

## **Organizational Facades in Sustainability Reports of Organizations with Merits and Demerits.**

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### ***Abstract***

*The important communication channel for an organization to its stakeholders and public at large is sustainability reporting. To increase legitimacy of an organization in the eyes of public and to manage stakeholders' demands, the sustainability report is designed properly. This research contributes to existing research on organizational facades, organizational hypocrisy, the stakeholder groups and sustainability reports. The research analyses how the decision-making of management of organizations affect the interest of stakeholders and develop different types of facades. The research contributes in understanding the subject, significance and purpose of sustainability disclosures and to discuss the issue of inequivalent talk and action in an organization. The study also helps in understanding how the decisions and actions of organizations are not in line and how the organizations fail to comply with their own policies/disclosures/commitments concerning the treatments of stakeholders. The research further facilitates how and why the organizations deceive their stakeholders and why they deceive public into thinking that stakeholders have no issues with their organizations. The research further contributes the elaboration of different kinds of facades developed by the companies and effects of different facades. The research also explores the main motives behind the erection of facades. It finally highlights the merits or the positive aspects of organizational facades and the demerits of organizational facades in the form of precautions. In order to reach conclusions on this subject a qualitative content analysis has been applied.*

**Key words-** *Sustainability Reports, Organizations, Organizations' Stakeholders, Stakeholders Management, Organizational Legitimacy, Organizational Hypocrisy, Organizational Facades.*

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### **Introduction**

The important communication channel for an organization to its stakeholders and public at large is sustainability reporting. To increase legitimacy of the organization in the eyes of public and to manage stakeholders' demands, the sustainability report is designed properly. From legitimacy theory various scholars (Nystrom and Starbuck, 1984; Brunsson, 1989, 1990, 1993, 2002, 2007; Abrahamson & Baumard, 2008) have developed additional theories namely organizational facades and organizational hypocrisy which is a practice of managing inconsistencies between organizational talks and actions in order to manage different

conflicting demands of stakeholders. For example, if a banking organization claims that it has solved all difficulties/problems of customers or that it follows all the suggestions of the customers, but it fails to fulfil/meet its claim in reality. These issues are prevalent in the society for many years. The researchers detect/identify these inconsistencies between the communication and action of organizations which are described as organizational facades or organizational hypocrisy. This research contributes to existing research on organizational facades, organizational hypocrisy, the stakeholder groups and sustainability reports. The research analyses how the decision-making of management of organizations affect the interest of stakeholders and develop different types of facades. Organizations that are cautious about stakeholder management theory, they identify their stakeholders and are careful about how the decisions of the organizations affect the welfare of their stakeholders. This engagement in stakeholder management activities helps the organizations in gaining competitive advantage in the market.

### **Motives of Research and Methodology**

The research contributes in understanding the subject, significance and purpose of sustainability disclosures and to discuss the issue of inequivalent talk and action in an organization. The study also helps in understanding how the decisions and actions of organizations are not in line and how the organizations fail to comply with their own policies/disclosures/commitments concerning the treatments of stakeholders. The research further facilitates how and why the organizations deceive their stakeholders and why they deceive public into thinking that stakeholders have no issues with their organizations. The research further contributes the elaboration of different kinds of facades developed by the companies and effects of different facades. The research also explores the main motives behind the erection of facades. It finally highlights the merits or the positive aspects of organizational facades and the demerits of organizational facades in the form of precautions.

The research is based on earlier studies and literature available on organizational hypocrisy, organizational facades and stakeholder management. The research has observed and investigated the sustainability reports of different organizations/companies. In order to reach conclusions on this subject a qualitative content analysis is applied.

### **Conclusion**

Organizational Legitimacy is to be established by means of organizational hypocrisy and facades. Organizational Facades are generally and frequently found in almost all organizations. These organizational facades and their effects on organizations are discussed in detail. The findings show that most frequently apparent facades in sustainability reports are Progressive Facades followed by Reputational Facades and lastly Rational Facades. The study has concluded that organizational facades may be proved beneficial subject to some precautions.

## **Discussion and Results**

A practice of managing inconsistencies between **organizations'** talk/disclosure and organizational action is known as **Organizational Hypocrisy**. In other words, the difference between the organizational claims/achievements in organization's **Sustainability Report** and real/actual position of the organization or the gap between Organizational Reporting and Organizational Actions is described as Organizational Hypocrisy. Organizational Hypocrisy is based on **Organizational Legitimacy**. The strategy of Organizational Hypocrisy is the Management of Stakeholders' demands or needs. Organizational Hypocrisy leads to **Organizational Facades**. In order to understand the concept of Organizational Facades, we have to study Organizational Hypocrisy, Organizational Legitimacy and **Management of Stakeholders**.

### **Sustainability Report**

It is an important organizational reporting over a given period of time disclosing/stating the achievement, the development and the progress of the organizations. It is generally a voluntary disclosure of the organizations about the sustainable development/growth achieved and to be achieved to show/establish the solvency, strength, ability and capability of the organizations. The sustainability report attaches or furnishes some documentary proof/evidences of the achievements of the organizations to support all the disclosures claimed by the organizations.

Sustainability Report is here to stay and it will continue to develop stakeholders' increasingly required information about how the organizations are doing in terms of company's economic objectives, environmental and social issues, and how policies of companies are implemented, and to what extent the main objectives are achieved. The report will continue to advance the core mission of the organizations.

The Sustainability Report is a voluntary disclosure to its stakeholders about the current status/position of functioning, strategies, policies, programmes, practices and objectives of the organizations. As the main objective of this report is to satisfy the stakeholders of the organizations about the legitimacy or sustainability of the organizations, besides voluntary disclosure, there may be heavy pressure of the stakeholders to establish the legitimacy of the organizations in the sustainability report by exercising organizational hypocrisy and erecting organizational facades. Due to changing markets and increasing stakeholders' pressure, there is increased pressure on organizations to become more sustainable/legitimate in Sustainability Report of the organizations.

### **Organizations**

For our study purpose, organizations mean all organized/registered companies, industries or firms having substantial amount of paid up capital, large number of employees and a wider area of their operations in India or abroad that produce and sell goods or services like organizations manufacturing consumer or capital goods, construction companies, auto-mobile industries, banking, insurance, transport, hotel, hospital, communication, companies etc.

### **Organizations' Stakeholders**

The term 'stakeholder' was defined first at Stanford Research Institute in 1963 as "*those groups without whose support the organization would cease to exist*". According to Freeman (1984) the stakeholders are groups or persons who get effected by an organization or affect an organization. The stakeholders of the organizations are the individuals or corporate bodies who have their vested interest in the organizations. They are the people/entities whose fortunes or interests are affected by the decisions of the organizations. The Stakeholders of the organizations may be divided into two heads.

**1-Internal Stakeholders** -It may include Top Management (Managers), Employees, Investors/Financiers, Shareholders etc.

**2-External Stakeholders** -It may include Customers, Suppliers, Competitors, Banks, Regulators, Auditors, Government, NGOs, Society and Communities etc.

### **Organizational Hypocrisy**

Organizational Hypocrisy has been developed from Legitimacy Theory. The Oxford Dictionary defines hypocrisy as, "the practice of claiming to have moral standards or beliefs to which one's own behaviour does not conform". Moreover, organizational hypocrisy is defined as, "a response to a world in which values, ideas or people are in conflict---a way in which individuals and organizations handle such conflicts". Thus, Organizational Hypocrisy is a difference between the Organizational Claims and Organization Reality. It means that when the actions of the organizations are not in line with the talks/decisions of the organizations, organizational hypocrisy emerges. Organizational Hypocrisy also means breach of 'Social Contract' between organizations and their stakeholders particularly society. This happens when society's expectations are not realized but claimed by the organizations. Organizations generally claim some present development or major future changes to be brought in by the organizations that may serve societal needs. But they are mere claims and are not in line with implementation policy or action. Under organizational hypocrisy disclosures (claims) of organizations may be true to its face value but are factually inaccurate. While stakeholders search for visible signs of an organizational efficiency and effectiveness, organizations in turn depend on the stakeholders for resources. The stakeholders wish to invest or be attached with the organizations which are running efficiently and which are progressing. The organizations, in order to obtain resources from their stakeholders, have to satisfy their stakeholders about the efficiency and effectiveness of the organizations or about the legitimacy of organizations. So, in order to satisfy the demands, needs or desires of stakeholders, the organizations must be legitimate. If an organization is really or actually effective, legitimate and sustainable to the satisfaction of stakeholders then there is no space of hypocrisy. The managers(organization) may prove legitimacy of organization by furnishing the real data or development claimed. But generally, the organizations are subject to some shortcomings or lacks (messes) which are if not hidden organization's legitimacy cannot be established rather it would be threatened. This putting premium on the weaknesses of the organizations is a way to exercise hypocrisy. Thus, the objective of showing hypocrisy is to gain legitimacy of organizations. It can be assumed that organizations exercise hypocrisy as a way to handle different conflicting demand/needs of stakeholders. For this purpose, organizations decorate or prepare its Sustainability Report (i.e. Solvency Report) to assure or reassure their stakeholders about the Legitimacy of organisations or their management. This decoration, preparation or designing the sustainability report is organizational hypocrisy.

Some of the demands/needs from different Stakeholder are fulfilled by talk (communication) others by decision and some by action. However, these talks, decisions and actions do not necessarily be in line. It is likely that a manager talks or gives his statement only without following up a matching decision or action. In these cases, hypocrisy occurs.

Thus, organizational hypocrisy is a technique of managing inconsistencies between corporation talk and action. It is seen that organizational hypocrisy is an essential strategy for an organization in order to manage conflicting demands from different Stakeholder.

### **Legitimacy Theory and Organizational Legitimacy**

Legitimacy Theory is defined by Suchman (1995) as, “a generalized perception or assumption that the actions of an entity are desirable, proper and appropriate within some socially constructed system of norms, values, beliefs and definitions.” The theory puts attention on whether the value systems of organizations and society are consistent with each other meaning that social/societal expectations are met by the organizational objectives. In other words, whether societal expectations/objectives are internalized into the objectives of the organizations. If yes, organizations are supposed as legitimate otherwise not. Legitimacy Theory assumes that organizations seek to operate within norms and bounds of society. Organizational Legitimacy is defined by Dowling and Pfeffer (1975) as, “status when the entity’s (organization’s) and society’s value systems are consistent.” When the difference between the value system of entity and value system of society exists, it means entity’s legitimacy is threatened. For example, ‘Economic Achievement’ is one factor of legitimacy, therefore, the organization is perceived as legitimate if it works towards this goal that is accepted by the society by following the socially accepted methods or manners.

An organization/corporation is considered legitimate if it voluntarily reports/focuses on activities which are also accepted by society. This is equivalent to the conviction of a ‘Social Contract’ that legitimacy theory assumes exists between corporation and society it operates in. The Social contract represents society’s different expectations on how the company is run or conducting its activities. If the society (in which the company exists) considers that the company has deviated from the social contract, it can be contemplated as threat to the survival of the company. When the society believes that the company’s operations are not legitimate, it is breach of social contract which can lead to society revoking the contract and support and thereby discontinuing the organization’s operations.

As a social contract is generally implicit, it is difficult to define the contract. Then the managers of the company will retain their own perceptions about the terms, meaning of the contract. So, there will emerge various perceptions of terms of social contract.

The environment (in which an organization operates) changes over time which requires the organization to respond and adapt with the changes. As the environment alters, it means societies expectations are not perpetual, meaning that the terms of social contract also change. Organizations need to maintain changing behaviour along with the changing societal expectations through disclosures. The impacts on organizational survival caused by breaches in the social contract can be severe and it is therefore important that arrangements of amendments should be explored. According to Dowling and Pfeffer (1975), industries which rely on legitimacy as a vital resort/recourse to survive and proceed with company activities, their managers will adopt strategies that reassure them for continuously having legitimacy. These strategies may be collaborating with other legitimate associations. In order to gain legitimacy an organization (managers) must take actions if the activities conducted by

company are not corresponded to societal expectations. The actions of management may co-occur with its disclosures published by the company to have effect on exterior forces. There is sanction of legitimacy theory being based on perception and expectations. This shows how essential corporation disclosures made in reports and public documents can be.

### **The Stakeholder Theory and Stakeholder Management**

Stakeholder Management means safeguard of interest, needs, demands or suggestions of all stakeholders. An organization that applies a stakeholder management approach aims to identify its stakeholders and try to understand how the company's action affects the welfare/fortune of its stakeholders. Also, the organization tries to demonstrate by its actions that it respects and understands how different stakeholders' welfare are affected. One way of doing so is to share information with the stakeholders. Additionally, investment in stakeholder management activities can have an organization's competitive advantage over its opponents by differentiating it with its opponents.

Meanwhile, the activities directed towards primary stakeholders (customers, suppliers, employees, financiers, communities) will not only benefit that specific stakeholder group but increases the wealth of shareholders as well. Further, a good stakeholder management also helps a failing business to recover faster. Against the backdrop of changing global risks, the role of managing diverse stakeholder groups becomes critical in developing holistic solutions to address these challenges. The different perceptions and inputs received from stakeholders will help bring out sustainable development in a manner that will benefit the larger society.

A structured process is followed in engaging with the stakeholders and the mode of engagement is dependent on the group itself. Interactions are carried out through one on one meeting, group interactions, and telephonic conversations and through survey questionnaires. Different questionnaires are created to cater to the nature of the individual stakeholder groups and to assess their impact on the organisation and vice versa. As part of its on-going business activities, organization interacts with its key stakeholder groups on an annual basis on issues relating to business growth and operations. However, during the reporting period, the organizations engage with select groups on issues relevant primarily to the organization's sustainable development and sustainability performance. The internal and external stakeholders selected are those that help organization create long term share value. These include internal stakeholders such as employees across different management levels, the organization's senior executive management members. The external stakeholder that the organization interact with include urban customers, rural customers, investors, suppliers, banks, industry associations, regulatory bodies and NGOs. Thus, by stakeholder management the organization understands the expectations and concerns of Stakeholders and addresses them to enhance trust and confidence. Management of external stakeholder by way of dialogue can be beneficial in other parts of business process that only to be exercised when recovering from a difficult period. This process of integration of external stakeholder has the potential of increasing external confidence in the organization. It also improves organization's legitimacy and reputation in the market.

A majority of prior researchers have found a positive relationship between stakeholder management and financial performance of an organization. Opposed to these studies we have found the relationship to be mixed or neutral or even negative. From the combined findings of about 2000 empirical studies on the relationship between management of various

stakeholder groups and financial performance of the companies, the result is concluded that 90% of the studies have found no negative correlation and more than 50% of the studies have found positive correlation. Hence, by considering stakeholder interests an organization can gain possible financial benefits. Good Stakeholder Management would lead to have full financial support from the stakeholders and having sufficient funds would make an organization able to achieve all important ends of an organization. It can be implicitly understood that organizations engage in stakeholder management in order to improve their financial relations. Financial performance/relation means not only continuous adequate financial support by the stakeholders but also financial management ability of the organization. It means Stakeholder Management and Financial Management/Relation are correlated.

**Organizational Hypocrisy and Organizational Facades**

Organizational Hypocrisy is the practice of claiming of higher achievements or development than the actual achievement. In other words, organizational hypocrisy means hiding the true or real situation, picture or information of the organization by claiming a better situation or picture of the organizations. The specific higher achievement, development or standard claimed by the organization is described as organizational façade. It means the specific disclosure or communication or information that hides the real or true (ugly/inferior) position of the organization is organizational façade. Hypocrisy is a general term used when there is difference between the organizational reporting and organizational real status. Organizational Facade is specific term by which a specific organizational disclosure is used to hide a specific truth or reality (mess) of an organization. For example, if a banking organization claims (talks) that it is supporting its customers but in reality (action) it has failed to meet its claim. Here the claim of supporting the customers is organizational façade and the difference between the talk and action is the organizational hypocrisy. Similarly, if a manufacturing organization claims to have installed a newly innovated machine but in reality, the claim is not true. Here the disclosure of installing a newly innovated machine is organizational façade and hiding the true picture or showing a better position of organization as compared to the real position of the organization is organizational hypocrisy.



Real Picture of the Organization

Organizational Hypocrisy and Facades

**Organizational Facades**

We know on one hand the stakeholders search for visible signs of an organizational efficiency and effectiveness or technically legitimacy. Stakeholders want to invest only in those organizations which are successful and achieving their goals. Before making investment in any organization, the stakeholders wish to ensure the legitimacy of the organization. They would like to be associated with the organization so long as the organization is witnessing for its well performance or signalling the legitimacy of organization. On the other hand, organizations depend on their stakeholders for resources. Obtaining sufficient resources continuously from their stakeholders is the prime objective of the organizations. The organizations would like to assure or reassure the continuous support of their stakeholders for continuous supply of resources. The resources of the organizations are the bases to achieve the objectives of the organizations. Organizations cannot go/do without adequacy of resources. So, in order to ensure the regular support of their stakeholders for the regular supply of resources, the organization has to witness the legitimacy of the organization or to show the signs of efficiency and effectiveness of the organization. Thus, the organization will have to disclose in its Sustainability Report (Solvency Report) the organization's legitimacy i.e. the ability, capability, strength and sustainability of the organization. This decoration, preparation and designing of sustainability report of the organization is known as 'Display of Façade'. In the classical formulation, facades act as buffers, allowing managers to keep of availing the existing resources and to gain new resources for their ongoing projects, regardless of their efficiency, effectiveness and institutional legality. The theory of fashion (show off) introduces the notion of organizational facades. An organization can be accused of facades when its operations are not in accordance with how it claims to operate (Lipson 2007). For example, if a bank claims (talks) that we are supporting our customer by providing specialized relationship managers to solve their financial problems, but in reality (action) it has failed to meet its claim or if a bank discloses in its sustainability report that all the complaints of the customers are disposed of satisfactorily, but the actual situation is not matching with the claim. These are the examples of erection of banking facades.

Similarly, if a manufacturing organization states in its sustainability report that all preventive steps and safety measures to avoid accidents of workers have been taken, but still workers are exposed to some risks of accidents. This is rational facades by the manufacturing organization for its stakeholder group workers. Similarly, if a manufacturing organization communicates in its sustainability report that a complete pollution control plant or waste disposal plant will be installed in near future, while the organization is not serious about its promise. This is the development of progressive façade by the manufacturing organization. Similarly, if a hospital group states in its sustainability report that the hospital is well equipped with the latest MRI machine (3.0 Tesla), while the machine is an old and obsolete one. This is rational and progressive facade by the hospital group from the point of view of its customers.

The most frequent, prominent, important and general in nature is unitary facade to build/create organizational legitimacy in the eyes of stakeholders, so that the organization should continuously receive stakeholder support. Facades serve to hide ugly truth from stakeholders, thereby misleading the decisions of the stakeholders. Our study suggested that facades, far from being unitary, have different facts (aspects/angles) serving very different roles with respect to stakeholders' decision-making. Besides legitimizing the organization, facades serve many other functions, some of these functions do in fact deceive stakeholders but may also benefit stakeholders. Moreover, not only entire organization but also head quarter(s) department(s) small unit(s) even individual(s) decide to display facade. Organizations, in our study, do not erect a facade once and hide behind it forever. Rather, they constantly engage in a struggle of redrafting/formulating the facade (or develop new facade) to maintain legitimacy dynamically in the face of changing threats to legitimacy.

Whereas we have assumed initially that facades would have one facet, they turn out to have multiple facets. In particular we have recognized at least three types of facets of facades. Each type of facet/facade also served at least one particular purpose. There is not one type of facade of a general nature to ensure legitimacy of organization. But there are three different types of facades serving three different purposes with the ultimate objective of organizational legitimacy.

### **Motives of Organizational Facades**

1-The foremost important purpose of using facades is to manage the conflicting interests, demands or needs of different stakeholders to establish the legitimacy of the organizations in order to obtain the support of the stakeholders. All stakeholders like investors, managers, leaders, employees, competitors and regulators make decisions about organizations which are based primarily on organizations' facades and less on what lies behind these facades. In other words, companies hide behind a so-called facades or front stage. The façade hides the backstage, which if revealed may make organizational stakeholders decide that problems surround the organization. This would cause stakeholders to withdraw their support, they would disinvest, quit, sue and generally disparage the unveiled organization.

2- Many case studies reveal that a lot of organizational decision-making involve what facades to erect for its survival and progress.

3-It is important to examine what lies behind the facades which the organization is facing or for which organization is worried and organization wants to hide it.

4- It is also important to examine the way in which a façade influences the organizations' stakeholders.

5- It is in the interest of the organization to examine the influence of each façade on stakeholders as erection of facade may be beneficial or harmful for the organization.

6-Organization's motivation to display facades in their sustainability reports is just to improve public image of the organization as compared to their strategic approach and devotion to sustainable development.

7-Organizational Facades are supportive to the organizations as facades play the role of urgent and emergent solutions for many of their problems. Organizations are able to tackle the serious problem immediately by the help of facades.

## Types of Facades

1-By displaying facades, managers (must) make their company/organization conform to basic norms that run the company rationally. Facades are developed to ensure that functioning/business practices of the organization conform to the basic expectation of stakeholders. In other words, company must appear to use those management techniques which are believed to serve as efficient means to important ends. By the help of facades, the company conforms to the existing norms of rationality for the purpose of running its business or for the purpose of achieving its objective. So, rational facades are developed.

2-As the stakeholders also expect the use of new and improved management techniques. Organizational leaders must demonstrate (state/disclose) to stakeholder that they are using the newest and most improved techniques (of management/of practicing business). Thus, progressive facades are erected.

3-Organizational decision makers also want to display signs of Corporate Social Responsibility or signs of financial solvency and signs of respectability in the society the organization exists in. Hence managers must signal that their organization follows appropriate, legal, financial, professional norms and performing social responsibilities. Some facades are used to build up reputation of organization to satisfy stakeholder's demand/need of social expectation. For this purpose, reputational facades are developed.

It means there may be three types of facades erected by organization for different purposes and these facades guide the stakeholders' decision.

### i.)Rational Facades:-

Rational facades or Rational Norms are used to denote stakeholders' expectations that their company/organization and its management would run the organization rationally, or would adopt the most rational business and management practices. As rationality is a vague and unambiguous term, a rational facade projects the impression that a company/organization uses current available specific rational technique/practices (production methods and procedures process) that serve ends/objective of stakeholders or achieve important objective of the company.

**The Effects of Rational Facades**Our study has found that purportedly rational operations do not go as smoothly as expected. Generally, the rational facades disguise the cracking and collapsing financial structure of the organisation. Organization eventually use rational façade to shield their obsolete methods, processes, procedures and practices which can be improved or innovated. More generally we propose that rational facades that hide messes---complete deviation from expected conception of rational order. Rational Facades by hiding company's messes, serve a critical role in both company's survival and its strategy reorientation.

Behind rational facade, the organization can convert the organizational garbage i.e. streams of problems into a set of solutions. As solutions are not always available and the pressure to solve problems grows, engineers stumble upon solutions or invent solutions, and then create

problems or the story that would justify solutions in the form of facades. Rational facades help organization by slowing them to run in non-orderly and messy manners. By doing so organization wants to forgo the expensive overhead of adopting institutionalized practices for solving its messes. Facades are beneficial or useful as they lead to better performance, avoiding unnecessary formal relations, responsibilities, directions and commands adopting new informal communication or relations, useful responsibility, informal direction and command. Shielded by facades for example project managers can interact in disorganised or informal way and change the labels of their responsibilities, abandon useless activities and can take on new responsibilities, which are more useful.

Moreover, facades reduce the level of uncertainty that surrounds organizational deeds and actions. Hence facades allow for the inspired improvisation necessary to respond to urgent demands caused by unexpected events while maintaining low level of uncertainty. Freed from guilt, who work behind a facade can pursue their own logic of action (due to a high level of confidence). Facades act as ante explanation whatever can happen to the ongoing actions, guaranteeing achieved consistency.

### **ii.) Progressive Facades:-**

Organizational Facades do not only conform norms of rationality but also mirror norms of progress. Norms of progress or progressive facades mandate not just that managers use efficient means (to important ends) but rather that they use the newest and most improved means to new and improved ends. In other words managers (must) use the latest management fashions offered up by a management fashion market composed of consulting firms and business professional associations.

**The Effects of Progressive Facades**In our experience, progressive façade can play at least three roles. These are:-

- a.) To put it bluntly, progressive façade can hide the fact that organization continue doing some of the same stuff despite pressures to change. On occasion the old stuff gets relabelled what Kimberly (1981) called putting old wine in new bottles. In manufacturing organization progressive facades hide the use of obsolete machines.
- b.) Progressive Façade can make organizations appear as if their managers use the state-of-the-art in management technique. In a manufacturing organization, most advanced or newly innovated machine with highest technology is used. This type of facades generally collapse overtime because they serve a symbolic purpose rather than a utilitarian purpose.
- c.) The organizational disclosures state/show/witness that the organization has its research and development department and would innovate or is going to innovate the cheaper production process, that a newly innovated machines are to be imported or purchased soon or that the organization is going to use highly sophisticated or innovated business practices or techniques of management which are to be adopted after learning it from abroad visit soon. This type of facade provides a space for experimenting new techniques that management otherwise fail. The organization may adopt such experiment, innovations and convert such progressive facades into reality and can have all the advantages of innovative technique of management and business practices. Crafting such progressive facades may be fruitful if it is

converted in reality soon. Otherwise erecting such facades just to show without real intention to do so, will collapse over a time.

Internal Stakeholders can interpret organizational innovation into two ways:

- a.) **As Creative/Innovative:** Organization finds sufficient time to import innovation or innovate itself. Progressive Façade paves way/path for innovative process and converge the gap between façade (a promise to do) and reality.
- b.) **As Deviant:** This puts innovators at risk. Sometimes the progressive facades ---far from bringing innovation into organization---- serve to incorporate existing organizational innovation only.

### **iii.) Reputational Facades:-**

Reputational Facades serve to indicate that organizations serve stakeholders in some way that benefits these stakeholders---selling them the product that don't hurt them (i.e. safe product to customer), helping some disadvantaged stakeholders and following acceptable accounting standards and so on.

With the current waves of financial scandals, this type of façade has received the most attention. Reputational Facades build up a positive image of an organization and craft organizational legitimacy. Reputational Facades appear as symbols, stories, attributes that lead observers to believe that an organization can achieve more than it really can. These facades make an organization appear, that it has been shouldering the social responsibilities and meeting the expectations and that the organization is environmentally friendly.

**The Effects of Reputational Facades** Reputational Facades lead managers feel obliged to deliver on these facades as if caught in self-inflicted self-fulfilling prophecy. Employees work long hours to bring the backstage in line with front stage---the organizational reality with the organizational facades. These facades lead the organization to engage in several forms of more or less radical innovations.

Reputational Facades also provide shield for pursuing illegitimate actions. Because facades espouse corporation and societal values., stakeholders do not perceive when organizations have violated these values. Moreover, because facades create casual ambiguity, it becomes harder to hold leaders and managers responsible for illegitimate actions. Moreover, because stakeholders do not associate reputational facades with particular individual, they create an anonymous shield between organizational operations and the image of these operations broadcasted to the outside. A façade becomes a collective fantasy, a shared dream, where no one remains responsible.

Reputational Facades also contribute to risk taking in organizational decision making. Facades raise the level of expectation of investors, stakeholders and managers as they project positive organizational returns. If stakeholders are only to invest based on real assessments of organization's current capabilities, most innovations might never take place. Hence like a collective fantasy, a facade encourages investment and support for innovations that would otherwise have never seen the light of day.

Companies producing energy if want to survive cannot say that they don't care if they ruin the environment and promote adverse climate change. If such companies think better of

themselves, they must actually, eventually improve their actions to become more ‘moral’ and conceptually more concerned with planetary sustainability.

## **Merits of Facades**

- 1-Organizational Hypocrisy or Facade is an essential strategy for business in order to manage conflicting demands from different stakeholder groups.
- 2-Organizational Façades may create space and stimulation for organization to work in areas they are currently weak. Thus, facades create the basis to work with.
- 3-Organizational talk which would lead to positive development in future is referred to as Aspirational Talks which becomes a motivation for organization to aim at a different future. Aspirational Talk is distinguished from lies, so organizational façades should be presented in a form of aspirational talk/motivational talk as against lies.
- 4-Due to lack of sufficient time to overcome any organizational weakness, the only way is to hide the weakness by erecting façade. Otherwise to overcome the weakness in haste may cause heavy cost without serving the real purpose.
- 5-Organizational Hypocrisy could give the organizations time to reconstruct their operations and hence align talk with action.
- 6-Multiple organizations depend on organizational reporting/facades to intensify actions that already have been giving beneficial results.
- 7-Organizational Facades may allow needed space for companies to innovate and improve and to contribute substantially towards society.
- 8-Organization Façade/Talk may also create expectations for organizations which the organization subsequently seek to live up to.
- 9-The more constructive dialogue between company and stakeholders can be carried out after recognizing organizational facades within company’s sustainability talk, decision and actions. Hence company’s sustainability reports can improve and company can justify that actions are taken to meet the primary stakeholders’ demands
- 10-Explicitly articulating weaker areas of the organizational goals is not unusual. The public display of these weaker areas admits that relevant actions have not satisfied certain stakeholders’ interest. That is why the organization tries to close the gap or distance between decisions and actions.
- 11-All corporate stakeholders make their own assessment of the most important sustainability issues of an organization. These issues may be environmental production, diversity in work force or human rights. They make request to organization in this respect. So, erecting different facades is the response of organization to the multiple, various and conflicting stakeholder demands faced by organization with respect to societal sustainability issues. So, the awareness (regarding societal issues/expectations) should be raised. The more we raise awareness about these issues, the better are the chances that organizations would improve their sustainability management.
- 12-To be honest in terms of corporation’s sustainability doesn’t pay. If organization depicts the real and original status/affairs of the organization in its sustainability report, this information spreads faster and the reputation risk increases.

13-Development of facades for stakeholders means deceiving self (self-deception) to deceive others. If the organization is serious and converts facades within a reasonable time, the organization would be successful and responsible without cheating/deceiving others.

14- Development of facades induces a high level of confidence (over-confidence) in the management and organization and the organization is believed to be more effective and efficient. It creates a lot of expectations in the mind of stakeholders and the organization enjoys a psychological advantage and a higher status in the competitive market.

### **Demerits or Precautions**

Although, organizational facades may be beneficial for the organization, its stakeholders and society as a whole yet they may have adverse impact on the organization, stakeholders and society. Therefore, some precautions are suggested to be exercised at the time of erecting facades.

1-In cases where the facades are erected with the intention just to satisfy the stakeholders without any seriousness, the façades will collapse and lead to drastic fall in the goodwill/trust of the organization.

2-If any particular type of facade i.e. progressive or reputational façade is developed for a shorter period, greater are the chances of not being exposed and that would not be proved harmful to organization. But if the facades are developed for a longer time, they may cause a serious threat to organization's survival.

3-The façades erected must be feasible. Any façade crafted which is impossible to be achieved may create problem for the organization. For example, the claim that the bank has catered all or 100% demands of loans and advances of the customers is not tenable facade.

4-The facades which are inconsistent with the important goals of organization or main practices of the business would not be believed or trusted by the stakeholders.

5-Furthermore, a gap in talk and actions e.g. organizational hypocrisy results in reduced trust in companies and it is believed that managers only publish information that is favourable to their own interests and withhold information which they believe to be unfavourable altogether.

6-Business/Organization also faces the risk that their hypocrisy strategies (facades) becomes too obvious to the various stakeholder groups and consequently lead to declining Legitimacy in the market.

7-The organization's necessary growth is not contradictory to the societal issues (societal sustainability issues), as growing number of consumers are readily paying premiums for environmentally less harmful products and therefore supporting organizations with advance and costly practices. So, there is no need for the development of facades.

8-Deeper understanding/knowledge about organization's hypocrisy and façades would indicate that some organizations are forced to engage in hypocrisy as against voluntary disclosures/facades.

9-Organizations are prone to erect different facades through various means of initiatives and communications. Even the independent auditors or government bodies may not be able to notice the facades beyond the glowing picture. No stakeholder (internal or external) generally may be able to see these facades. But behind this glowing picture of the company there are slippery slopes. NGOs and other stakeholders (i.e. investors which is the main audience for

sustainability reporting) may question and highlight possible discrepancies between corporation's talks and actions in public. Then the slippery slopes would become very dangerous for organizations. Understanding about the slippery slopes, the companies must be careful that facades may be developed for shorter purposes only.

10-There are some circumstances where organizational facades are strictly opposed by the society. The organizational facades at the cost of polluting air quality or the environment as a whole would not be accepted by the society at all. In these cases, companies should avoid and discourage the development of facades. For example, industries those relying on coal and oil which do not go well together with long term planetary/societal sustainability. No façade should be developed for hiding the adverse effect of use of oil and coal or any other kind of pollution on the environment of the society. Thus, industries emitting smoke or leading to air pollution near cities should not afford any false promise. For example, if the industry says that diesel plants would be replaced soon. This façade cannot stand for a long time at the cost of environmental pollution. Similarly, no facade for industry's waste treatment plant should be erected for a long period of time.

11-Increase in societal awareness results in further stakeholder and shareholder pressure on organization.

12-More strict rules and regulations of the government are enacted to check the facades at the cost of environmental pollution. Punitive actions against defaulting organizations are also provided.

13- Definition of corporate accountability is widened to internalize its social, moral and environmental responsibilities beyond shareholder wealth maximization.

### **Findings**

The study reveals that the managements or the organizations are bound to establish the Legitimacy of the Organizations in their sustainability reports to satisfy the stakeholders particularly the society in order to ensure their support. The legitimacy of the organizations creates a social contract between the organizations and the society specifying that the value systems of the organizations and the society are consistent with each other meaning that societal expectations are met by the organizational objectives. The creation of organizational hypocrisy or development of organizational facades is basically to establish the legitimacy of the organizations.

The study also finds the significance and main motives of organizational facades whereas the foremost important purpose of using facades is to manage the conflicting interests, demands or needs of different stakeholders to establish the legitimacy of the organization in order to obtain the support of the stakeholders. All stakeholders like investors, managers, leaders, employees, competitors and regulators make decisions about organizations which are based primarily on organizations' facades and less on what lies behind these facades. In other words, companies hide behind a so-called facades or front stage. The façade hides the backstage, which if revealed may make organizational stakeholders decide that problems surround the organization. This would cause stakeholders to withdraw their support, they would disinvest, quit, sue and generally disparage the unveiled organization.

The study finds that the practice of development of facades is prominent and common in almost all kinds of organizations. Organizational facades are classified under rational facades,

progressive facades and reputational facades. The findings show that most frequently apparent facades in sustainability reports of organizations are progressive facades followed by reputational facades and lastly rational facades. All the types of facades are discussed in detail along with their consequences on the organizations. The research has also discussed how different facades affect the fortunes of the organizations and the fortunes of their stakeholders.

The study finds that most of the facades are successful and beneficial for the organizations and their stakeholders. Organizational facades are helpful to the organizations for giving good performance, better progress and performing societal responsibilities. The development of facades leads to innovation in process, procedure or method of producing goods or selling services. The research explores the merits and importance of the organizational facades specifying how the organizational facades are beneficial to the organization as well as society. The negative aspects of the development of facades are also mentioned.

A majority of prior researchers have found a positive relationship between stakeholder management and financial performance of an organization. Opposed to these studies, we have found the relationship to be mixed or neutral or even negative. From the combined findings of about 2000 empirical studies on the relationship between management of various stakeholder groups and financial performance of the companies, the result is concluded that 90% of the studies have found no negative correlation and more than 50% of the studies have found positive correlation.

## **Limitations**

- 1-The subject matter of the research is a relatively new research field. The research on organizational hypocrisy and organizational facades is still in its infancy as limited research literature or papers are available on the subject matter.
- 2-Our research is confined to an organized sector of large companies.
- 3-The research is related to all organizations/industries/companies in general. The study of organizational hypocrisy and organizational facades of a specific organization or industry may change the findings.
- 4-The study fails to discuss the organizational hypocrisy and facades from the point of view of different stakeholders separately. Similarly, the study fails to discuss the management of specific stakeholder. The study fails to explain how the demand/need of a specific stakeholder is incorporated by the organizational facades or how the fortunes of a specific stakeholder are affected by the organizational facades.
- 5- The study is not related to any specific time period thus fails to reveal the trends or tendencies in respect of various issues of organizational facades.

## **Future Research**

- 1-We suggest potential directions for further research in respect of significance and effects of organizational facades.
- 2-The researchers may conduct the future research of organizational facades in respect of specific industry or organization for a specific period.

3-Future research may be conducted in direction of organizational façade in general or specific to a particular industry from the point of view of different stakeholders separately.

4- The future study may be in respect of importance of different types of facades in different organizations.

5-The future study about different issues of organizational hypocrisy and facades relating to two different time periods may give a meaningful comparison or result.

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