Integrating Indian Knowledge Systems (IKS) with Sustainable Financial Governance: A Dharma Based Framework for Inclusive Economic Decision - Making

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Abstract

The global financial system is experiencing a fundamental shift in response to escalating concerns about environmental degradation, ethical failures, governance crises and socio - economic inequalities. While modern frameworks exist today to address these questions like sustainable finance, Environmental, Social and Governance (ESG) integration, or stakeholder capitalism, they are still very much rooted in Western utilitarian and shareholder centred paradigms. It is in this context that Indian Knowledge Systems provide a holistic, value based, ethically grounded alternative for re-sharing concepts of financial governance. Based on the fundamental principles of Indian philosophy - Dharma, Artha, Lokasangraha, trusteeship and intergenerational responsibility - this article proposes a Dharma Based Framework for Sustainable Financial Governance. Anchored in interdisciplinary research and recent literature in the fields of sustainable finance and governance, the study provides a conceptual model and its relevance with empirical and policy research evidence from the Indian financial system, covering ESG finance, ethical banking, financial inclusion and public finance reforms. By combining IKS with modern financial decision-making, the article adds to the academic research questions in the fields of management and finance as a means of presenting an indigenous, cultural and ethically strong structure that matches the goals of the National Education Policy 2020 and the Sustainable Development Goals.

Keywords: Indian Knowledge Systems, Sustainable Finance, Financial governance, Dharma ethical, finance Inclusive Development

1 Introduction

Finance is not only a technical tool of capital management, but it is a strong institutional force in designating economic priorities, social relations and environmental effects. Over the last two decades, recurring financial crises, corporate governance failures, climate-related risks and increasing socio-economic inequalities have raised doubts over the sustainability and ethical underpinnings of conventional financial systems (Boffo, & Patalano, 2020; World Economic Forum, 2021). Dominant financial paradigms, which are based on shareholder primacy and maximising short-term profits, have been heavily criticised for the failure to internalise social and environmental externalities (Goyal and Kumar, 2021).

In response, a number of global initiatives have emerged in the form of sustainable finance, integration of ESG and impact investing to act as corrective frameworks. Empirical research has indicated that firms which have good ESG performance have better long-term resilience, lower downside risk and greater trust of stakeholders (Mukherjee & Saha, 2022; Rao & Tilt, 2020). Nevertheless, many ESG practices are compliance driven and instrumental in nature, without greater ethical and philosophical underpinnings, warn scholars (Boffo & Patalano, 2020).

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Indian Knowledge Systems is an integrated and comprehensive system of indigenous knowledge including philosophy, governance, economics, ethics, ecology and system of social organisation. Unlike the contemporary economic thinking that tends to view ethics as constraints on market behaviour, the Indian traditions of thought place economic activity in the moral and social context which is inclined towards the principles of balance, justice and common good (Bhatia and Sharma, 2023; United Nations Educational, Scientific and Cultural Organization, 2022). Classical Indian texts always emphasize the need to pursue wealth, Artha, in a manner that does not contravene the principles of Dharma, righteous conduct, the ethic of duty, and justice in given contexts.

Within the frame of IKS, economic governance is inseparable from the principle of Lokasangraha or social stability which prioritises social stability, inclusiveness and inter-generational responsibility. This way of thinking speaks strongly to current concerns about sustainability, but also presents a more internally regulated and value driven alternative to the externally enforced governance mechanisms. Despite this relevance of the concept, IKS is marginalised in mainstream finance and managerial studies especially when it is examined with regard to financial governance and sustainable decision-making (Sharma & Bhatia, 2023).

Against the backdrop of the above, this current study aims to address the following research question: How can Dharma-based principles drawn from IKS be used to inform and strengthen sustainable financial governance in the modern Indian scenario? By combining indigenous ethical and contemporary finance literatures, the paper aims to offer culturally sensitive, robust, and policy relevant model as per the given objective of National Education Policy 2020 and Sustainable Development Goals.

2 Literature Review

2.1 Sustainable Finance & Financial Governance

The literature on sustainable finance highlights the integration of environmental, social and governance factors into the financial decision-making processes to create increased value over the long run and greater systemic stability. Escapee & Goyal Empirical research both in developed and emerging markets during the last five brownish envelopes shows that firms with robust ESG performance tend to demonstrate able risk management, higher access to capital, and better continuity relationships (Goyal & Kumar, 2021; Mukherjee & Saha, 2022). Regulatory interventions and market based incentives have put the adoption of sustainability oriented financial practices in fast motion.

Nevertheless, there is increasing critical work looking at the shortcomings of existing models of sustainable finance. Scholars suggest that integration of ESG practices is among other drivers mostly because of reputational concerns, regulatory compliance and investor signalling rather than intrinsic ethical commitment (Boffo & Patalano, 2020). The frequency of greenwashing and fragmented structures of governance exposes the lack of moral underpinning of modern financial systems. Financial governance frameworks based on agency theory and shareholder value maximisation still prevail and restrict the normative efficacy of sustainability initiatives (Rao & Tilt, 2020).

2.2 Indian Systems of Knowledge and Economic Thinking

Indian Knowledge Systems is a pluralistic and interdisciplinary body of knowledge, passed down through philosophical texts, traditions of governance, as well as socio-economic practices over times and centuries. Economic thinking in IKS is inextricably connected with the moral philosophy and social responsibility. Classical texts like Arthashastra, Mahabharata and Dharmashastras espouse the principles of governance which stress on justice, welfare, accountability and prudence in the administration of economy (Sharma & Bhatia, 2023).

The Purushartha framework in the form of Dharma, Artha, Kama, and Moksha gives a holistic vision about human development and economic activity. Within this framework Artha is legitimised only when it is followed in accordance with Dharma and thus prevented from being used for exploitative accumulation and social imbalance.

Scholars suggest that this process of ethical infusing of economic activity provides attractive lessons for addressing these current problems of inequality, ecological degradation and vices of mistrust towards institutions (UNESCO, 2022).

2.3 Dharma in its Frameworking of Ethics for Governance

Dharma has a central place in Indian philosophical traditions and is a dynamic ethical principle including moral duty, justice, righteousness and situational appropriateness. Unlike rule based or contractarian ethics, Dharma is a concept that focuses on responsibility towards society, nature and future generations. In governance situations, Dharma connotes the responsibility of trusteeship, accountability and restraint in the exercise of power and control over resources (Sharma & Bhatia, 2023).

Recent interdisciplinary research indicates the role of value-based and virtue-oriented governance frameworks for institutional legitimacy and trust and longer-term resilience (World Economic Forum, 2021). However, Dharma-based ethics is not yet explicit in mainstream concepts of financial governance, especially in the management and financial scholarship fields. Existing studies tend to refer to indigenous ethics normatively but do not translate them into modes of operational governance.

3 Research Gap

The above review identifies three related gaps in the literature. First, sustainable finance research is not based on rich ethical and philosophical underpinning other than instrumental Environmental, Social and Governance compliance mechanisms. Second, Indian Knowledge Systems are not well represented in the current discourse of financial governance, even though they are very much stuck with the goals for sustainability and inclusion. Third, a lack of conceptual frameworks that translate the principles of Dharma based systematic approaches to actionable financial decision-making in the corporate, institutional as well as public finance domain. This research attempts to fill such gaps by creating and demonstrating a Dharma Consistent Framework for Sustainable Financial Governance.

4 Research Objectives

The study aims to:

- Study of the relevance of Indian Knowledge Systems in modern Financial Governance
- Conceptualize Dharma is an ethical basis for sustainable financial decision-making.
- Propose a Framework Based on Dharma Across Financial Domains.
- Using evidence from the Indian financial system critically demonstrate the framework.

5 Methodology

This research employs qualitative and conceptual methodology with the aid of illustrative empirical evidences. The study uses a doctrinal and interpretive analysis of classical Indian texts to find key ethical and economic principles. This is supplemented by a systematic literature review of peer reviewed Scopus indexed literature between 2020 to 2024 on sustainable finance, financial governance, and ethical leadership. Policy documents, regulatory frameworks and reports connected to Environmental, Social and Governance related finance and public financial reforms in India also analysed. The methodology focuses on analytical synthesis to bring philosophical understandings to present financial practices, thus taken care that conceptual rigor and contextual applicability are ensured.

6 Regulatory Framework of Sustainable Financial Governance Based on Dharma

6.1 Conceptual Framework Explanation

The Dharma-mentioned Framework of Sustainable Financial Governance is organized by five interlinking pillars of ethical duty, purposeful wealth creation, social welfare, intergenerational responsibility and trust-based governance. At the centre of the framework are practices of Dharma, the normative anchor for all kinds of financial decisions. Artha or creation of wealth is given a subordinate place as an instrument with limits (ethical responsibility, welfare of the society). Lokasangraha is the social objective of finance, which should see inclusivity and equitable developmental process. Intergenerational responsibility is focused on long term ecological and financial sustainability. 3. trust and transparency serve as institutional enablers of governance. Conceptually the framework can be imagined like a concentric model with the inner core consisting of the Dharma affecting the financial decision making at the micro, meso and macro levels. Surrounding this core are the governance mechanisms, institutional practices and policy instruments - instruments of operationalizing the term ethical finance.

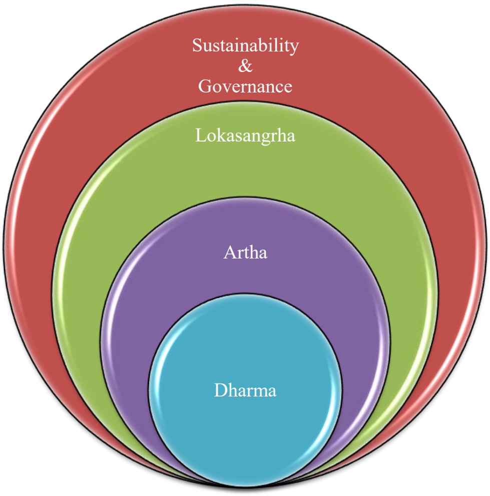

Fig. 1. Dharma-Based Framework for Sustainable Financial Governance

6.2 Applications in Different Areas of Finance

Corporate Finance: In corporate finance, the corporate finance framework is put forward that tends towards the principles of responsible allocation of capital, ethical pay packages for executives, and stakeholder-oriented corporate governance and long-term value creation. Financial decisions are being assessed from a broader angle beyond profitability, on the social and environmental impacts of such decisions.

Banking and Financial Institutions: In the banking sector Dharma Based governance encourages ethical lending, financial inclusion, and prudent risk management practices as well avoiding exploitative practices. Trust-based relationships with the customers and the communities are highlighted.

Public Finance: In the context of public finance, the framework of public finance includes welfare-oriented budgeting, equitable taxation, transparency in expenditure and fiscal prudence in accordance with social justice and intergenerational equity.

6.3 Empirical Illustration of Dharma based Finance in India

1. **Financial Goals Environment, Social and Governance**

India's move towards mandatory Business Responsibility and Sustainability Reporting is a move towards stakeholder-oriented governance. Environmental, Social, and Governance investing is in line with the Indian concept of Knowledge Systems called Lokasangraha by channelling capital to socially beneficial and environment-friendly investments. A Dharma-based interpretation enhances this alignment by virtue of deploying ethic of responsibility within managerial intent as an alternative to sustainability as a compliance requirement

2. **Ethical Banking and the Initiatives towards Financial Inclusion**

Financial inclusion efforts like Jan Dhan Yojana, priority sector lending, microfinance are examples of ethics which stem from social welfare and equity. These initiatives are salient for the dharma based understanding regarding financial system, namely that it has to support livelihoods, reduce vulnerability, and foster social stability.

3. **Financial Management-Financial Policy & Budgetary Control**

Public finance reforms that are gaining ground in India lean more towards outcome-based budgeting, social sector investments and climate finance. These practices are asserted to reflect the traditional concept of Raj Dharma where the state is held responsible for justice, welfare and sustainable prosperity.

7 Discussion

The analysis shows that Indian Knowledge Systems provide a consistent ethic and governance framework that is capable of dealing with the contemporary financial problems. The overlap between Dharma-based principles and modern best practices in sustainable finance portends the development of indigenous knowledge to deepen and increase the efficacy of financial reform. By building internalized ethics as opposed to enforced externally Dharma based governance helps build institutional trust, limit opportunistic behavior and promotes long-term resilience.

8 Policy and Managerial Implications

The study has important implications for policy makers, financial regulators, educators and practitioners. Integrating Indian Knowledge Systems into financial regulation can help in beefing up ethical governance. Management education can integrate ethical financial practices as per Dharma in accordance with National Education Policy 2020. Financial institutions can implement indigenous measures of sustainability, taking into account social and cultural contexts.

9 Conclusion

This paper has proposed that Indian Knowledge Systems provide a strong and underutilised basis for sustainable financial governance. By incorporating Dharma-based principles into the field of finance and economics, there is the potential for financial and economic systems to shift from profit-driven narrow systems to ones which are inclusive, ethical and resilient in their development. The proposed framework adds to the field of finance and management studies by promoting an indigenous model of financial governance which is philosophically and policy-relevant. Future research studies may attempt to empirically test the framework by using quantitative data from several firms and financial institutions, thereby making its applicability and impact stronger.

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