights the four types as:

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<sup>9</sup> [https://en.wikipedia.org/wiki/Accounting\\_scandals](https://en.wikipedia.org/wiki/Accounting_scandals)

<sup>10</sup> <https://www.justice.gov/criminal/criminal-fraud/foreign-corrupt-practices-act>

<sup>11</sup> <https://www.govinfo.gov/app/details/PLAW-111publ203/summary>

<sup>12</sup> <https://sarbanes-oxley-act.com/>

- (i) Auditor blunders caused by unintentional human error.
- (ii) Auditor Fraud
- (iii) Undue influence caused by financial interests and
- (iv) Undue influence caused by personal auditor-client relationships.

The Institute of Internal Auditors formulated the ‘line of defense model’, through their position paper, ‘The three lines of defense in effective risk management and control’, in January 2013<sup>13</sup>. This model spoke about Operational Management Control, Risk Management & Compliance Functions and Audit as the three lines of defense. However, Minto A and Arndorfer I, studied this model and published the paper ‘The four lines of defense model for finance institutions<sup>14</sup>, which opened some of the lacuna in the three defense lines.

Similarly, leading research authors and industry experts have highlighted the various gaps in Internal Auditing principles, standards, models, and practices. A few of these gaps are:

1. Providing robust assurance and not just reasonable Assurance
2. Prevention of issues, or timely detection vs post-mortem analysis
3. Purely quantitative analysis versus qualitative examination and many more.

These gaps create a need to study ancient knowledge systems which contain theoretical concepts and practical case studies which could be potential solutions for the current corporate situation.

### **Problem Statement No. 3: Indian Antecedency to Risk & Governance:**

To be effective, a management system has to be rooted in the cultural soil of the country where it is practised. (Sharma, 2005). Therefore, it is crucial to have a solid understanding of regional cultural practices and governance theories to manage corporations over the long term

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<sup>13</sup> Institute of Internal Auditors. (2013). The three lines of defense in effective risk management and control (Position Paper No. 121691). [Position paper]. Institute of Internal Auditors.

<sup>14</sup> Arndorfer, I., & Minton, A. (2015). The four-lines-of-defence model for financial institutions (Financial Stability Institute Working Paper No. BIS). Bank for International Settlements.

effectively. Modern debates over Corporate Governance are dated to 1932 with the publication of Adolf A. Berle and Gardiner Means's book 'The Modern Corporation and Private Property' (Wells Harwell, 2010). Sir Adrian Cadbury, the author of the first Corporate Governance Code (UK, 1992), regards Bob Tricker as the Father of Corporate Governance, based on a book by the same name. (Tricker, 1984). Indian antecedency to Risk Management and Corporate Governance dates to Vedic civilisation, which is not adequately researched, documented and recognised. With a population of more than 50 million people, the Mauryan Empire (governed by principles of Kauṭilya's Arthaśāstra) was more significant than the Mughal Empire 2000 years later and even more extensive than the British Empire in India (Muniapan, B. and Shaikh, J.M. (2007). Many millennia before this is the 'Rāmarājya (10<sup>th</sup> to 5<sup>th</sup> century BCE), envisaged as the ideal of governance based on social justice, non-violence, and self-reliance (Desai Meghnad, 2011). By Rāmarājya, Gandhi meant a form of government which involves the empowerment of people at the grassroots, equality of opportunity, decentralisation of administration, cooperative participation of people, and democratic self-governance (Rao Koneru Ramakrishna, 2017, pages 206–220). The concept of Śreṇī (professional guilds or corporations) can be seen in Rāmāyaṇa when Bharata commands the business leaders (heads of traders and artisans) to be part of the reception committee during the coronation of Rāma. (Vālmīki's Rāmāyaṇa 6.130.4 & 6)<sup>15</sup>.

Hence it is imperative to analyse Kauṭilya's Arthaśāstra (KA) and Vālmīki's Rāmāyaṇa (VR) parallelly to examine the roots of Governance in IKS. Through the research, the authors have

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<sup>15</sup> ब्राह्मणाश्च सराजन्याः श्रेणीमुख्यास्तथा गणाः ॥6.130.4॥ अभिनिर्यान्तु रामस्य द्रष्टुं शशिनिभं मुखम् ।

भरतस्य वचः श्रुत्वा शत्रुघ्नः परवीरहा ॥6.130.5॥ विष्टीरनेकसाहस्रीश्चोदयामास भागशः ।

" Let bards well-versed in singing praises and Purāṇas (containing ancient legends, cosmogony etc.) as also all panegyrists, all those proficient in the use of musical instruments, courtesans all collected together, the queen-mothers, ministers, army-men and their wives, brahmanas accompanied by Kshatriyas (members of fighting class), **leaders of guilds of traders and artisans**, as also their members, come out to see the moon-like countenance of Rama." Hearing the words of Bharata, Shatrughna the destroyer of valiant adversaries called together, laborers working on wages, numbering many thousands and dividing them into gangs, ordered them (as follows):

discovered numerous similarities between Arthaśāstra and Rāmāyaṇa. This helps conclusively establish the critical missing link in tracing the Indian Antecedents to Corporate Governance.

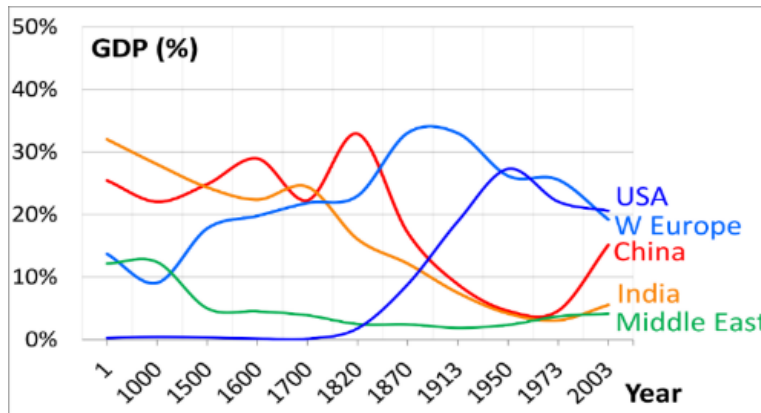
There is extensive research on Corporate Governance and its ancient Indian origins. Previous research includes tracing the evolution through Ṛg Veda, the Dharma Śāstras, Rāmāyaṇa, Mahābhārata, Bhagavadgītā, Manusmṛti, Kauṭilya's Arthaśāstra, and Tirukkural by Tiruvalluvar. (Balasubramanian, N, 2005) and (Muniapan, B. and Shaikh, J.M. (2007) In the post-Vedic period, as per the Viṣṇu Purāṇa, corporate activities had become a fact that even soldiers and priests carried on their function on principles of partnership. (Dayal, Harendra, 1983). Sabhas, Samitis, and Nigams are frequently referred to in multiple Purāṇas, and these Purāṇas are records of past events. (Buch, 1979). However, there is no structured linking of Indic Knowledge texts to establish the evolution of corporate governance principles. This research gap needs to be addressed. **Hence there is a need to broad-base and deepen the History of Accounting. Risk & Governance with contributions from IKS.**

#### **Current Economic Context: Global economic crisis**

The Volatile-Uncertain-Complex-and Ambiguous world (VUCA) is trying to become Visionary-Understanding-Courageous and Adaptable (VUCA 2.0). The challenges faced in this journey include COVID-19 aftermath, economic recession, the war between countries, terrorism, corporate scandals, inflation, climate change repercussions, the crash of stock markets and fluctuation in new-age digital currencies. Consequentially, global organisations face risks of business interruptions, cyber-attacks, financial anomalies, misappropriation of assets, incorrect financial reporting, volatility in commodity prices, increased competition, supply chain challenges, etc. In this indisposed situation, country and corporate leaders are looking for insights and solutions from cultures and civilisations which have been prosperous over an extended timeframe.

Based on Angus Maddison's estimates, before the 18th century, India and China were the two largest economies by Gross Domestic Product (GDP) output.

**Figure No. 2: The global contribution to the world's GDP by major economies from 1 CE to 2003 CE per Angus Maddison's estimates.**



("Angus Maddison", 2023)

**Data Source:** Data table in Maddison A (2007), *Contours of the World Economy I-2030AD*, Oxford University Press, ISBN 978-0199227204

Prior to the 1st CE, while the GDP contribution data is not available, we get access to various documented evidence of prosperous kingdoms in India. They include:

- (i) **Vedic Period evidenced by the Vedas (< 1500-1000BCE):** The Vedic period refers to the time in ancient Indian history when the Vedas, the oldest sacred texts of Sanātana Dharma, were experienced. While they are eternal and attributable to Satya-Yuga (as per Yuga based timeline), it is generally considered by modern historians to have been available between 1500-1000 BCE. This period saw the flourishing of community-based living, animal husbandry, agrarian economy, concept of service and professions with suitable remuneration, praying for world happiness, etc.
- (ii) **Proximately post Vedic period (6<sup>th</sup> century -5th century BCE):** This period has been evidenced through the Itihāsas (Rāmāyaṇa and Mahābhārata), Purāṇas (18 main and 18 secondary) and Smṛti-granthas. While there were multiple kingdoms, 16 Mahājanapadas

have been documented. Their period is between the 6th and 5th centuries BCE. The term "Mahājanapadas" literally means "great realms" or "great nations" in Sanskrit. These states were in various parts of ancient India, including the modern-day regions of northern, central, and eastern India. These kingdoms were ruled by monarchs and had their own systems of government, administration, and military. They also had their own distinct cultures and religious practices. The rise of the Mahājanapadas marked an important phase in ancient Indian history as it marked the beginning of the formation of larger, more complex societies in India. The development of the Mahājanapadas also led to the emergence of new trade and economic activities, as well as cultural and intellectual exchanges between different parts of India. Some of the most prominent Mahājanapadas were Kosala, Avanti, Vatsa, and Māgadha.

**(iii) Mauryan empire, Shunga and Satavahana kingdoms(4th to 1st century BCE) :**

Mauryan empire was founded by Chandragupta Maurya, under the able guidance of Cāṇakya, and was one of the largest empires in Indian history, stretching from present-day Afghanistan to Bangladesh. The Shunga Empire was in the eastern part of India and was known for its achievements in art, architecture, and science. The Satavahana Kingdom was located in the central part of India and was one of the largest and most powerful kingdoms of its time. This was the period when Kauṭilya's Arthaśāstra defined the statecraft and administration.

Amongst these, '**Rāmarājya**' has been envisaged as the ideal of governance based on social justice, non-violence and self-reliance. (Desai Meghnad, 2011). In the article, "Ramarajya: A Study in Gandhi's Political Philosophy." by Mahatma, M.K. Gandhi, (Published in Gandhi Marg, Vol. 14, No. 1 (Jan.-Mar. 1992), pp. 44-50), the author argues that Rāmarājya is not just a political ideal, but a way of life that promotes individual and social transformation. By Rāmarājya, Gandhi also meant a form of government which involves the empowerment of

people at grassroots, equality of opportunity, decentralization of administration, cooperative participation of people, and democratic self-governance. (Rao Koneru Ramakrishna, 2017, pages 206–220). Rāmarājya is not just a utopian ideal, but a realistic and achievable goal. ("Gandhi's Political Philosophy of Ramarajya: A Reassessment." by Shrimali, Bhagwan Das. Published in Gandhi Marg, Vol. 21, No. 3 (Apr.-Jun., 1999), pp. 356-364.) Vālmīki documents in Rāmāyaṇa that, Ayodhyā was a yardstick for any aspiring state with 100% literacy (VR 1.6.6)<sup>16</sup>, 100% of citizens being in High Net-worth Individuals category (VR 1.6.7)<sup>17</sup> and the value, moral and patriotic quotient being 100% (VR 1.6.8 & 9)<sup>18</sup>.

Hence, this research studies the two landmark texts at different end of timeline-spectrum viz. Vālmīki's Rāmāyaṇa and Kauṭilya's Arthaśāstra for potential insights to these three challenges.

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<sup>16</sup> तस्मिन्पुरवरे हृष्टा धर्मात्मना बहुश्रुताः । नरास्तुष्टाधनैः स्वैः स्वैरलुब्धाः सत्यवादिनः ॥ VR 1.6.6

<sup>17</sup> नाल्पसंनिचयः कश्चिदासीत्तस्मिन्पुरोत्तमे । कुटुम्बी यो ह्यसिद्धार्थोऽगवाश्वधनधान्यवान् ॥ VR 1.6.7

<sup>18</sup> कामी वा न कदर्यो वा नृशंसः पुरुषः क्वचित् । द्रष्टुं शक्यमयोध्यायां नाविद्वान्न च नास्तिकः ॥ सर्वे नराश्च नार्यश्च धर्मशीलाः सुसंयताः । मुदिताः शीलवृत्ताभ्यां महर्षय इवामलाः ॥ VR 1.6.8 & 9