MEASURING THE TRIPLE BOTTOM LINE

BACKGROUND

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THE TRIPLE BOTTOM LINE IS NOT NEW

For a supposedly new concept, the 'triple bottom line' — the idea that businesses create and destroy not only financial capital but also social and environmental 'capital' — has a long history. Business people in earlier generations, moreover, have recognised that the three elements are interlinked. In 1943, for example, General Robert Wood Johnson, founder of the global business Johnson & Johnson, set out a 'credo' for his business that defined the company's responsibilities toward customers and suppliers, employees, local communities, the environment and, finally, stockholders. Johnson and his corporate heirs recognised that by putting the interests of his important stakeholders first, he could deliver more value to shareholders.

More recently, a 1998 Stanford University study by James C. Collins and Jerry I. Poras ('Built to Last: Successful Habits of Visionary Companies', Random House, 1998) found that one of the common behavioural factors underpinning the performance of the world's 18 longest-standing (50 years or more), most admired and successful companies was a set of core values and a sense of purpose that went beyond purely financial returns.

The term 'social auditing' — referring to the practice of investigating and accounting for a company's social, ethical, environmental and economic impacts and publishing the results for the benefit of customers and employees — is thought to have emerged in the United States in the 1940s and in Europe in the 1970s. Only in the last decade, however, has environmental and social reporting become anything like commonplace among leading global corporations.

As with all emerging ideas, the practice of 'sustainability', 'corporate responsibility' or 'triple bottom line' reporting is in a state of creative chaos. Relatively few companies have so far been able to publish information and indicators on all aspects of the triple bottom line; integrated sustainability reporting, which covers all three areas comprehensively and looks at the interactions among them, is still a long way off.

By far the largest number of corporate responsibility reports deal exclusively with environmental issues such as air emissions, water discharges, use of natural resources and impacts on biodiversity and landscape. Some reports include detailed statistics showing emissions of a wide range of compounds, but little contextual information to help the reader judge the significance of those emissions; others concentrate on global environmental problems such as climate change without providing any information on their own greenhouse gas emissions. On the whole, these reports provide few clues as to the creation or destruction of environmental capital by the individual business.

For most companies, social reporting is in its infancy. Executives are just discovering the vast range of potential issues that might be included in any report, and wondering how to gather the relevant information. Social issues might include, for example, health and safety or human resources policies such as equality and diversity as well as learning and development, employee attitudes, human rights and ethical questions such as child labour, bribery, corruption and privacy. In some ways, social capital is more amenable to measurement than environmental capital, the advantage of dealing with people as opposed to the environment being that they can give opinions.

One area that has proved particularly intractable is the publication of information relating to so-called 'economic' impacts. There is a confusion of terms here, with many companies wrongly equating 'economic' with 'financial' performance. In reality, the term is much broader — economic information might include both direct and indirect employment impacts (through the supply chain), payment of wages, salaries and benefits, the treatment of suppliers, fair trading initiatives, expenditure on community initiatives and rather more contentious issues such as the percentage of profits repatriated from international locations.

In addition to the diverse approaches adopted by the companies themselves, a vast number of overlapping, competing and complementary initiatives have been launched, aimed at establishing a generally accepted framework or standard for assessing, reporting and/or providing assurance over the non-financial aspects of an organisation's performance. In addition to the GRI Sustainability Reporting Initiative, there are numerous issue- and/or sector-specific guidelines under development, such as the WRI/WBCSD greenhouse gas reporting protocol, as well as government-led initiatives such as the European Union's corporate social responsibility Green Paper, which may result in mandatory corporate disclosure within a few years.

Companies that manage and report on sustainability issues typically cite improved financial performance, reduced operating costs, improved operational efficiency, enhanced brand image and reputation, increased sales and customer loyalty, increased ability to attract and retain employees, reduced regulatory oversight and improved access to capital. A growing body of academic evidence suggests the benefits are tangible.

So what prevents companies from reporting more comprehensively? Reasons include a lack of top-level sponsorship, lack of knowledge about the information needs of different stakeholder groups, lack of a well-defined business case and continuing scepticism as to the advantages.

Despite the barriers, there are now several interesting and varied examples of corporate sustainability reports. In Britain, BT Group, Shell International and the Cooperative Bank each picked up sustainability reporting awards in 2001 from the Association of Chartered Certified Accountants, while Novo Group won the equivalent European award. These same companies, along with BAA, BP, WMC, EASB and Bristol-Myers Squibb, also featured in the top ten companies in the UNEP/Sustainability Global Reporters 2000 benchmark survey.

The pursuit of 'sustainability', however, involves more than just gathering and reporting information on a wider range of non-financial indicators. It requires managers to confront basic issues about the core values of their organisation, as well as the important question: "If our business is not sustainable, should we be in it at all?"