Adoption of Sustainable Business Practices by Companies: Driven by Social Responsibility or Mere Window

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Abstract : Businesses based on socially responsible decisions benefit in terms of profit and credibility, as they are considered less risky. In view of recently recurring global recessions, the social responsibility of companies assumes a significant role. With India's increasing demand for resources, businesses are expanding their territories to sustainable performance, and are trying to display that they are making an impact not only in terms of profits but also ecologically. Such is the pressure to compete that companies are even setting up "Sustainable Committees". But interestingly various authors have presented contradictory and opposing views on the role of sustainability. This paper aims to provide an extensive review of contradictory views on the topic at hand. The underlying motive of business determines whether they are actually fulfilling the sustainability criteria or are merely indulging in window dressing. The need of hour is to create and promote enterprises which whole heartedly and genuinely support the cause of sustainable development.

***Index Terms* - Sustainable business practice, corporate social responsibility, window dressing, sustainable development, financial statement manipulation**

I. Introduction

The nucleus of the Constitution of India is based on "We, the people" which talks about an integrated approach towards justice, equality, socio-economic stability and equal opportunities to each and every citizen. The Rio Summit declared (Principle 3) that the right to development must be fulfilled so as to equitably meet the developmental and environmental needs of present and future generations (Report of The United Nations Conference on Environment and Development, 1992). A company comes in existence via a charter, special act of Parliament or by registration under the Companies Act. It is a legal entity comprising of an association of people (Indian Companies Act, 1956). Thus, it can be argued that a company is actually by the people, and for the people. It's composed of many I's and We's. Authors are of view that the self-interest of I's cannot be considered above those of We's and if it is the case then the formulation of company and the business conducted by it is against the We-centric Constitution of India. Similarly, role of trust is second to none in business. Thus any business indulging in solely profit-focused, non-sustainable activities is bound to make the country suffer in the long run.

The most widely used framework in developed and emerging economies for sustainability reporting has been developed by Global Reporting Initiative (Carrots and Stick, 2013). The present paper aims to provide an overview of sustainability reporting and whether companies actually indulge in it or are merely window dressing tall claims. In this regard, views of the authors regarding questionably "sustainable" business practices have been touched upon. Additionally, we aim to highlight the major instances of window dressing that have been identified in the corporate sector with reference to business sustainability.

II. Literature Review And Counter-Views

Certain groups that are vital for the success and survival of any organization/ group/ individual, that directly affect or are affected by the activities and objectives of the said organization/ group/ individual, come under the category of "stakeholders", as is widely accepted and acknowledged. The stakeholder family includes a myriad of players such as government and non-government organizations, civil society, print and mass media, policy makers, etc. The principles of corporate legitimacy and stakeholder fiduciary make the nucleus around which firms must ensure the interest of stakeholders. There was a jump towards providing practical shape to this concept, and ultimately corporate social responsibility came into existence. It aims at the integration of social and environmental responsibilities of firms, and interactions with stakeholders. Ethical policies, inter-dependence of companies and stakeholders, and firms integrating expectations of stakeholders in strategy planning sum up the three vital aspects of CSR.

Interestingly, the Indian Companies Act, 2013 (Section 135) along with Clause 55 of listing agreements, SEBI, has directed top 100 Indian companies to disclose their CSR activities in their annual Business Responsibility Reports. It directs that eligible firms (i.e. fulfilling any one of the following: net worth in excess of INR 5 billion, turn over in excess of INR 10 billion and net profits exceeding INR 50 millions) spend at least 2% of the average of their profit over a period of three years on CSR and also make provisions for establishment of a board of directors which will not only formulate and implement its CSR policies, but also monitor them. CSR activities have a wide spectrum viz healthcare, education, social and environmental issues, gender equality, arts etc. An organization's social performance can be measured by discrete donations or campaigns, or by any activities in the philanthropic domain. (Hubbard, 2009). It is worth mentioning that it does not cover those expenses which are incurred outside India or those in which employees and/or political parties are beneficiaries. (Dharmapala & Khanna, 2016).

There has therefore been a paradigm shift from voluntary to mandatory CSR in India. The concept is a matter of debate with arguments and counter arguments. Some support the mandated approach while others are of view that firms must have the right to decide their level of CSR intervention based on their market performance (Sarkar & Sarkar, 2015). Companies are required to disclose the social and environmental information in their annual report. In this context, corporate theory based on the legitimacy of an organization is one of the widely talked about theories (Gnanaweera & Kunori, 2018). Nevertheless, there has been a landmark transition of companies towards providing services to civil society without indulging in excess profit-making and unholy means to achieve success. It appears to be a community-centric approach of doing business. The dimensions it covers have grown leaps and bounds in recent years and are no longer restricted to a single or specific approach (Freeman R. , 2004), (Friedman, 2006).

But there have been instances which have proven otherwise or have shaken the trust employees hold towards their organization. Nevertheless, to eliminate the skepticism towards CSR, attempts have been made to prevent greenwashing and to put in force a regulatory board to overview its implementation. In a vast country like India CSR is not free from challenges such as a lack of effective participation of targeted communities, inefficient communication, limited workforce (trained and motivated) to implement the initiatives at ground levels, lack in clarity and sometimes transparency, problems related to achieving common agenda, too many voices and different visions towards same goal, gaps and presence of unmet needs of society etc. (Ray, 2014).

Pondering over the practical issues faced led to the Triple Bottom Line (TBL) approach by corporates. It basically refers to a three-faceted approach to doing business- people, planet and profit. Fundamentally the message which the firms send out is that they care about social and environmental responsibilities in addition to profit garnering (Eccles & Krzus, 2014). The idea appears to be beneficial for firms and help them achieve goals of financial gains (Peterson, 2013).

There have been many success stories as far as CSR is concerned in India. Notable amongst them are Infosys, Wipro, Glaxo Smith Kline consumer health, Reddys Labs and Byrraju Foundation, etc. Their success was largely based on and/or attributed to giving charity, establishing foundations providing education, health care, providing handholding support during disasters or calamities, creating awareness about health and social issues, etc. (Joseph, 2009)

Interestingly, some authors have strongly argued that in developing countries, mandatory CSR acts as a linkage for growth with social responsibility between a liberal and a regulatory state (Sarkar & Sarkar, 2015). It is interesting that despite the basic idea behind its implementation, insights into the spending pattern of CSR by firms show disparity in terms of implementation and area-wise allocation of funds. Developed regions seem to be the preferred locations.Focus areas of companies are also evidently erratic. (Shanmugam, Champramary, & Veeraraghavan, 2017). Authors Jun Li and Di Wu (2017), in their paper concluded that existing CSR engagements do not always yield better outcomes for society. They also opined that policy interventions can bring about intended or desired outcomes. (Li, 2016). A strong viewpoint was presented by Freeman and Liedtka (1991), wherein they suggested that since businessmen lack expertise in social issues, thus their contribution to solving the problems at hand is minimal. They even suggested that CSR must be abandoned altogether. (Freeman & Liedtka, 1991).

Despite making disclosures mandatory, there are several grey areas in the CSR policy of India. It appears to be largely concentrated in areas related to audit, disclosures, income tax returns, benefits vetted out to trusts, etc. Another area of concern is the attempt by companies (which largely reject the CSR policies implementation) to influence public perception by propagating positive social behavior. This unfortunately comes under the category of window dressing (Griffin, 2006). It can be measured by Compliance Likelihood framework (analyses specificity and compliance components of code) and Implementation Likelihood Framework (analyses focus, organization, performance and monitoring) (Van Tulder, 2001), (Kolk, A Decade of Sustainability Reporting: Developments and Significance, 2004), (Kolk, More Than Words? An Analysis of Sustainability Reports, 2004).

May Yee Ng and Chee Fei Chang in their research, questioned the authenticity of CSR reports of 77 of the world's top 100 companies owing to reasons pertaining to lack of standard benchmarks, lack of standards of accounting and reports being at the discretion of companies publishing them, and finally, a lack of a legal redressal system. The results of analysis of Malaysian Companies undertaken by them revealed a hypocritical element in more than 50% of the claims made. The results set alarm bell ringing as they argued that the real motive behind the CSR activities undertaken were directly or indirectly related to tax incentives. (Ng & Chang, 2014)

Analysis of Fortune Global 250 MNC's yielded that a majority of them indulge in greenwashing due to lack of in-depth quantitative information on environmental impacts of their respective supply chains, thus creating a perception that their policies or products are environmental friendly (Lewis, 2016). The minimum required standards as put forward by the GRI have infused a sense of positivity and promise, as reflected in the report of around 46 Indian companies as per which 93% of companies reported the material aspects having a direct impact on finances. Nevertheless, much still remains to be achieved especially in areas of value integration, corporate transformation, and the involvement of top brass (Sustainability Integration: Corporate Reporting Practices in India, 2016).

An in-depth analysis shows that until recently (2016), websites of 3 out of 100 leading Indian companies didn't have any CSR policy in spite of obligations as per the Indian Companies Act of 2013. Another 8 failed to provide any monitoring framework pertaining to their CSR policy (India's CSR Reporting Survey, 2016). The results assume significance and may open more avenues in the concerned area if analyzed in context to a study done by (Karlsson & Chakarova, 2007). They opined that a paradigm shift in a company's commitment towards CSR may not be the sole reason for deviations from normal but over a period of time they may have an impact on its stock prices owing to a lack of transparency or inability to clearly explain its approach towards CSR. Despite the above viewpoint, it has been shown that earning management is less likely to occur in companies following the CSR, the main reason behind which could be that these are less likely to hide unfavorable earning realizations. But this doesn't nullify the risk of CSR being misused by managers to cover up their unscrupulous deeds (Gras-Gil, Manzano, & Fernández, 2016). Fraud at the level of management have negative and spiraling consequences on the businesses as have been discussed in the paper by (Zahra, Priem, & Rasheed, 2005). The role of senior management is key in the area of sustainable development as is highlighted by various authors. (Hussain, 1999). The parameters by which the environmental impacts of business can be assessed include impact on quality of air and water, energy conservation, waste reduction and minimizing air pollution. Similarly, effect of business on existing labor norms, community health, presence of responsible and well aware consumer and social justice are parameters on which the social impact of policies being adopted depend (Savitz & Weber , 2006). The world's businesses in the present era can't be run without shouldering the responsibility related to social and environmental welfare. Mere window-dressing or ratifying guidelines (on paper) will not only harm the reputation of firm in the long term but also prove to be disastrous for the generations to come.

The environmental performance of a company relies heavily on organizational qualities like innovation, cognitive preferences of the workers employed in the company, the flow of information at the level of organization, and lastly, the integration of concerns and perceptions of the multiple stake holders. These four together are clubbed under the strategic attributes of the firm which can be managed by the leadership in order to achieve better business outcomes. R.K. Jayanti, M.V. Rajeev Gowda, in their paper (2014) concluded, that for effective sustainability branding, both sustainability communication, as well as adoption are important (Jayanti & Gowda, 2014).

The results of the relationship between Corporate Environmental Performance (CEP) and Corporate Financial Performance (CFP) analyzed by studying moderators like characteristics of the firm, methodology and environmental performance type showed that small firms benefit more than larger firms as far as environmental performance is concerned. Furthermore, American firms appear to enjoy better advantages in comparison to their other International counterparts, and their environmental performance is related to the market measures of financial performance (Dixon-Fowler, Slater, Johnson, Ellstrand, & Romi, 2013). Interestingly, analysis of data of over a period of 15 years by Natalia Ortiz-de-Mandojana didn't find any support for the relationship between short term financial performance and social and environmental practices. (Ortiz-de-Mandojana, Natalia & Bansal, Pratima, 2016). Results of another meta-analysis showed that relationship between Corporate Social and Corporate Financial Performance is much more than what is considered to exist between the two (Orlitzky, Schmidt, & Rynes, 2003).

III. Conclusions and Recommendations

The debate is interesting and never ending. In the era of digitization and heavy reliance on information being provided on digital platform, it is extremely important that manipulative accounting or window dressing must be minimal or absent, especially when it comes to environment and sustainable growth. Some consider Corporate Social Responsibility as progressive or hypocritical window dressing. It must be kept in mind that businesses work constantly under the pressure of stock/stake holders. This may be the driving force behind the majority of practices being employed by them. Thus, disclosure of CSR may not always be voluntary and sometimes may even be mere window dressing.

Agenda that must be adopted by firms to achieve sustainability and avoid manipulation:

a. Companies need to adopt an ethical methodology to attain their financial goals. This will ensure that the sustainability is achieved without even an iota of manipulation.

b. The house needs to be in order and the company's strategies must be planned meticulously. As far as possible there must be least deviation from the original plan. This will also minimize the twisting of facts as sometimes observed. Firms will also not indulge in window dressing if they stick to the original plan.

c. Companies must also avoid making tall and unrealistic claims. Authors are of view that whatever is planned, made and designed by mortals will ultimately be mortal, and as technology together with knowledge will advance, it is obvious that better ideas will start coming in existence. Thus firms must not make false promises and must keep the scope for improvement always open. Re-planning and re-designing, if required and warranted, must not be shied away from at any point.

d. Standards set by companies must be brought under surveillance and frequent inspection. Credentials must be given only after thorough scrutiny of the efforts claimed towards sustainable business. Likewise, the audit must be strict to ensure that nothing amounting to account manipulation is attempted by businesses.

e. As elsewhere, "evidence based attempts and plans made towards achieving sustainability" must be devised. Again, results must be put to critical analysis. Evaluation and review must be done. This will not only ensure better understanding of the projects which are in progress but also those which the companies plan to float in future. Prospective and retrospective approach towards the intended and yielded results will enable businesses to contribute to sustainability in the real sense.

f. Companies must make sincere effort to reach out to every strata of society rather than target specific groups or catchment areas only. They must aim at providing benefits without bias. This way they will enjoy trust and confidence of the masses, and will ultimately make big profits without indulging in window dressing.

g. Tunnel vision and a race to make bigger profit margins often compels firms and managers to manipulate earnings. All that is required to streamline genuine business sustainability is a people-centric, environment friendly policy framework, and business done with genuinely positive intentions.

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