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Research Article

Theoretical Analysis of Sustainable Business Practices Adopted by Companies at Global Level

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ABSTRACT

This study offers a thorough analysis of the literature with regard to how sustainable business practices affect an organization's overall performance. Despite this, there is a growing body of research in the recent age that links sustainable company practices to financial performance. With the backdrop of increasing environmental pollution and social inequality, sustainability and sustainable business practices have gained significant relevance in the modern world. Accordingly, the current study pinpoints the issues and proven drift that obstruct a legitimate consensus over that link. These days Sustainability is seen as a significant issue for our collective period. As a result, during the past ten years, more stakeholders have given socially responsible investing their full focus. Therefore, sustainability has the power to improve a company's overall performance. This study aims to provide conceptual clarity on the various aspects of sustainable development, including community, environment, workers, and governance, as well as relevant theoretical frameworks. Together with this research, a systematic literature review has been used to do theoretical analysis in the context of both developed and developing nations. Subsequent investigation, however, shows that the four sustainability components have distinct but substantial effects on financial success.

Keywords: corporate sustainability, sustainable components, corporate social responsibility (CSR), sustainability reporting, socially responsible investment (SRI).

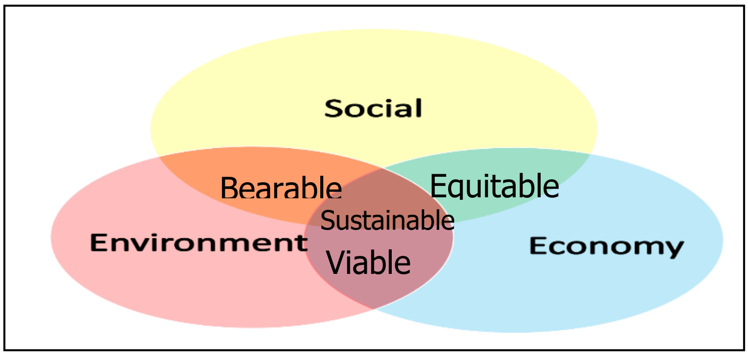
INTRODUCTION

These days, sustainability is a major issue that worries people all over the world. According to Brundtland (1987), sustainability is defined as "meeting the needs of the present generation without compromising the ability of future generations to meet their own needs" at the World Commission on Environment and Development (WCED). Over the past few decades, stakeholders' interest in a company's non-financial performance has increased dramatically.

A world that is considered sustainable is one in which everyone has equal access to economic opportunities, communities and nations are safe, peaceful, and thriving, human health is generally maintained, and the integrity of the biosphere—which supports life—is preserved to the extent required to enable the achievement of these objectives. To realize this vision, all four aspects of sustainability must be taken into consideration. --"Higher Education and Sustainability Overview," Anthony D. Cortese and Debra Rowe As of late, the business has to accept responsibility for both the positive and negative effects of its varied operations on the entire internal and external environments in which it operates. Nonetheless, the business needs to properly disclose these significant effects in a suitable sustainability report. Basically, Sustainability Report includes a detailed description of their governance structure, stakeholder engagement approach and triple bottom line performance in detail. Triple bottom line is a business concept that states firms should commit to measuring their social and environmental impact—in addition to their financial performance—rather than solely focusing on generating profit, or the standard "bottom line."

Researchers are convinced and advise that corporate sustainability will likely have an impact on overall performance and profitability in the current dynamic and composite business environment. It lays the groundwork for maintaining and increasing the firm's worth. The companies gain a great deal from integrating sustainability into their main tactics. Reputation, staff morale, consumer accessibility, enhanced company governance, risk avoidance, improved stakeholder interactions, and more are just a few of the numerous advantages of business sustainability.

The world must come together, make decisions, formulate plans, and take action that will result in a more secure future for the planet in order to maintain the natural world and the human way of life and to further enhance both. The term "sustainable development" was first defined by the UN's World Commission on Environment and Development. The former president of Norway, Bro Harlem Brundtland, defined sustainable development as "the development that meets the needs of the present without compromising the ability of the future generations to meet their own needs" in their assessment titled "Our Common Future." A great deal of research and discussion has gone into comprehending and applying the idea of sustainability. The triple bottom line—environmental, social, and economic development—is the most widely recognized and workable approach to planning sustainable development. It is evident that an equitable society is one in which economic gains are distributed, that a world that is bearable to live in results from social and environmental elements being in harmony with one another, and that a viable climate results from these aspects being in balance. When these three elements work together, sustainability is attained.



Source: UCN (2006) The future of sustainability, Report of IUCN 29-31 January 2006.

OBJECTIVES

The principal objective of this paper is to become aware about the impact of divergent components on overall performance of the company. Basic objectives have been formulated along with the main objective are as follows;

- To give an insight overview of the concept of corporate sustainability.
- To provide a detail conceptual clarity on different components to corporate sustainability.
- To present related theories of corporate sustainability.
- To provide literature review on the relationship between corporate sustainability and company's performance.

COMPONENTS OF CORPORATE SUSTAINABILITY

Since the first environmental report was published in the 1980s, the idea of sustainability reporting has changed, according to the International Institute of Sustainable Development (IISD). It is also known as Triple Bottom Line (TBL) Reporting or Corporate Responsibility Reporting (CRR). The phrase "triple bottom line" was coined by Elkington (1998) to highlight three factors: the earth (environmental), people (social), and earnings (economic). Businesses issue sustainability reports to outline their triple bottom line performance and demonstrate their dedication to their many stakeholders. The goal of corporate sustainability is to make more choices, plan ahead, and take action that will ensure the earth has a more secure future. "Development that meets the needs of the present without compromising the ability of the future generations to meet their own needs" is how the UN World Commission on Environment and Development originally defined sustainable development. A great deal of research and discussion has gone into comprehending and applying the idea of sustainability. A sustainable approach adds greater value to corporate endeavour's and is wise from a financial standpoint. A variety of metrics, including community relations, energy efficiency, eco-design, and staff relations, can be used to determine sustainability. The following list includes the four main facets of business sustainability.

Components	Description
1) COMMUNITY Human rights, supply chain, product quality & safety, product sustainability, community development, philanthropy.	The company's dedication to and performance in the local, national, and international communities in which it conducts business are covered by the Community Component. It displays the company's volunteerism, philanthropic contributions, and citizenship. This section addresses the company's record on human rights and how its supply chain is handled. It also discusses the creation of sustainable goods, procedures, and technology, as well as the effects that the company's goods and services have on the environment and society.
2) EMPLOYEES Diversity, labor rights, treatment of unions,compensation, benefits, training, health, worker safety	The Employees Component includes Disclosure of policies, programs, and performance in diversity, labor-relations and labor-rights, compensation, benefits, and employee training, health and safety. It focuses on compliance with national laws and regulations, fair treatment of all employees, disclosure of workforce diversity data,

	strong labor codes, comprehensive benefits, training and development opportunities, and employee health and safety policies.
3) ENVIRONMENT Environmental policy, environmental reporting, waste management, resource management, energy use, climate changepolicies and performance.	The data for the environment component includes the company's interactions with the environment as a whole, including how it uses natural resources and how it affects Earth's ecosystems. It also includes information on how the company complies with environmental regulations, how it takes the lead in addressing climate change, how it operates efficiently, how it uses renewable energy, how it conserves natural resources, how it prevents pollution, how it approaches sustainable development, and how it engages stakeholders in environmental improvement initiatives.
4) GOVERNANCE Leadership ethics, board composition, executive compensation, transparency and reporting, and stakeholder treatment.	The Governance Component includes executive remuneration, board independence and diversity, disclosure of rules and processes, and an assessment of the company's compliance and ethical leadership culture. This component assigns a score to elements like the following: transparency to stakeholders; integration of sustainability concepts from the top down into daily operations of the organization; and alignment of corporate policies and practices with sustainability goals. The focus of governance is on management's dedication to corporate responsibility and sustainability at all levels.

(Source:www.csr.com)

RELATED THEORIES OF CORPORATE SUSTAINABILITY

Stakeholder theory, agency theory, and legitimacy theory are the three main ideas of business sustainability. According to the theories, businesses should incorporate sustainability into their primary strategy plan. It is concluded that there is a favourable correlation between corporate sustainability and a company's performance based on the theories' suggestions. Corporate governance theories have their roots in Political theory, resource dependence theory, and transaction cost theory have all progressed since then. The following are the theories' theoretical justifications:

A. Legitimacy Theory:

Legitimacy is "a condition which exists when an entity's value system is in harmony with the value system of society," according to Lindblom (1993). This idea states that in order to guarantee a firm's long-term existence, it is imperative to adhere to societal norms and expectations. Legitimacy theory proponents highlight how sustainability reporting tends to increase a company's operating license and lower the danger of regulatory measures and stakeholder boycotts.

B. Stakeholder theory:

The principle of stakeholders applies to persons, groups, or organizations that stand to gain or lose influence as a result of a company's decisions and activities. Freeman (1984) asserts that the stakeholder theory maintains that companies are accountable not only to shareholders but also to a wide range of other stakeholders, such as creditors, consumers, suppliers, employees, the government, the community, the environment, and future generations. Scholars have acknowledged the importance of integrated sustainability reporting in enhancing the bond between a company and the community in which it functions. Ignoring stakeholder interests could damage a company's reputation, which would negatively impact its ability to make money.

C. Agency theory:

The principal-agent relationship between owners and managers is the foundation of the agency theory. The significance of this idea has increased in the wake of corporate governance scandals such as the Satyam affair. It is often known that managers of companies have conflicts of interest and that there is knowledge asymmetry between shareholders and other stakeholders. Investor perception of risk increases considerably in the absence of sufficient public disclosure by corporations. As a result, the market either undervalues the shares or demands higher returns from companies that fail to disclose information properly. Durability Reporting improves market efficiency, lowers the cost of capital for the company, and lessens information asymmetry and investor perceived risk.

LITERATURE REVIEW

In recent years, research on corporate sustainability and its effect on overall performance has become increasingly important. Throughout the past 20 years, a great deal of research has been done on sustainability reporting and how it affects overall performance. Examining the connection between corporate social performance and corporate financial performance was the main focus prior to that. Sustainability performance was the independent variable in 92 research in all; of them, 50 revealed a positive relationship, 7 revealed a negative relationship, 21 demonstrated a non-significant link, and 14 produced mixed results. Corporate sustainability was used as a dependent variable in 22 research, 16 of which demonstrated a favorable association. A review shows an analysis of 52 empirical studies and concluded that, “corporate social performance is positively correlated with financial performance and the relationship tends to be bi-directional and simultaneous.”

Investigating and learning about the relationship between Corporate Sustainability Practice and Corporate Financial Performance has always been the central question in sustainable finance research. Additionally, researchers attempted to put forth a framework for gauging the effects of social and environmental activities and assist in identifying a particular area of concern for the integration of improved corporate performance and sustainability performance. Using Return on Assets (ROA) and two distinct models, Bansal, P., & Song, H. C. (2017) attempted to analyze the sustainability performance with the financial performance for thirty-two Indonesian companies from 2006 to 2009. The sustainability performance of the sample firms has been assessed using the principles set out by the Global Reporting Initiative (GRI).

Conversely, not many researchers have attempted to investigate it in a different way. Ameer, R., & Othman, R. (2012) investigated the relationship between environmental performance and profitability of corporations as well as their attempts to protect the environment. Ahmad, N. (2011) found a strong correlation between trade liberalization, population density, energy consumption, CO2 emissions, and economic growth. The relationship between microfinance organizations' ESG scores and their financial success is another sophisticated topic that has been researched.

Speaking about earlier studies, it is noted that the findings are not all that similar. A few research yielded good results; Cantele, S., & Zardini, A. (2018) found strong evidence that the observed sample's accelerated financial performance was positively correlated with improved environmental performance. Adelina, Y. E. (2020) verified the significant listed power generation evidence in the observed sample that connected improved environmental performance with faster financial success. According to Adelina, Y. E. (2020), there is a noteworthy positive correlation between the financial performance of large listed power production firms and their sustainability performance. It has also been determined that there is a statistically significant and positive correlation between the way corporations perform in terms of environmental responsibility and their profitability, as indicated by ROE and ROA. According to research, similar studies have also confirmed the beneficial relationship between financial and corporate social performance and that a company's primary concern when making decisions about its CSR initiatives is its profitability Muhmad, S. N., & Muhamad, R. (2021).

The majority of the experiments in the field of sustainability and financial performance have been examined in industrialized nations. Therefore, these investigations are greatly influenced by macro variables including cultural and economic considerations. In 2020, Pervan, S., and Tran, M. D. Therefore, more thorough investigation is required; consequently, the universal direction of this association remains unknown.

Previous studies have failed to establish a precise and conclusive link between financial performance and sustainability reporting. The outcomes are inconsistent and frequently conflicting. Now, in order to provide more clarity and facilitate understanding of the nature of the relationship between sustainability reporting and business financial performance, we have divided the literature study into sections that show positive, negative, not significant, or mixed relationships. In Aggarwal (2013), P.

Due to a number of benefits and synergies, the majority of research studies show a favorable and significant association between financial success and sustainability disclosures. Yilmaz, I. (2021)

CONCLUSION

Over the past ten years, a considerable increase has been observed in the majority of corporations that provide sustainability reports. Over the past ten years, various studies have been carried out to investigate the relationship between business financial success and sustainability reporting. Additionally, a solid theoretical foundation that includes agency, stakeholder, and legitimacy theory supports sustainability reporting. In general, this topic alone has been the focus of the majority of investigations. Depending on the measure of financial performance, sample selection, control factors, and sustainability reporting, the researcher receives a mixed outcome that might be positive, negative, or statistically insignificant. Scholars demonstrate that distinct sustainability indicators have differing effects on various financial performance metrics. As a result, the majority of research studies indicate and draw the conclusion that sustainability reporting improves company image and financial performance since it maximizes wealth through a variety of synergies and benefits that benefit the reporting organization.

SCOPE OF FUTURE RESEARCH

This study examines several studies' findings and conclusions in the context of sustainable business practices. There is undoubtedly a bright future ahead of those who embrace sustainable techniques. To establish a clearer and more accurate relationship between sustainability reporting practices and financial performance, more in-depth research in this area using a systematic analytical approach is needed to analyze the effects of each sustainability component—economic, social, environmental, and governance. Additionally, the majority of the research that is now available was conducted against the backdrop of wealthy nations. Therefore, it is imperative to look into the correlation in the context of developing nations.

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