

Triple Bottom Line Accounting - Need of the Hour for Sustainability Goal

Being sustainable has been the talk of the business town in the past decade. But the big question still remains- How to measure the degree to which an organisation is being sustainable? John Elkington- the man behind the concept of measuring sustainability strove during mid 1990's to encompass a new framework for measuring performance in Corporate America. This new accounting framework was called Triple Bottom Line accounting (TBL), 3BL, and 3P's. It went much beyond the traditional boundaries of measuring profit, return on investments, shareholder's value, etc. TBL accounting focuses on comprehensive investment results i.e. in line with performance along the interrelated dimensions of profit, planet and people. Hence TBL accounting can act as an important tool to support sustainability goal of the organisations. TBL accounting is gaining interest from for-profit businesses, non-profit organisations and government sector as well. Many businesses have already shifted to TBL accounting sustainability framework. Similar approach is also shown by non-profit organisations and government sectors at national, state and local level around the globe. This article revisits the TBL accounting sustainability framework concept, tries to explain its utility for organisations, policy makers and economic development practitioners and highlights certain recent examples of putting TBL accounting into practice.



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TBL Accounting – Defined

TBL is also an accounting framework that incorporates three dimensions of performance: Financial, Environmental and Social. The inclusion of environmental and social dimensions along with financial, makes it stand apart from traditional accounting framework. But it is difficult to assign appropriate means of measurement of environmental and social dimensions. The TBL accounting dimensions are commonly known as three P's: Profit, Planet, and People. These are referred to as 3P's.

Before the introduction of sustainability concept as “TBL Accounting” by Elkington, environmentalists had wrestled with measure of and framework for sustainability. Academic disciplines organised around sustainability have multiplied over last three decades. Andrew Savitz has given the apt definition of TBL accounting, which should be agreed by people inside and outside academia.

“The TBL accounting captures the essence of sustainability by measuring the impacts of organisation’s activities on the world...including both its profitability and shareholders’ value and its social, human and environmental capital.”

THE TRICK IS NOT DEFINING TBL. THE TRICK IS MEASURING IT.



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TBL Calculation

The biggest challenge in TBL accounting is that the three P’s do not have a common measuring unit. Rupees/ any other country’s currency are the unit of measuring profit. What should be social capital measured in? What about the environmental or ecological health? Thus boiling down on common unit of measurement is ‘THE CHALLENGE’.

Some advocate monetising all the dimensions of the TBL including social welfare or environmental damage, which makes sense. This would have the benefit of having a common unit – Rupees. Most object on putting a price tag on heritage sites, endangered species or wetlands on philosophical grounds. The remaining question the valuation technique of finding the right price for damaged heritage sites, endangered sites or lost wetlands.

Another decent solution is calculation of TBL with reference to an index. Via this method, the issue of incompatible units gets eliminated and as long as there is universally accepted accounting method, allows for comparison between entities.

Example:

Comparing performance between companies, cities, developmental projects or for that matter any other unit. However, even in the use of an index, the subjectivity issue remains.

Example:

1. How is the index components weighted?
2. Would each “P” get equal weighting?
3. What about sub-components within each “P”?
4. Do they each get equal weighting?
5. Is the people category more important than planet?
6. Who decides?

Another option would do away with measuring sustainability using dollars or using an index. If the users of the TBL had the stomach for it, each sustainability measure would stand alone. "Acres of wetlands" would be a measure, for example, and progress would be gauged based on wetland creation, destruction or status quo over time. The downside to this approach is the proliferation of metrics that may be pertinent to measuring sustainability. The TBL user may get metric fatigue.

Having discussed the difficulties with calculating TBL accounting, let us turn the attention to potential metrics for inclusion in a TBL calculation.

Index- How to Design It

No universal standard method is available for calculating TBL. There is no universally accepted accounting standard for measuring each of the three TBL accounting categories as well. This can be taken as strength of TBL since it allows the users to customise the TBL accounting framework to the needs of various entities.

All the entities (businesses, non-profits and governments) may gauge environmental sustainability in the same terms, say reducing the amount of solid waste generated. But a local mass transit might measure success in terms of passenger miles travelled, while a for-profit bus company would measure its success in terms of earnings per share. The TBL accounting has appetite for accommodating such differences. Also TBL can be project, entity or strategic business unit (SBU) specific.

The level of the entity, type of project and the geographic scope will drive many of the decisions about what measures to include. That said, the set of measures will ultimately be determined by stakeholders and subject matter experts and the ability to collect the necessary data. While there is significant literature on the appropriate measures to use for sustainability at the state or national levels, in the end, data availability will drive the TBL calculations. Many of the traditional sustainability measures, measures vetted through academic discourse, are presented below.

Financial/Economic/Profit Measures

Financial variables are those variables that deal with the bottom line and flow of money. It should look at flow of funds in the form of income/expenditure, taxes, business climate factors, employment and business diversity factors.

To be specific, they can be:

- Personal income
- Cost of underemployment
- Establishment churn
- Establishment sizes
- Job growth
- Employment distribution by sector
- Percentage of firms in each sector
- Revenue by sector contributing to gross state product

Environmental/Ecological/Planet Measures

Environmental variables are those variables that represent measures of natural resources and also reflect

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potential influences to its feasibility. It may include air and water quality, energy consumption, natural resources, solid and toxic waste, land use as well as cover. Ideally the impacts of a project or policy on a certain area could be identified/measured if long range trends are available for each of the environmental variables.

To be specific, they can be:

- Sulphur dioxide concentration
- Concentration of nitrogen oxides
- Selected priority pollutants
- Excessive nutrients
- Electricity consumption
- Fossil fuel consumption
- Solid waste management
- Hazardous waste management
- Change in land use/land cover

Social, People Measures

Social variables are those variables that define social dimensions of a community/ region and could include measurement such as education, equity of gender, equal employment opportunity (EEOs), excess to social resources, health and well-being, standard of living and social capital.

The examples listed below are small snippets of specific potential variable:

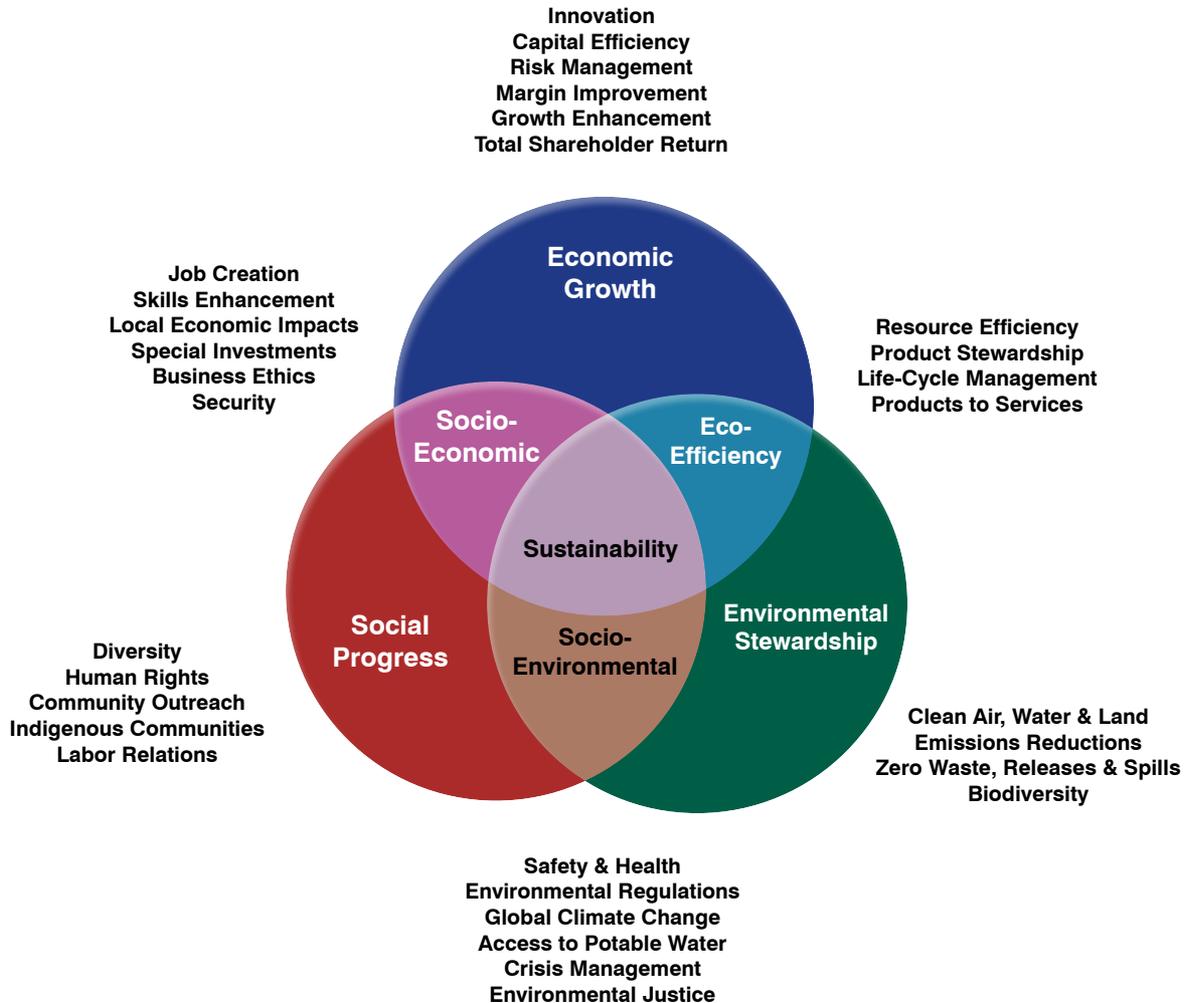
- Unemployment Rate
- Female Labour Force Participation Rate
- Median House-hold Income
- Literacy Rate
- Poverty Rate
- Average Commuting Time
- Crime Rate
- Life Expectancy Rate

Data for most of the measures may be collected at the national and the state level and may also be available at local level.

There are many approaches to seek participation of the stake holders in designing the TBL accounting framework like:

Developing a decision matrix – for incorporating public preferences, having a “Narrative Format” in place for solicitation of share holders participation and in-depth and holistic project evaluation and forming a stake holders rank and weigh component of the

sustainability framework according to community priorities. Example: a community may consider an important measure of success for an entrepreneurial development program to be the number of self-help group owned companies formed over a certain time period. Hence, it will be the organisation’s responsibility to produce the final set of measures applicable to the project at hand.



TBL – Users

TBL can be used by each and every entity, small or big. These entities can be for-profit businesses, non-profit organisations and government at national, state and local levels.

For-Profit Businesses:

Businesses have well digested the fact that the core

value of sustainability will ultimately lead to greater long-term profitability. For example – reduction of packaging waste ultimately leads to cost reduction and hence profitability enhancement.

Businesses using a TBL accounting framework in India and across the globe:

Tata group of companies, Indian Tobacco Company

(ITC), General Electric (GE), Unilever, Procter and Gamble (P&G), Johnsons and Johnsons, IKEA, Cadbury's, Ernst and Young (E & Y), Vodafone, Sierra Nevada Energy Watch

Non-Profit Organisations:

Though TBL accounting has not been in the vogue in non-profit organisations in India but in many developed nations, the concept is well accepted by the same. In those countries, non-profit organisations have partnered with private firms to address the sustainability issue that affect mutual stakeholders. For-profit businesses have identified the fact that aligning with non-profit organisations that have goals of economic prosperity, social well-being and environmental protection makes good business sense.

Non-profit Organisations using TBL Accounting Framework:

Conserve India, RSF social finance a non profit organisation that uniquely focuses on how their investments improve all three categories of the TBL. While RSF takes an original approach to the TBL concept, one can see how the TBL can be tailored to nearly any organisation.

Governments:

In India the governments at most of the levels have not tested the TBL accounting concept. But governments of many of developed countries have adopted the concept at national, state and local levels.

Governments Using TBL Accounting Framework:

North America, United kingdom, Australia, European Union, Maryland, Minnesota, Vermont, Utah, San-Francisco Bay Area, North-east Ohio.

John Elkington's TBL accounting framework has changed the way accounting is done around the globe by for-profit, non-profit and governments. The concept of sustainability measurement has changed the performance matrix of the businesses. Beyond the foundation of measuring sustainability on three fronts – profit, planet and people, the TBL accounting allows organisations to customise the concept in a manner suitable to their specific requirements.

Policy-makers at government level can use the sustainability to decide which actions they should or should not take to make the society more sustainable. They may find the cause and effect relationship between actions taken.

The European Union uses integrated assessment to identify the likely positive and negative impacts of proposed policy actions, enabling informed political judgement to be made about the proposal and identify trade-offs in achieving competing objectives.

Summary

John Elkington's TBL accounting framework has changed the way accounting is done around the globe by for-profit, non-profit and governments. The concept of sustainability measurement has changed the performance matrix of the businesses. Beyond the foundation of measuring sustainability on three fronts – profit, planet and people, the TBL accounting allows organisations to customise the concept in a manner suitable to their specific requirements.

It is accepted that TBL accounting framework has challenges for putting it into a practice. The biggest challenge is measurement of each category, digging applicable data and finally calculation of the organisation contribution to sustainability. But setting aside the challenges, the TBL accounting framework allows organisations to truly evaluate the ramifications of their decision from a long run sustainability perspective. ■

