



Ethical Governance for a Knowledge Based Economy: Reconnecting Accounting and Auditing with Knowledge

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ABSTRACT

The beginning of twenty-first century was marked by an emphasis on ethics in business and education, if only in response to scandals and crises that shook the public's trust in institutions public and private. The collapse of Satyam Computers is a case in point, as is the 2G Spectrum controversy that continues to embroil business and government leaders alike.

This paper has sought to make the case that questions of ethics are fundamentally about every individual's place in the organisation and the socio-economic system at large, and can only be resolved properly through a concerted focus by everyone on knowledge building. Fundamentally, that knowledge-building includes the determination of everyone's rightful place in the organisation and the socio-economic system at large. That is the central question that human society has grappled with over millennia, a key to which can be found in the Taittiriyanopanishad in the form of training everyone to concentrate the mind on a purpose.

KEYWORDS: Accounting, Auditing, Governance, Ethics, Glocalisation, Globalization

INTRODUCTION

The beginning of twenty-first century was marked by an emphasis on ethics in business and education, if only in response to scandals and crises that shook the public's trust in institutions public and private. The collapse of Satyam Computers is a case in point, as is the 2G Spectrum controversy that continues to embroil business and government leaders alike. With numerous articles, books and codes of ethics written to address the lessons learned, one would imagine a world poised to once and for all remove any doubt that the discourse, the decision-making, and the actions in our institutions will henceforth be ethical. Alas, such is not likely to be the case because the prevailing code of ethics approach requires individuals to take into account a multitude of moral, economic, social, ecological and political factors that may be relevant when making decisions.

A Brief History of Ethics

It is not the intent of this paper to get into the debate over whether ethical thinking or religion came first in the history of human intellectual development. However, it is worth noting that the first known theory of organising human society and economy along with the members' duty to society dates back to an ancient document in the UNESCO Memory of the World Register, described as among the first literary documents in the history of humankind. The Rigveda is one of the knowledge pillars on which the superstructure of Asian culture is built (Gopalakrishnan and Dhadphale, 2007), because it explains the interconnectedness of life forms and the elements of nature. It is this connectedness, especially when there is no explicit gain in it from one individual's point of view, which defines an ethical way of being (Keller, 2007). The Rigveda conceives human society as being comprised of four distinct but interconnected classes wherein members of each class serve the society at large: those predisposed to learning and the pursuit of knowledge, those predisposed to governing and defending the ones governed, those given to trade, farming and work in general, and those given to serving others. Contemporary professional and trade groups and even the silos of academic disciplines—where the members seek to advance the interests of the group, are no different from the socio-economic construct of caste in India, the crucial exception being that in an era void of public education the “learning” happened in the family and therefore the caste system ossified around the notion that the family of birth determines an individual's occupation, place in society, and duty to the whole.

Arthashastra

The author of an ancient treatise on political economy—The Arthashastra, or “the science of import”—had long ago advocated the use of spies and other means to cause dissension and infighting among adversaries, after exhausting the options of amicable resolution, monetary means or bribery, and punishment. As an astute observer of human nature and mentor to perhaps the first great emperor in the history of India, what the author Kautilya advised to emperors and kings reverberated through folk wisdom like the Panchatantra (Olivelle, 1997), finding a home in the psyche of the masses over the centuries.

Actions that employ bribery or cause infighting might not be considered ethical by some, but the extent to which individuals, businesses and governments engage in such activities is hard to tell.

Glocalisation, not Globalisation

As the divisions between capital and labour or owners and workers ossified around the pursuit of their respective self-interest and became entrenched in the political economy, the phenomenon of globalisation made the search for the competent worker easier than nurturing individuals in-house to improve performance. The key to lasting prosperity was lost within decades after western society figured out a transparent way to determine each individual's rightful place in the society and the economy by taming the animal spirits that tend to cause more harm than good. Even Paul Samuelson—a towering figure in economics and management education, from whose books the likes of Dr. Manmohan Singh and members of the Planning Commission studied economics, observed the following about the excessive financialisation in the name of globalisation: “Fiendish Frankenstein monsters of financial engineering had been created, a lot of them at MIT, some of them by people like me...there's no CEO who understands at all a derivative! All they know is that somebody tells them in their organisation, ‘We've got a wonderful profit center’... I'm not sure that all of the fiendish stuff could have been picked up by centrist regulators, but you don't have to be perfect in anything in economic life. If you spent 70 years in economics, you'll understand that” (Samuelson, 2008). The pendulum of management education swung quickly in the direction of “processes” as the measure of competence, DuPont recognising the importance of work processes and PepsiCo being the first to recognise in their slogan “Performance with Purpose” that global processes must serve local purpose.

Rise of Accounting as a Force behind Corporations

The rise of accounting as a distinct and vital profession serving the political economy was key to the rise and the reach of the organisation, public and private, in the twentieth century. As corporate organisations became influential and knowledge became a commodity, the accounting profession evolved to become a rigid, transaction-based legal construct rather than a resilient, knowledge-based economic construct as it was originally conceived by Frederick Taylor. Taylor's original emphasis on using knowledge and individual performance to facilitate cooperation was lost in “professional” and budgetary silos, as was the fact that his prescription of monetary incentives was meant for illiterate workers—conditioned to serve—who could not or did not think on their own about bettering their economic prospects.

When and Why Questions of Ethics Arise

The new glocalised economy calls for a deeper understanding of when and why questions of ethics arise. Glocalisation implies a balancing act between processes designed for global application, and local purpose. To that end an organisation can be conceived in a broad sense as a collection of competencies or work processes brought together by multiple firms involved in the commercialisation process. Each firm, including the owner, brings to bear the competencies that the firm can

perform or lead most effectively. Such competency-based organisation is not a new concept (Patil, 2006). At its core, the concept of competency-based organisation utilises the Rigvedic idea of the interconnectedness of firms and markets as parts of a human body, with different organs and systems of organs as competencies or work processes pursuing a meaningful purpose.

Reconnecting Accounting/Auditing with Knowledge

The following figure illustrates a framework to connect budgeting for investments large and small, cost accounting, and auditing, with knowledge. A definition for each category on the Roman numeral scale is as follows:

- I Feasibility estimate: Minimal work is/was done to develop the estimate. (It's a guess!)
- II Estimate based on preliminary scope: Some work is/was done, but limited to rough outlines of the scope and preliminary conversations with the stakeholders.
- III Estimate based on scope defined for the purpose of budget: The work is/was at an advanced stage. Cross functional/interdisciplinary reviews are/were conducted and the results from the reviews as well as stakeholder input incorporated into budgetary estimate.
- IV Estimate based on planning for Implementation: The team has/had performed a final review including an analysis of potential risks, discussed risk mitigation and change management plans, and incorporated measurable uncertainty into the plans and the cost estimate.

Instead of linking activities or tasks to accounts as is normally done, each "deliverable" based on purposeful knowledge-building is linked to a cost account, recognising the inherently probabilistic nature of knowledge itself. So, the team needs to list the deliverables and then work back to think through the knowledge-building required to produce each deliverable and the effectiveness of the estimate that corresponds to that deliverable. Individual cost accounts for the deliverables are ranges of costs and remain so throughout implementation but the overall cost at the program level is expressed as "a number." As knowl-

edge-building proceeds from limited to advanced the team and the auditor can circle the appropriate Roman numeral, indicating the extent of knowledge building that corresponds to the budgetary numbers. Implementation performance can then be correlated with the extent of knowledge building at the time of budgeting. A fully developed audit rubric requires that each Roman numeral is defined specifically for each deliverable, but that is beyond the scope of this paper.

	Limited of Planning most closely	Estimate Quality and Completeness Advanced (circle one option that indicates the status)		
Key Deliverable from the Projects/ Investments	Feasibility Estimate	Estimate Based on Preliminary Scope	Estimate Based on Budgetary Scope	Estimate Based on Planning
1.	I	II	IV	V
2.	I	II	IV	V
3.	I	II	IV	V
4.	I	II	IV	V
5.	I	II	IV	V

Add more as needed.....

Figure: Reconnecting accounts and Budgets with knowledge

Concluding Thoughts

This paper has sought to make the case that questions of ethics are fundamentally about every individual's place in the organisation and the socio-economic system at large, and can only be resolved properly through a concerted focus by everyone on knowledge building. Fundamentally, that knowledge-building includes the determination of everyone's rightful place in the organisation and the socio-economic system at large. That is the central question that human society has grappled with over millennia, a key to which can be found in the Taittiri-yopanishad in the form of training everyone to concentrate the mind on a purpose.

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