TRIPLE BOTTOM LINE ACCOUNTING — IS IT ALL JUST 'GREENWASH'?

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Triple bottom line accounting is changing the way organisations go about their business. This article explores what is meant by the 'triple bottom line' and what it means for organisations, now and in the future.

Triple bottom line (TBL) accounting is the process of identifying, assessing and reporting business activities in terms of their impact on:

- the environment;
- society; and
- profitability.

The goal of organisations committed to TBL accounting is the optimisation of environmental, social and financial wealth. In simple terms, TBL accounting is a holistic approach to doing business, monitoring success and valuing an organisation.

'Triple bottom line' is a phrase coined in 1997 by author and management consultant, John Elkington[1] and is linked to the concept of sustainable development. 'Sustainable development' has been defined as 'development that meets the needs of the present world without compromising the ability of future generations to meet their own needs'.[2]

TBL reporting is the logical extension of this definition — reporting against three 'bottom lines', namely an organisation's economic, environmental and social performance.[3]

The principal reasons for the emergence of TBL accounting in business are:

- Consumer boycotts of products that were perceived to have been produced unethically.
- The success of lobbyists and activists in raising public awareness of environmental and social issues, elevating these issues to a 'mainstream' status.
- Research into motivation for shareholder purchase decisions resulting in the proliferation of 'ethical investment funds'.
- Demands from shareholders for transparency in an organisation's activities.
- More rigorous environmental legislation and the success of civil actions arising from environmental and workplace harm.
- Improved access to information in the 'CNN world' which has increased demand for multinational corporations to take responsibility for their actions.
- A growing body of scientific evidence regarding the impacts of global warming.
- The achievements of Non-Government Organisations (such as Amnesty International, Australian Conservation Foundation and Greenpeace) in raising public consciousness and addressing issues such as the environment, conservation and human rights.
- Increased mainstream media coverage of environmental and social issues.
- Corporate 'peer group pressure' on environmental, social and ethical issues.

TBL accounting provides a bridge between the conventional or mainstream means of demonstrating corporate success and the more unconventional but increasingly demanding call for acceptance of a corporation's implied contract with society.

There is ample evidence of mainstream adoption of ethical investment principles, both in Australia and worldwide.

Some examples are:

- Establishment of the Dow Jones Sustainability Index.

• Publication of stand-alone social reports by organisations such as The Body Shop, Shell (UK), and BP (UK).

• Publication of sustainability reports by organisations such as Baxter International, The Body Shop, Electrolux, Shell, Ford Motor Company, British Airways, General Motors and TXU Europe.

• Establishment of ethical investment funds in Australia by Rothschild Australia, Westpac, Tower AMP, HESTA, UniSuper and VicSuper.

• Reported assets in ethical investments in the USA and UK growing by 50% per annum for the past decade with $US2.16 trillion invested in ethical funds.[4]

WHAT COMPRISES AN ORGANISATION'S SOCIAL RESPONSIBILITY?

Corporate environmental compliance and public environmental reporting are familiar subjects that need little explanation today, however, there is a lower level of familiarity with the parameters of an organisation's social responsibility.

Increasingly, corporations are acknowledging they have a 'community licence to operate'.[5] Logic dictates that a corporation's acceptance of its part in an implied social contract extends to an acceptance of accountability for breach of that social contract. Accountability necessarily requires a system of recording and reporting performance.

Establishing the terms of a corporation's 'social contract' or 'community licence to operate' begins with identification of the expectations of the other contractual party — the community. Since it is difficult to establish the boundaries of the community to which a corporation should respond (does the 'community' mean those working and living in the geographic area adjacent to the area where a corporation operates, or does the 'community' have a global context these days?), the conventional method of identifying the relevant 'community' is for an organisation to identify its stakeholders.

WHO ARE 'STAKEHOLDERS'?

The term 'stakeholder' encompasses all individuals and bodies who have an interest in or are affected by (or potentially affected by) an activity. Obviously, the term implies that the person has a 'stake' in the operation of an organisation. For companies, shareholders are the most obvious stakeholders. However, the World Business Council has defined stakeholders as:

• owners/shareholders/investors;

• employees;

• business partners;

• suppliers;

• competitors;

• government regulators;

• pressure groups;

• influencers; and

• local communities.

Such a diverse group will have varied and sometimes conflicting interests and demands.

The essential first step in establishing social accounting criteria is identifying and documenting stakeholder response and perception of an organisation's performance. TBL reports prepared by organisations that are willing to commence the reporting process by surveying stakeholders and reporting on the issues identified are likely to achieve a higher level of reporting credibility than those who merely assume the expectations, needs and wants of their stakeholders and report against those assumptions.

There are risks associated with requesting stakeholders to identify the social impacts of the corporation that they consider to be important. There may be budgetary or policy constraints on an organisation's ability to respond positively to issues identified by stakeholders. In addition it cannot be assumed that stakeholder interests will remain static, so reporting to stakeholders on issues of most concern to them involves a constant process of surveying, listening and modifying reporting criteria.

Corporations are highly proficient at measuring financial performance. Environmental performance is becoming increasingly easier to measure with the growth of mandatory and voluntary performance reporting, benchmarking and the publication of environmental reporting standards or guidelines such as the 'Public Environmental Reporting Framework' released by Environment Australia.

Social reporting is, however, more novel. An organisation's social impacts are at least as diverse as its environmental impacts, if not more so. Some examples of the elements of an organisation's social responsibilities are its record in:

• Protection of health and safety of workers.

• Equal treatment of employees.

• Avoidance of bribery and corruption.

• Environmental protection.

• Use of child labour.

• Profit generation and payment of tax.

• Provision of secure jobs for its workforce.

• Uniformity of application of standards around the world.

• Responsiveness to public views and concerns about its performance.

• Willingness to assist with resolution of social problems.

• Support for charities and community groups.

• Support for indigenous groups.

• Product safety.

• Employment of disadvantaged groups.

Identifying and documenting social impacts is enough of a challenge, let alone establishing a means of adequately measuring and verifying performance reports.

There is presently no accepted single standard for measuring the combined economic, environmental and social performance of an organisation. Attempts have been made to use money as the common denominator, for example, by putting a monetary value on the cost of restoring environmental damage or the cost of treating an injured worker. There are, however, limits to the success of a monetary formula, for example, what monetary value can be put on the extinction of a species, or the exploitation of child workers in third world factories?

While materiality is a term which is familiar to accountants, it is focussed on the impact of an issue on the corporation itself. Social and environmental reporting is the reverse — it reports the corporation's impacts on the world outside.

Communities do not acknowledge any uniform concept of materiality. What is important to workers may not be as important to shareholders or financiers, indeed, their interests may be opposed to one another. Quantifying issues or impacts on a scale that would satisfy all stakeholders is probably impossible given the likely divergence of their perceptions and needs.

The question is 'where does a corporation stop when it comes to recording and measuring its impact on the world outside?'. The field has somehow to be narrowed and this is usually achieved by the organisation asking itself 'whose opinions are important to us?' The response requires an identification of that organisation's stakeholders and their concerns.

Until a common measurement is created and achieves broad acceptance, the accounting and reporting of the three sectors of the 'triple bottom line' will continue to be measured and reported separately and against a variety of criteria.

WHAT SOCIAL REPORTING GUIDELINES ARE THERE?

Establishment of a standardised system of social reporting is problematic. However, guidelines presently available are:

• *Sustainability Reporting Guidelines* issued by the Global Reporting Initiative;

• *Towards Standards in Social and Ethical Accounting, Auditing and Reporting* issued by the Institute of Social and Ethical Accountability (ISEA); and

• AA1000 — a standard published by ISEA.

AA1000 contains guidelines on processes for establishment and implementation of social and ethical auditing systems. The AA1000 model begins with establishment of corporate policy and commitment to the principles of social and ethical reporting.

The next step is identification of stakeholders, values and issues. Determining the scope of an organisation's social and ethical report requires an identification of indicators, the collection of information, goal setting and reporting against those goals.

Feedback on reports is an important component, leading to completion of the process with auditing.

Auditing or verification of social reports has its particular challenges. Many organisations prefer independent external audits but much of the subject matter of a social and ethical report is subjectively assessed in the perceptions of the organisation's stakeholders. Auditing involves tasks such as independently conducted employee and customer surveys as well as verification of company data on issues such as charitable donations, employee training and workplace safety records.

A checklist of the common elements of TBL accounting includes:

• What is being measured (eg, environmental and social impact)?

• What tools are appropriate for measuring (eg. observation, surveys, company records)?

• How is data analysed? Indicators need to be determined (eg. levels of emission during manufacture as an indicator for environmental damage) and applied to the data collected.

• How, and to what extent, will results be presented or published (eg. tables, descriptive explanations, deciding whether to include or exclude findings)

• How and to what extent can reported results be validated?

Reporting establishes a benchmark for organisations to improve their activities through a process of monitoring, evaluation, assessment and amendment of procedures against their own goals and historic performance as well as against the operations of other organisations.

Consequently, to some degree, the scope of issues examined in a TBL report is itself an indicator of the organisation's performance.

WHAT ARE THE PROS AND CONS OF TBL ACCOUNTING?

TBL accounting does not end with the first report. It is a continual process of monitoring, assessment, evaluation and amendment of organisational procedures. The concept of the 'triple bottom line' is intended to be integrated into the philosophies, values and business planning of the organisation. TBL accounting and reporting processes provide a means for the organisation to judge and be judged on its contribution to society — its performance in the context of its community licence to operate.

Setting up and maintaining a TBL accounting system incurs cost and unless an organisation is committed to a long term process of surveying stakeholders, reporting, obtaining feedback and improving performance, there is a risk of loss of stakeholder support. Legal difficulties arise where an organisation finds itself in breach of the law, so a balance must be struck between the transparency of the TBL report and the directors' obligations to avoid making admissions of guilt to protect the organisation from legal liability.

However, cost benefits could be derived from:

- A more detailed understanding of the organisation's activities which allows improvement opportunities to be identified.

- Enhanced attractiveness to potential shareholder and ethical investment funds.

- Positive impacts on branding of the organisation's products or services.

- Fewer instances of 'bad press' over social or environmental damage caused by the organisation's activities.

- A healthier working environment for employees resulting in reduced turnover of staff, fewer sick days, higher levels of worker satisfaction and the ability to attract good quality staff.

- Improved protection of directors and senior officers from liability for environmental damage and workplace injury because of the due diligence associated with regular systems evaluation and improvement.

CONCLUSIONS

Triple Bottom Line accounting has emerged in response to the demand from stakeholders for greater accountability for the social and environmental impact of corporate operations. Many national and multi-national corporations have already demonstrated a clear commitment to TBL reporting. Specialist organisations are working towards a global standard that will allow organisations to be compared and rated on their adherence to TBL accounting principles.

Given the extent of public scrutiny to which an organisation exposes itself in a TBL report, the numbers and standing of corporations that have already published social and ethical reports and the likelihood that a credible standard for simultaneously measuring and reporting against all three bottomlines will be available in the near term, TBL accounting is already a lot more than mere 'greenwash'.

REFERENCES

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