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A triple bottom line to ensure corporate responsibility



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A triple bottom line to ensure Corporate Responsibility

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As a part of environmental economic theory, Corporate Responsibility (CR) deals with business perspectives of sustainable development. It refers to holding business actors accountable for their intents and actions, setting objectives and taking actions above and beyond that of following the law and maximizing the interest on the investment for the stockholders. This over view offers a brief presentation of a framework for CR. It builds on the notion of corporate governance according to the so called “the triple bottom line”, where sustainable corporate conduct is managed with economic, environmental and social values in mind, in order to address various stakeholder needs from a holistic perspective.

The triple bottom line

The term “triple bottom line” was coined by John Elkington in 1994 in an attempt to create a new language to express what was perceived as an inevitable expansion of existing corporate models, from purely economic values to economic values as a part of managing sustainable conduct. This new model has three value grounds: economic, environmental and social aspects of value creation –with ambitions to embrace the corporate sustainability objectives expressed in the Bruntland Report (UNWCED, 1987).

Since 1994 the use of the triple bottom line in academic literature that deals with sustainability issues has drastically increased – and so has the number of (graphical) interpretations of the model (Figure 1).



Figure 1. Illustrations of the triple bottom line (with inspiration from Elkington, 1999).

These illustrations are just a few examples to show how the triple bottom line offers various interpretations, giving priority to one of the value grounds or making them equal in importance, emphasizing a common denominator (a shared part) and regarding these dimensions as conditions or outcomes. Independent of how the model is illustrated, it adds dimensions to a one-dimensional short perspective economic model. One might refer to the triple bottom line as a process of transition – from an old to a new paradigm (Table 1) where each of the dimensions in these paradigms reflects implicit corporate ambitions.

Table 1. Seven areas of transition (with minor modifications from Elkington, 2004,3)

Dimension	Old paradigm	New paradigm
Markets	Compliance	Competition
Values	Hard (economic figures)	Soft (additional values)
Communication	Closed (internal)	Open (wider stakeholder analysis)
Partnerships	Subvention	Symbiosis (win win)
Life cycle technology	Focused on products	Focused on functions
Time	Wide	Longer
Corporate governance	Exclusive	Inclusive

Elkington (2004) argues that businesses will lead the “cultural revolution” and the fact that it is businesses, rather than governments and non-governmental organizations, NGOs, that drive these processes does not make it easier. Yet, this revolution is further triggered by external factors such as continuous globalization, deregulation as well as societal pressures, where it is important for business to be flexible and open to change. Each of these dimensions for change is explained below (*Ibid.*).

Markets Competition forces corporate needs to differentiate, to stand out and offer something different compared to their competitors (Porter & Linde, 1995; Louche, Idowu & Filho, 2010). It may lead to advantages for businesses and organizations that perceive opportunities in being accountable and willing to “educate the market” thereby creating new markets. In some cases, the existing consumer awareness has already created a business opportunity that offers a first mover advantages.

Values Changes in values are associated with increased understanding of problems, conditions and outcomes (Epstein, 2008; Mamic, 2005). Consumers worldwide are showing an increased concern for challenges associated with sustainability and these values are expressed in, for example, changes in purchasing behavior and expectations of corporate conduct. This can be seen in the consumer behavior where they find firms with community involvement more trustworthy, likable and prefer to purchase (Keller and Aaker, 1998).

If CR is regarded as being accountable, the value of taking responsibility would benefit a wide set of stakeholders; employees in that their working environment meaningful, fair and safe, local communities may receive financial support through corporate philanthropy, business partners’ images are boosted and consumers are offered a concept that is associated with added (soft) values (Louche et al., 2010). Recent studies indicate that more than 70% of end-users were likely to purchase products from companies that have deeper commitment to a cause that they supported and around 90% of respondents would switch from ordinary brand to the comparable one if the latter brand associated with good cause (Cone, 2006).

Communication Increased expectations on transparency has implications on communication at large, especially for governmental agencies, NGOs and corporations (Grayson & Hodges, 2004; Kandachar & Halme, 2008). Technical advancements (for example, mobile phones, surveillance systems and internet tools) enable individuals to transfer information more efficiently. Especially,

emerging social media platforms such as twitter and face-book, are shaping the way individuals interact and exchange information. Corporations are faced with needs to communicate their priorities, commitments and activities in various forms of more or less voluntary disclosures. A recent example would be the BP oil leak in the Mexican gulf. The corporate conduct was mercilessly scrutinized, giving support to the local communities that were affected by the corporate misconduct.

Partnership Various forms of alliances, collaboration between businesses and other actors (businesses, NGOs and transnational organizations) are expressions of an increased stakeholder dialogue. Corporations realize that they can benefit from the synergy by accessing external resources – and in return offer other resources of which they claim ownership (Rotter & Özbek, 2010). Organizations that once saw themselves as sworn enemies (businesses and NGOs) increasingly find opportunities in collaboration by seeking to create win- win situations (outcomes that benefit both corporations and NGOs). Yet, these alliances may cause blurred roles between corporations and NGOs that may offer opportunities as well as conflicts and challenges in finding balances and remaining true to organizational values and their identities.

Life cycle technology Rethinking corporate value creation refers to focusing on what the consumer needs, especially on the function of a product, from a cradle-to-grave perspective (Rainey, 2006). Cradle-to-grave or life cycle assessment is ultimately about increased eco-efficiency while being economically viable. In practical terms, Xerox, an American office solution company serves as a good example ([www, Xerox](http://www.xerox.com)). They advertise an aim for waste-free products by focusing on recycling as well as improved product design based on the cradle-to-grave approach. It may also imply adapting the product to market conditions, such as in the case of Unilever's sales of soap in large multi-packages on markets where the ability to pay matches these needs, and in the sales of individual small soaps on base-of-the-pyramid markets, where the ability to pay is smaller (Kandachar & Halme, 2008).

Time *'Time is money'* – and the corporate world is quick in responding to changes, for example, on the stock market, in news from various media coverage and when market investigations indicate alternating consumer preferences. The systems and tools developed to report annually, quarterly, monthly, weekly, daily and even on an hourly basis give opportunities to respond with little time notice. Production systems, such as “just in time” and “LEAN” are developed with flexibility and efficient resource use in mind. By contrast the notion of sustainability is a long term objective where evaluations of corporate conduct require long time perspectives and development of additional indicators for sustainable conduct (Mark-Herbert & Rorarius, 2009).

Corporate governance Corporate operations are managed by a Chief Executive Officer and a shared responsibility with a board for strategic issue. The objectives for the board is expressed in a so called owners' directive that in itself may constitute limitations to work in accordance with the triple bottom line if it exclusively focuses on the financial output and the interests of the shareholders (Elkington, 2004). However, in the last decades corporate efforts are showing an increase in the use of codes and standards to address responsibility issues (Lepzinger, 2010; Mamic 2005). These codes and standards take a wider stakeholder group interest in mind, and they serve as guidance in daily operations as well as in long term strategic management. These seven areas of transitions may appear unproblematic, as “the way to go”, but each of these dimensions are associated with challenges where old and contested ways of doing things seems like a safe way to go compared to the unknown path towards sustainability through corporate responsibility, CR. Yet, change is inevitable.

What's the role of businesses?

Businesses, regardless of industry and size, are active members of society, which is reflected by context bound visions, social realities and operations in accordance with regulations. The traditional (old) view of the role of businesses objectives is to maximize the profit (Friedman, 1970). Milton Friedman believed that increasing profit for shareholders is the sole responsibility of the firm. He argued that, by creating economic value (maximizing return on investments) social wealth is provided. In this view, businesses generate more job opportunities, customer satisfaction, and more taxes contribute to societal values.

A more modern view of what the corporate identity entails includes a vast number of objectives above and beyond that of making profit (Svenskt Näringsliv, 2004,6):

- Supplying goods and services that customers need/ want
- Creating jobs for customers, suppliers, distributors and employees
- Continually developing new goods, services and processes
- Investing in new technologies and in the skills of employees
- Building up and spreading international standards, e.g. for environmental practices.
- Spreading “good practice” in different areas, such as in the environment and workplace safety.

These objectives hold corporations accountable for creating value and acting responsibly. The notion of corporate responsibility (CR) refers to engaging in continuous stakeholder dialogues and new ways to evaluate corporate performance (financially, socially and environmentally). It is a delicate management challenge for businesses that attempt to balance the interests of a vast number of stakeholders (for example, shareholders, customers, suppliers, employers, local communities, civil society and Non-Governmental Organisations), as this is sometimes conflicting with local law in terms short-term profit maximisation for the shareholders. A map of these interests is presented in Figure 2.

World	Transform multiple industries					
Industry	Transform an industry					Take responsibility for our full impact (social, environmental, economic)
	Be a beacon to others			Develop codes of conduct for the industry		
Community	Be a good neighbor		Innovate and demonstrate restorative business practices			Build strong coalitions to effect and enforce them
	Give something back	Support local communities (philanthropy, in direct programs, employee matching & volunteering)				
Company	Run a good business	Provide access to tools/ product	Influence the industry indirectly, by example		Take responsibility for global conditions (climate change, global inter-dependence, etc.)	
		Disaster relief				Reduce waste, consumption and emissions.
	Company	Community		Industry	World	

Figure 2. A corporate responsibility landscape (McElhaney, 2008, 230).

It is hard to argue against the corporate roles in developing internal codes of conduct, or in a larger context taking responsibilities in arenas of global challenges like climate change (Ibid, 22). Most corporations' CR engagements are either simply being a good neighbour, maintaining their license to operate or giving back something to society. But in addition, business can influence the industry or as McElhaney (2008, 22) put it: "to be a beacon to others". A good example of industrial influence through innovative corporate conduct can be seen on the case of the Body Shop or the American ice-cream company Ben & Jerry's (www, Ben & Jerry's). Both companies can be considered pioneers in the way they embrace added values, beyond simply profit maximization, even though their approach varies greatly. Yet, what both companies have in common, is that their values are incorporated at the core of the corporate identity.

The „Public Eye Award“ is driven by a number of NGOs such as Greenpeace serves an example of a political response for negative industrial influence (www, Public Eye). Since 2000, the Public Eye Award has been presented in an annual ceremony opposing purely profit-orientated organizations during the World Economic Forum. „Winners“ for the worst corporate conduct include Roche, GDF Suez, Royal Bank of Canada, Bridgestone, Novartis, Citigroup and Walt Disney. But The Public Eye Award also recognizes positive contributions by individuals for their courage to improve conditions, also in line with the concept „whistle blowing“ (going public

about misconduct). Such institutions raise public awareness, where in an open and demand-driven society, this could damage the corporation extensively in the long-run. In a modern management perspective corporations and society are intertwined entities with mutual dependencies, driven by both perceived opportunities and fear of threats of various sort.

Corporate Responsibility, being accountable, what's the problem?

Corporate (Social) Responsibility has many facets. With an increased number of choices, come an increased number of problems that could arise from these choices, which makes the concept of CR diffuse. Yet, it still implies a multitude of opportunities for companies to explore and exploit, where improved stakeholder dialogue lies at the heart of being accountable. As most of CR activities are voluntary, the company has the opportunity to actively engage and show their commitment towards society, which could lead to added-value in their products and services through enhanced corporate image. But the question arises, how far in the supply chain, should the organization show responsibility?

The fuzzy lines around the concept of corporate responsibility (CR), especially in terms of accountability, has unfortunately resulted in companies misusing or being presented as misusing the concept of CR as part of their green-washing agendas and has therefore violated the trust of their stakeholders. It is consequently becoming increasingly important that companies are truly committed and show ethical values, that they walk their talk, so to speak. CR is closely linked code of conduct, which is one way of communicating the imprint of the corporate identity. Another way of working with CR is to formalize the processes in a certification process. A certification refers to a third party behavior assessments in response to communities' demand due to the forces of globalization and lack of trust towards companies.

Corporate governance that embraces the triple bottom line is associated with challenging management decisions. The long term perspectives and objectives of sustainability do not match the operative tools that support strategic management decisions. Legal institutional systems and expectations from certain stakeholder groups may also cause sub-optimizing decisions for short term gains (Mark-Herbert & Rorarius, 2010).

We may thus conclude - CR is challenging. Besides all the perceived benefits, the outcome is hard to measure, as there are only very limited tools available to the organizations to estimate the impact of CR activities on the image, reputation and the brand (Paksersht, 2010). However, as deregulation and globalization continues, the trend shows that many companies choose to show and communicate their extended commitment to society through CR. This is becoming increasingly important as technological advancement accelerates the flow of information across borders.

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