Sustainability and Triple Bottom Line Reporting – What is it all about?

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Abstract

Growing demands from stakeholders for more extensive information about the operations and financial standing of businesses is encouraging some companies to including information on sustainability. The recognition that there are finite resources to be utilized by today's businesses, as well as future generations, is a driving force behind incorporating additional reporting by companies on sustainability factors. This paper attempts to summarize the primary advantages and drawbacks of shifting from a strictly financial reporting philosophy to a sustainability philosophy.

Keywords: Sustainability Accounting, Triple Bottom Line Reporting, TBL

Introduction

With the shift in societal focus toward environmental longevity, businesses are encouraged to look at the big picture and see their impact on the world around them. A fundamental philosophy propagated today is how imperative it is that businesses address all values in reporting in order to lessen the chance that their activities will cause harm to global resources, not only for today's population but for future generations. This conscious awareness and modification of policies and procedures has been dubbed Sustainable Development. (WCED, 1987).

The growth of this broader "world sustainability" viewpoint can be seen in the number of companies that have begun reporting on more than just financial operations. Large corporations such as Weyerhaeuser Company, The Boeing Company, PricewaterhouseCoopers, The Procter & Gamble Company, Sony Corporation, and Toyota Motor Corporation, have joined with many others to create the World Business Council for Sustainable Development (WBCSD), which focuses on creating a pathway to a world that will "require fundamental changes in governance structures, economic frameworks, [and] business and human behavior." This council states that "the changes are necessary, feasible and offer tremendous business opportunities for companies that turn sustainability into strategy" (WBCSD, 2010).

A move toward additional sustainability reporting can be seen in companies and governmental entities in a variety of countries.
Table 1 lists a few of the different countries that are either adopting this new philosophy for their governmental entities or encouraging companies to adjust their business philosophies.

TABLE 1: COUNTRIES PROMOTING TBL REPORTING

Australia	New Zealand
Britain	South Africa
France	Switzerland
Japan	United States

Sustainable Development

As mentioned earlier, sustainable development focuses on incorporating a forward-thinking approach by businesses toward shearing up world sustainability. A company whose mission is to be sustainable does not merely make the statement; it takes appropriate actions needed to move toward this goal and preserves those actions to continue on this path. It is vital to seek input from different internal and external persons to gather ideas on how the company can make use of nature's resources without exploiting those resources. The need for well-being and the opportunity for innovation are key attributes to re-building the corporate environment. These changes, which are necessary for sustainable survival, may not encourage enthusiasm in the short-run; nevertheless, in the long-run, they will become essential 'building blocks' by which the company thrives.

To create a company whose mission is true sustainability, all engaged individuals need to have a better understanding of what 'sustainability' entails. The spotlight needs to move from the financial bottom line to a more encompassing viewpoint of the company's impact on the world. Once this information is shared, it is then necessary to begin looking at the community to realize what environmental concerns are being voiced by the public. To align with these socialistic movements and to move away from individualism is preparing for long-term sustainable success (Rogers, 2001). An approach to measurement of sustainability is by using triple bottom-line accounting (Elkington, 1997).

Triple Bottom Line

Triple Bottom Line (TBL) reporting is a method used in business accounting to further expand stakeholders' knowledge of the company. It goes beyond the traditional, financial aspects and reveals the company's impact on the world around it. There are three main focuses of TBL: "people, planet, and profit ("Global Reporting Initiative," 2006)." It is a "concerted effort to incorporate economic, environmental and social considerations into a company's evaluation and decision making processes" (Wang & Lin, 2007). This type of reporting establishes principles by which a company should operate to concentrate on the total effect of their actions (both positive and negative.)

Sustainability has been a buzzword for well over a decade. In the late 1990's, John Elkington coined the phrase triple bottom line as a method for measuring sustainability. The most frequently seen factors used in performance measurement are: economic, environmental, and social ("Global Reporting Initiative," 2006; Wang & Lin, 2007). In the literature, there is no real consensus as to the exact dimensions used for the performance measures. Some other dimensions used are community improvement, environment, entrepreneurship and education (Sher & Sher, 1994) and stakeholder engagement, organizational integrity, and stakeholder activism (Painter-Morland, 2006). In all instances, performance is being measured based on the impact of companies on society as a whole, both now and into the future.

Since TBL involves additional reporting, businesses will need to incorporate additional information in the reports provided to better communicate with stakeholders. The particular information reported should be re-evaluated periodically to ensure the expectations outlined in the reports are being met. When a constraint is reported and is causing less than satisfactory results, it is important for the company to discover the processes or procedures that are giving unsustainable results and correct them. This way they continue to operate towards meeting their sustainable goals.

Advantages

TBL is a societal and ecological agreement between the community and businesses. In presenting information about the company's impact on issues impacting sustainability, there will be both positive and negative items that emerge. TBL reporting incorporates presenting what the business is doing well, along with areas that need improvement. Reporting in this way demonstrates a drive towards increased transparency, which can mitigate concerns by stakeholders on hidden information.

Also, including TBL reporting demonstrates to stakeholders that the business is taking accountability to a higher level. This reporting maintains and raises expectations of companies and improves "global 'clout'" (Ho & Taylor, 2007).

"An undeniable case for action has been mounted effectively by senior scientists around the world, with growing acceptance by governments and the wider community" (Rogers, 2001). Evidences of diminishing natural resources have made consumers more aware of the impact businesses are having on the world; however, the corporate world's lack of desire to change has led to minimizing capital stocks. Without change, the state of the world's economy, society, and natural resources will be insufficient for 'not-so-distant' generations. Larger companies are beginning to adjust business processes to utilize more responsibly the finite resources that are available, as well as to report on the impact of these changing policies and procedures.

Everyone involved in the process of TBL, including employees and external stakeholders, can increase their knowledge of the company and expand their relationships with other stakeholders in the company. Participating in a learning environment is beneficial and necessary for a business to meet the goals of sustainability. The process of building a sustainable environment can lead to other revelations on how the business world can lend a helping hand in protecting the natural resources that are quickly evaporating.

Uniting the employees of a business toward a common set of goals, especially ones that have a broader impact than just efficiency and profit, could outweigh the risks of additional public scrutiny and substantial policy adjustment. Being united creates a more resilient front. The possible initial negative exposure could be weathered because the stakeholders have learned to forge a strong sense of business purpose and identity.

Finally, one can argue that companies have a social responsibility to be accountable for the resources that they use and waste. Reporting on a company's sustainability gives a benchmark for the future.

Disadvantages

Several arguments are currently being made against Triple Bottom Line Reporting. With any new regulation or procedure, there is always resistance. This can be explained with 'fear of the unknown' or ethnocentrism. The feeling in some companies is that ultimately nothing will change; whereas other companies are more concerned with nothing staying the same. They also tend to be uneasy about the control that will have to be relinquished. Other arguments are the amount of additional time that will be involved, differing expectations, and risks that may be entailed from implementation of this approach.

According to studies, one worry is the possibility that a company's actions might not support their intentions. The companies declare that they intend to take on the challenges of becoming more socially and ecologically accountable, but the only proof of that is "mere pieces of paper or pretty plaques on the organization's wall" (Mitchell, Curtis, & Davidson, 2008; Painter-Morland, 2006). In many cases, companies have allowed appropriate reporting to be influenced by corporate supremacy. This indicates that, to some extent, abiding by the guidelines of TBL can be difficult to maintain.

For Triple Bottom Line Reporting to be completely effective, the corporate environment has to be eradicated and rebuilt. Firms tend to be hesitant toward substantial change. With traditional financial regulations driving reporting, companies have structured their policies and operations around these requirements. To change the very infrastructure that the company is built on will require stepping out into unknown territory, and for a prosperous company, that may be too much of a risk. One thing is certain; implementing new policies to this degree will require an extensive readjustment of a company's operations. (Rogers, 2001).

If TBL is added to a company's report process, the additional time could initially negatively affect their bottom line, increasing the task complexity of their operations. (Skouloudis, Evangelinos, & Kourmousis, 2009). Not only is the scoring of the company to determine how well the operations are matching the goals time consuming, but also the execution of new procedures and training required to prepare employees for the new tasks can be expensive. Companies, which already have overloaded employees, will need to add additional responsibilities in order to incorporate and measure these new procedures. Additional work is additional stress on their labor resources. An individual's stress associated with work creates multiple problems not only for that person but also for the company in poor health, absenteeism, decreased job satisfaction, and an unstable emotional state.

As a company strives to meet the goals of sustainability, opponents may focus on the ethical problems uncovered through the process. Accusations by critics could lead to poor company perception while the company undertakes a shift to a new more socially sound environmental focus. Critics are typically "slow to praise and quick to criticize" (Mish & Scammon, 2010). With this potential initial backlash, companies might be hesitant to embrace a sustainability agenda, or become extremely introverted during the shift toward TBL reporting.

Incorporation of TBL

Businesses have full control over what is put into their reports, but a considerable amount of the authority comes from external stakeholders, whose input is vital. The Sustainability Committee considers input from internal and external stakeholders and determines the significant topics to report (Mitchell, et al., 2008). The TBL report itself should be led by the mission and vision statement of the company. These statements should outline the businesses goals for short and long-term. Information determined to be important must be included. A company should not withhold information on the basis of its undesirable results. Once the reporting standards have been set, information based on those guidelines should be continuously reported so that the report is dependable and relays the information consistently.

One of the purposes of sustainability for any business is to reduce or eliminate its cost of poor quality. Measuring the cost of poor quality is a vital part in TBL reporting (Isaksson, 2005). In order to avoid any self-serving bias when undertaking this task, the company needs to have an evaluation done by a committee. One of the ways this can be handled is to use a section of the Board of Directors to preside as a "Sustainability Committee of the Board" (Painter-Morland, 2006). This will broaden the perspective for changes that need to be made to create a higher level of sustainability. After reporting topics have been decided, a review should be undertaken by individuals who were not involved in the gathering process. All collected information needs to be checked for accuracy and the data organized into the TBL report. Details that are not vital to the report should be excluded and any jargon avoided. The report should be straightforward and understandable by the stakeholders, both employees and stockholders.

Conclusion

As the popularity for Triple Bottom Line Reporting grows and more competitors from different markets choose to address the social and ecological issues at hand, the standards by which the companies operate should be raised to meet higher needs. The struggle to retain all resources possible for future generations while still utilizing enough to survive today must be part of the evolutionary process into sustainability. With new technologies that are being developed and different issues that will be discovered, these standards of operating businesses should never be stagnant. As stated previously, TBL reporting has three dimensions: people, planet, and profit. The social dimension includes the company's impact on its employees and the social system within its community. When looking at the environmental dimension, companies need to look at the qualitative and quantitative affects they are having on their local, national, and international resources. The last, but certainly not the least, economic dimension includes the company's financial performance, the flow of capital, and their economic involvement in society.

By adopting TBL reporting, businesses understand that they are held to specific principles that are developed by internal and external forces. For this reason, they will need to focus on the impact that their operations have on the community. This change of mindset will, typically, be followed by changes in ordinary, everyday operations to increase transparency. Today, accountability in the corporate world is a necessity. This requires companies to extend their information beyond financial data; TBL connects the financial reporting with the business's everyday activities in a way that provides a broader awareness of the impact of the business upon society. Information should be constantly and accurately recorded to confirm the advantages of taking the steps to become a sustainable company.

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