

Triple Bottom Line (TBL a" 3BL)

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Abstract

Traditionally, businesses were solely operated to generate revenues, maximize cashflows, distribute dividends, and produce profits. It was all about the bottom line and the bottom line was about profits.

With the advent of social entrepreneurship and Corporate Social Responsibility (CSR), a new way of measuring business success has developed. It is referred to as the Triple Bottom Line. It measures the success of a business, not only by profits but also by social and environmental capital.

It is contradicting to the Milton Friedman's economic model, which has profit as the single bottom line, ("The social responsibility of business is to increase its profits" - Milton Friedman, 1970) the triple bottom line has the three Ps - People, Planet and Profit, at its core.

This paper tries to provide an insight for institutions and its management to evaluate various perspectives of sustainable growth representative, Triple Bottom Line.

Keywords:

TBL, CSR, 3Ps, Cradle to grave

Introduction

The term 'Triple Bottom Line' was coined in 1994 by the environmental consultant, John Elkington, while he was looking for new language to express what he saw at the time as an inevitable expansion of the environmental agenda.

He felt that the social and economic dimensions of the agenda would have to be addressed in a more integrated way, if real environmental progress was to be made with special reference to the business environment. The Triple Bottom Line, as described and presented by Elkington and his team, focused not just on the economic value a company or project adds, but also on the environmental and social value they add (or destroy).

In narrow sense, TPL is used as a framework for measuring and reporting corporate performance against economic, social and environmental parameters.

In broader sense, the term is used to capture the whole set of values, issues and processes that companies must address in order to minimize any harm resulting from their activities and to create economic, social and environmental value. This involves being clear about the company's purpose and taking into consideration the needs of all the company stakeholders: shareholders, customers, employees, business partners, governments, local communities and the public in general.

The three primary value drivers - economic, environmental and social could be considered as continental plates; that are not stable; but in constant flux, moving independently from each other due to social, political, economic and environmental pressures, cycles and conflicts.

The Triple Bottom Line concept actually took off during the late 1990 to a point where PricewaterhouseCoopers published a survey of 140 U.S. corporations in 2003, arguing that companies that ignore the Triple Bottom Line are "courting disaster." The Triple Bottom Line, PwC concludes, will increasingly be regarded as an important measure of value.¹

An increasing number of Fortune 500 companies now table their annual reports taking cognizance, through separate analysis and reporting, of the corporation contribution to relevant aspects of the 3BL within their sphere of operation.

3 Ps **Planet**

It refers to sustainable environmental practices. A Triple Bottom Line company endeavors to benefit the natural order as much as possible or at least do no harm and curtail environmental impact. Triple Bottom Line reduces its ecological footprint by carefully managing its consumption of energy and non-renewables and reducing manufacturing waste as well as rendering waste less toxic before disposing of it in a safe and legal manner.

"Cradle to grave" is uppermost in the thoughts of Triple Bottom Line manufacturing businesses which typically conduct a life cycle assessment of products to determine what the true environmental cost is from the growth and harvesting of raw materials to manufacture to distribution to eventual disposal by the end user or natural capital refers to sustainable environmental business practices.

People

Social or human capital refers to labor and community business practices. Developing the minds and skills of those that work in the organization is a fundamental responsibility. Developing people that can think and are open to new ways of doing things increases people's happiness at work along with retention levels. Those items as well as the regular doses of process improvement all contribute to profit. "Command and control" style organizations will value things like loyalty and ability to carry out the wishes of others in a robotic fashion.

Profit

Economical or economic capital refers to revenue generating business practices.

Within a sustainability framework, the "profit" aspect needs to be seen as the real economic benefit enjoyed by the society. It is real economic impact the organization has on its economic environment. This is often confused to be limited to the internal profit made by a company. It is a natural result of many other things working well, including people and planet.

¹ The Triple Bottom Line, by Steven F. Hayward | Mar 17, 2003, FORBES.com
http://www.keepmedia.com/pubs/Forbes/2003/03/17/5301/?extID=10047&data=triple_bottom_line

Applicable Strategies

The triple bottom line is an environmental business concept. Triple Bottom Line strategies provide methods for a company to achieve improvements in areas - Profit, People, and Planet:

Packaging Reduction Strategy - One major impact on the planet is the waste that a company generates. A company uses large amounts of materials such as plastic, paper and metal to create packaging for its products. To improve the Triple Bottom Line, companies can reduce the packaging cost of its products, which also reduces the disposal costs for the consumers of its products. Strategies for packaging reduction includes using refillable containers for various uses such as condiments in restaurants, purchasing and selling products in bulk, and using less-toxic products so less packaging material is necessary to contain them.

Water Conservation Strategy

Many companies use large amounts of water in production and for processes such as cleaning, cooling down equipment and growing crops. Companies can conserve water by purchasing products such as efficient faucets and toilets and turning off appliances that use water when they are not in use. One way hotels conserve water is by asking guests if they need to have a towel washed during an extended stay, rather than washing all towels in the room each day. Some businesses may also opt to use concentrated products such as laundry detergent, which will provide cleaning power while reducing the amount of water that the product contains.

Community Development Strategy

A business can assist members of the community by providing scholarships to students, purchasing or donating equipment such as computers to schools, and donating money to community projects. In some countries these activities also may provide tax deductions for the business. Businesses may produce a greater impact when donating to rural communities in less wealthy nations.

Sustainable Woods Strategy

To improve its Triple Bottom Line, a company should use resources from sustainable sources. Companies like Eco Timber makes its products using bamboo and hardwoods that are grown using sustainable methods. Replacing trees that cannot be farmed easily with trees that are easy to grow ensures that the company will be able to keep purchasing the source of wood in the future. Wood products are also an alternative to petroleum-based products, which are not sustainable.

Better Technology

A large food package printing operation could replace its drying ovens with electron beams and save millions of BTUs of energy annually, avoid tons of CO₂ and VOC pollution. This kind of technology is both more sustainable and more profitable. In driving the adoption of technology, one may realize it's critical to talk to brand owners and retailers to help them understand how the manufacturing processes of their supply chains impact their own environmental footprint.

In short, it can be summed up as examination of:

Environmental

- o Energy
- o Waste and emissions
- o Operational and design efficiency o Life system impact
- o New product/service opportunities

Social

- o Community and social impact
- o Health and safety
- o Fair compensation
- o Education
- o Recognition
- o Equal opportunity

Financial

- o Revenue growth
- o Profit margin
- o Risk Management
- o Firm valuation
- o Return on Investment

TBL Reporting / Accounting

Sustainable development requires a broader approach to policy and new criteria to measure 'progress'. But weighing the economic value of relevant ecosystem goods and services against their environmental value, or the 'public good' is not easy.

For example, how can one assess the worth of a project that will provide benefits to the local community by increasing employment levels, but at the expense of a vast decline in the environmental conditions of the local surroundings.

During the 1980s and 1990s, experts developed different frameworks for sustainability assessment, such as Strategic Environmental Assessment (SEA) and Environmental Impact Assessment (EIA); and later, Sustainability Impact Assessment (SIA) and Integrated Sustainability Assessment (ISA).²

Analytical tools used within these assessment frameworks include participatory tools, whereby stakeholders are invited to take part in the assessment; scenario tools, which formulate different options or scenarios for consideration, then approval; Multi-Criteria Analysis (MCA), a decision-aiding process using mathematical software to rank different strategies; and economic valuation tools.³

² OECD (2008) Conducting Sustainability Assessments. Organisation for Economic Co-operation and Development, Amsterdam.

http://www.oecd.org/document/34/0,3343,en_2649_37425_40914402_1_1_1_1,00.html

³ Advanced Tools for Sustainability Assessment: <http://ivm5.ivm.vu.nl/sat/>

Tools such as MCA require each criterion to be measured in the unit that is most relevant or meaningful - for example, environmental impacts may be measured by the change in population numbers of native species/varieties. Other methods require all criteria to be translated into a common unit for comparison. For instance, the economic valuation tools such as cost-benefit analysis, where methods have been developed to allow all impacts to be converted to a dollar value.

Achieving sustainability relies upon accuracy of scientific predictions of impacts of change in policy or strategy, then integrating this information in a framework that includes the values and opinions of those who will be affected by this change.

Advantages

Over a period of time, Triple Bottom Line has led to many benefits for the one who have followed it. Some of the major merits are:

Recognition

Triple Bottom Line reporting helps to meet investor demands and to gain recognition for actions performed. Companies such as Shell and Nike have used such type of reporting to rebuild their reputations after receiving negative publicity for poor environmental and social decisions.

Media Image

Companies are under greater scrutiny from media coverage and watchdog groups. Those who can build reputations as leaders in environmental and social policies are likely to succeed. Ignoring TPB may prove to shake off reputations for decidedly irresponsible business practices or aloof management structures, which can be prominently seen from cases of firms like Shell and BP, British Telecom, AT&T and Dow Chemical

New Funding

Companies can also derive financial benefits from Triple Bottom Line reporting. They can catch the attention of PEs / new investors, as well as attract and retain employees. Triple Bottom Line reporting allows for transparency of a company's environmental and social accomplishments, weaknesses, and future goals. Companies that strive for success may meet eligibility standards to be a part of certain environmental or social funds. Failure to meet such requirements could hinder stock performance.

New Avenue Discovery

Companies when just have a profit motive, restrict itself to few areas. But, in past few years, when Triple Bottom Line is introduced, there has been a fair probability of finding a new field, which has formed major revenue source for company. Microfinance concept came into forefront, when providing products or services which benefit underserved populations and/or the environment which are also financially profitable was given a second thought.

Overall, increased reporting may appear to mean more paperwork, more audits, and a greater cost of doing business. However, Triple Bottom Line reporting is a growing trend that will eventually have to be addressed. The additional costs of reporting are minimal, while the benefits of a required report could be everlasting.

Major Issues

Generally a theory is not complete without its criticism. And Triple Bottom Line is not any exception. People with only one P perspective have some different views for 3BL.

Quantification

One of the issues is of it is difficult to make quantitative assessments of how good or bad some action or event is; and partly it is that we seem to be dealing with qualitative as well as quantitative distinctions when we evaluate the social impact of corporate activities.

For example, it is difficult to measure a generous family-friendly policy that includes extended maternity-leave and part-time and job-sharing provisions for women returning to the firm after maternity leave, but also four sexual-harassment suits against it in the past year.

Money Makes Money

It is difficult for a small company or a poorer country to carry out social and environmental activities. As a society becomes richer, its citizens develop an increasing desire for a clean environment and protected wildlife, and both the willingness and financial ability to contribute to this and to a compassionate society. Support for the concept of the triple bottom line itself is said to be an example of the choices available to the citizens of a society made wealthy by businesses attending to business.

Focus on Core

In case of business, the expertise is in satisfying the needs of consumers/society and generating a value added surplus. Triple Bottom Line is thought to be harmful by diverting attention of business away from its core competency. Just as charitable organizations like the Mother Teresa Trust would not be expected to attend to environmental issues or pay a cash dividend, and Greenpeace would not be expected to make a profit or succor the homeless, business should not be expected to take on concerns outside its core expertise. At least, in those areas where a business doesn't do obvious harm to people or the planet.

Not Social Service

Many people believe that business is business and it is just for bottom line (economic profit). Introduction of Triple Bottom Line and Corporate Social Responsibility is waste of money and time. Its job of NGOs and not-for-profit organizations to do such charity work.

Conclusion

One can start to make his company more efficient or wait until costs rise. One can redesign the products for a more sustainable world or can try to catch up later. One can wait until the customers or the government asks to report the carbon footprint or he can volunteer it now.

The Triple Bottom Line and sustainability aren't new management techniques. They aren't the latest management fads. They are concepts that challenge each of us to balance the way we successfully run our business and the world that our grandchildren will inherit from us.

Instead of saying change is constant, Darwin's famous maxim of 1847 is more appropriate here:

"It is not the strongest of the species that survive, nor the most intelligent, but the one that is the most responsive to change."

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