Introduction

The Triple Bottom Line (3BL) is a term coined in the mid 1990s, widely attributed to John Elkington from his 1997 book “Cannibals with Forks: The Triple Bottom Line of 21st Century Business.” The term represents the notion that a corporation’s ultimate success can and should be measured not just by the traditional financial bottom line. It should also be measured by its social/ethical and environmental performance.

While the term Triple Bottom Line has much appeal, there are many practical issues raised in the implementation of this concept. For example:

• Can measuring the 3BL terms really be done, or is it a mere metaphor with a catchy name? Specifically,
  o Can you “measure” social/ethical performance?
  o Can you “measure” environmental performance?
  o Can you aggregate these measures into a single bottom line?
• Does measuring these constructs provide useful information that improves decision making and/or encourage better environmental or social behavior/performance on the part of corporations?
• Most importantly for this conference audience, how can we, as academics, add value to this debate?

Attempts to measure the Triple Bottom Line – Some Examples

The Dow Jones Sustainability Index (DSJI)
The Dow Jones Sustainability Index (DSJI) was first published in 1999. It tracks the performance of the top 10% of the companies in the Dow Jones Global Index that lead the field in terms of corporate sustainability. These indexes are calculated as price and return indexes in both US dollars and Euros.

DSJI assumes that companies can “create long term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social developments.” The assumption is that investors want to invest in companies with “enlightened and disciplined management” and that these qualities are crucial success factors.

Corporate Sustainability Assessment is quantified into a score using an online questionnaire and public information that is verified by PriceWaterhouseCoopers. There are general information variables, and industry specific variables. There are 3 distinct sections to the measure: economic, environmental and social.
Economic variables include factors such as codes of conduct, corporate governance policies, investor relations, risk and crisis management, strategic planning, scorecards and measurement systems used by management, and various industry specific criteria (brand management, supply chain management, marketing practices).

Environment variables include environmental policy (strategy, policy, targets, certification), environmental performance (key performance indicators for energy, greenhouse gasses, waste water), environmental reporting (in public documents), and industry specific criteria (climate strategy, biodiversity, impacts, product stewardship).

Social variables include corporate citizenship/philanthropy, stakeholder engagement, labor practices, human capital development, knowledge management and organizational learning, social reporting, talent attraction and retention standards for suppliers, and industry specific variables (product recall, quality, bioethics, employee health and safety).

The criteria are scored and weighted and then aggregated. There are also eighteen industry categories. Companies are compared to a database date of 12/31/98.

Business in the Community Corporate Responsibility Index (CRI)

The Corporate Responsibility Index provides a systematic process to compare companies’ management processes and performance with those of others in their sector. It focuses primarily on the social/ethical part of the 3BL. The top 100 companies chosen by this organization benefit from the publicity through an annual publication. Scoring is based on an “A” through “E” grading scale for each of 4 categories. Each category is equally weighted for up to 90% of the score and another 10% is allocated for assurance provided on the measures submitted by the firms. The categories are: Corporate Strategy, Integration, Management, and Performance Impact.

Corporate strategy – how the nature of the business influences a company’s values. How these tie to strategy, risk management, policies and responsibilities.

Integration – How policies at the top are integrated throughout operations (e.g. implementation of strategies and policies).

Management includes 4 factors: Community interface between business and society; Environment, such as ecosystems and natural resources; Marketplace, such as business practices in buying, selling and marketing; Workplace, a working environment where personal and employment rights are upheld.

Performance and Impact – companies select 6 measurement variables, 2 mandatory environmental variables (global warming, waste management), 2 social impacts (from an assortment of product safety, occupational health & safety, human rights in supply chain, workplace diversity, community investment), and 2 self-selected environmental or social impact areas.
Business in the Community Environmental Index (BiE)

Business in the Community also publishes a separate Environmental index, which is in its 8th year. Details of the index can be found on their website. It is clear that measurement in the environmental reporting area is further along and more widely accepted. This is easy to understand since there are obtainable scientific physical measures and government regulations which are in force.

International Federation of Accountants International Guidelines for Environmental Management Accounting – Exposure Draft November 2004

This new pronouncement is primarily a guideline for internal use and has a focus on developing both physical measures and monetary information to recognize environmental related costs, earning and savings.

It was developed to address shareholder pressure and meet the need for better measures. The exposure draft has a discussion of both physical measures and monetary measures that might be useful.

EPA 1995 Introduction to Environmental Accounting as a Business Management Tool

This publication was among the first to discuss the need to develop measures for environmental costs. Similar to much of the quality management literature, the guide discusses the fact that in addition to the conventional costs associated with environmental issues, many environmental costs are upfront, hidden, contingent or image costs that should also be considered. The guide suggests the use of “life cycle” and “total costing” approaches when evaluating environmental issues.

Conclusion

Are these attempts to measure environmental and social impacts of a Triple Bottom Line a good idea? Admittedly, the measures are subjective and prone to manipulation and measurement error.

However, financial measures are also sometimes subjective (for example, there are many accounting estimates included in financial statements). Financial measures are also sometimes subject to manipulation and measurement error. Yet we routinely use using them to measure corporate performance. We know that we should rely on not just one “bottom line,” but a variety of measurements to assess profitability, solvency, liquidity, turnover, and efficiency.

The same is true for these new social and environmental measures of performance. Just as with financial measures, we should consider trends over time, comparison to industry averages, and comparison to norms and goals.
This area offers a tremendous opportunity for academic research to develop, refine and validate these measures to improve the reporting provided by corporations on these critically important but nascent areas of performance. I challenge you all to consider a research agenda to address these issues to provide a more robust economic measuring system for global corporations that addresses the societal costs and benefits of their operations.

References


