

## TRIPLE BOTTOM LINE (TBL) REPORTING – NEW PERFORMANCE REPORTING TOOLS IN A KNOWLEDGE BASED MANAGEMENT APPROACH

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*The human society is starting to react, in an attempt to reduce the negative consequences of the ecological crisis. The most comprehensive view on corporate reporting is based on the sustainable development concept and combines three performance-reporting dimensions: economic, social and environmental. In the first part of our research we propose a literature review of the fundamental concepts in the social and environmental reporting practice, ensuring a uniform terminology, as an entity – stakeholders communication bridge, and promoting the best reporting practices used in social and environmental decision-making. These are related to the concept of Triple Bottom Line (TBL) Reporting, demanding an entity's responsibility to stakeholders rather than shareholders.*

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*JEL Classification: M 40, M 48, Q 51, Q 56, Q 57*

### **Introduction**

Within knowledge-based economics, the need for new approaches to decision-making to support sustainable development initiatives is acknowledged. The limitations of cost–benefit analysis approaches as a measure of the (un)sustainability of organizational activities are widely recognized. These are viewed as particularly inappropriate within the participatory settings that sustainable development proponents seek to foster (**Bebbington et. al., 2007**).

The environmental crisis is not a local problem, in a particular country, but it is a global one, having the environmental protection as a high priority target. The conclusions that have been drawn from the Conference of Stockholm (1972) and the Conference of Rio (1992) for the Environmental Protection underpinned the necessity of a global scale program for the protection of the environment, as a common goal. Kyoto Protocol (Environment Conference Kyoto, 1997) has created policies of gas emission diminishing for reducing the explosive increasing of global warming. As a first policy of Environmental Protection, the Unique European Document states that the inner activity of a country must not deteriorate or affect the environment of the neighbour country. The states of the European Union must act as a whole and develop a certain kind of coherent dynamic at a global scale with respect to the environmental protection. Besides the establish actions must be appropriate to the polluting type and geographic zone.

As economic and ecological support systems become more interdependent, new disciplines are needed to bridge the gap between human and nature. *Energy Model* created by H.T. Odum (1994) is a new method for evaluating natural capital and ecosystem services (*Zhao, Li and Li, 2005*).

*The ecological footprint concept* created by Wackernagel and Rees (1996) has been promoted as a policy and planning tool for sustainability.

### **1. Research Methodology**

The background of this scientific approach consists of information/data that arise from specialized national, European and international literature and practice. The research team is undertaking a dialectical research, having as guiding point the entropy laws applied to social and environmental processes, from an evolutionary and historical, often contradictory perspective. New concepts, interpretations and judgements emerge, that ensure the borderline research ideas, through mathematical modelling.

The quality of the underlying social interactions in terms of challenges, pitfalls and good practices is critically reflected against normative guidelines derived from the literature. Promoting the concept of transdisciplinary research as *a third epistemic way* - demarcated from involving laypersons in scientific research - *the primacy of science* - as well as from classical decision support - *the primacy of practice* - four challenges of joint knowledge generation are discussed: confounded agendas, separate data philosophies, reluctance to face exposure, and co-existing values.

Transdisciplinary research creates a specific site of negotiation in which both scientific and extra-scientific forms of knowledge are debated. There are already a variety of contributions focusing on the aspect of knowledge generation in transdisciplinary research.

The debate on transdisciplinary research has so far rarely addressed the epistemological and methodological issues of this new form of scientific practice. With our article we offer a contribution that attempts to fill this gap. From previous research we found that the term transdisciplinary research is used for quite heterogeneous project goals and epistemic ends. Also, the methods of knowledge integration are used only on a small scale and participation often does not primarily serve epistemic ends. Thus, the notion of transdisciplinary research covers projects only in the sense of a family-resemblance, and does not represent a fertile methodological point of reference. Therefore, we propose to relate further methodological considerations with types of knowledge desiderata.

### **2. TBL reporting from managerial perspective**

The managers who made decisions on selling strategies must have as target to maximise returns that assures a good entity's image. But, in today's business world, the financial bottom line is not the only or even the most important measure of success. Executives must consider the social, economic and environmental impacts on anyone with a stake in the outcome.

Evaluation models for sustainability are based on an interdisciplinary approach that recognizes the necessity of a new accounting model leading toward advanced forms of decision and responsibility. The most comprehensive view on corporate reporting is based on the sustainable development concept.

The TBL concept focuses not only on an entity's Economic Value Added, but also, and more importantly on the social and environmental values it creates or, on the contrary, it destroys (Elkington, 1980). In the strictest sense, TBL is used as a framework for an entity's performance measurement and reporting over three dimensions: social, economic, and environmental.

TBL Reporting continuously grows more popular (however it is not yet a common practice). According to the survey released by KPMG 45% of the Fortune global top 250 companies were issuing environmental, social or sustainability reports in addition to their financial reports at the beginning of this decade (35% in 1999) (KPMG, 2002). Globally, more companies than ever are publishing reports on their environmental, social and sustainability performance. According to the Deloitte & Touche survey 90% of responders believed that corporate sustainable reporting was an important element of reputation and brand value. The survey shows that 42% of funds

managers agree that companies exhibiting good environmental and social performance would outperform their peers; important to stress that over half of the managers believed that consideration of social, environmental and ethical performance would become a significantly important aspect of investment decision-making within next period. (Deloitte & Touche, 2002). The TBL model currently exists as a kind of balanced scorecard (*figure 1*) that captures in numbers and words the degree to which any company is or is not creating value for its shareholders and for society.

Typical measures	<i>Economic</i>	<i>Environmental</i>	<i>Social</i>
	Sales, profits, ROI	Air quality	Labour practices
	Taxes paid	Water quality	Community impacts
	Monetary flows	Energy usage	Human rights
	Jobs created	Waste produced	Product responsibility
	TOTAL	TOTAL	TOTAL

*Figure 1. The Triple Bottom Line Balanced Scorecard (source: Savitz and Weber, 2006)*

Elkington’s formulation is central to understanding sustainability. Whereas the practice of sustainability is still an art, the measurement of sustainability is becoming a science, including specific goals and parameters by which business can measure and judge their own progress (Savitz and Weber, 2006).

Industries are becoming progressively more aware of the environmental and social liabilities pertaining to their operations and products, with associated financial effects. Uncertainties in measuring these financial effects can be addressed by using environmental evaluation and accounting techniques (Beer and Friend, 2006). Environmental accounting assists in expressing environmental and social liabilities as environmental costs.

Several studies are referring to a multitude of motivations regarding the socio-economic and environmental reporting (O’Dwyer et al., 2005, Cormier et al., 2005, Solomon and Lewis, 2002). Cormier et al. (2005) propose that the environmental reporting of the potential costs to be understood in perspective of humanity’ benefits. Hassel et al. (2005) show that the investors do not really appreciate the performance increasing as a result of environment protection activities. This could be partly explained by the cost–benefit relation. Studies show that the investors tend to grant a growing importance to the green reports, if we were to rely on results regarding sustainable investments funds and sustainable investing methods (Koellner et al., 2005), on sustainable investing indicators or on increasing interest of accounting regulation institutions.

The information analysis reported by the entities (Clarkson et al., 2004) indicates growing benefits for those who have invested in equipments adapted for environmental protection. We think that the future tendencies should be harmonized with the evaluation of formal or informal environment protection requirements, which, for now, are not quantified and reported through financial statements. M. Patten (2004) identifies two possible aspects that criticize the diminished importance attached in time to green reporting: (1) the previous studies were limited to a global approach of green information which means to lose sight of important aspects and (2) such information, even if it would not recognize a part of the past activity eco-performance, for certain will help the entity in its future activity. Some researchers have tried to put in relation the practice of green information reporting with variables such as entity’s size, profits or the particularities of the activity range (Gray et al., 2001).

### **3. Alternative Sustainable Reporting Models from a Knowledge-based Management Perspective**

Business leaders with a superficial understanding of sustainability think of it as a distraction from their main purpose, a chore they hope can be discharged quickly and easily. This approach reveals a fundamental misunderstanding. Sustainability is not about philanthropy. There is nothing wrong with corporate charity, but sustainable companies conduct their business so that benefits flow naturally to all stakeholders, including employees, customers, business partners, the communities in which it operates, and, of course, shareholders.

Sustainability requires us all to look at the world differently, to think in a *cyclic* rather than *linear* way. Sustainability in practice can be seen as *the art of doing business in an interdependent world*, operating a business in a way that causes minimal harm to living creatures and that does not deplete but rather restores and enriches the environment. The concept of sustainability is sometimes confused with other terms that are used in business today. For example, the term *corporate social responsibility (CSR)* is often used to refer to a company's obligations to society at large. In our opinion, CSR can be perceived as a first-stage sustainable reporting initiative, focusing on the social and environmental benefits of a more responsible corporate approach.

The new TBL paradigm turns that lens around, examining how companies can become more profitable by *doing the right thing*. It requires focus not only on the *financial* returns to shareholders, but also on the *non-financial* returns to stakeholders. TBL reporting also changes the perspective from a short-term shareholder value to a long-term stakeholder value, stressing that a sustainable business can only be achieved in the new *Age of Accountability* if a company is responding to the challenge of *doing the right thing* by the environment and society. The TBL captures the essence of sustainability by measuring the impact of an organization's activities on the world. A positive TBL reflects an increase in the company's value, including both its profitability and shareholder value, and its social, human, and environmental capital.

Companies are not turning to sustainability for altruistic reasons. Profitability and growth are at the heart of their reasons for building sustainability tools into their business strategy (Lungu et al., 2007).

Sustainable companies find areas of mutual interest and ways to make doing good and doing well synonymous, thus avoiding the implied conflict between society and shareholders. We propose to think about sustainability as a common ground shared by business interests (financial stakeholders) and the interests of nonfinancial stakeholders (the public). This common ground is that we call the sustainability sweet spot: the place where the pursuit of profit blends with the pursuit of the common good (figure 2).

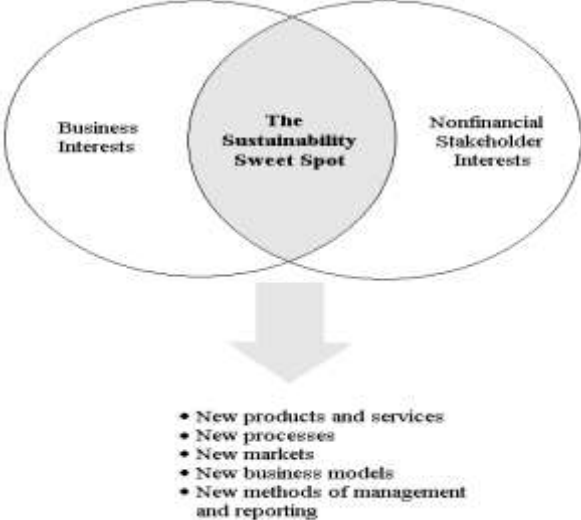


Figure 2. The sustainability sweet spot (Savitz and Weber, 2006)

The most important companies around the world are trying to indentify and move into their sweet spots, by developing new ways of doing business in order to get there and stay there. The sweet spot embodies the literal meaning of sustainability: making your company viable for the long term by managing according to principle that will strengthen rather than undermine the company's roots in the environmental and social area and in the economy. A business that occupies the sweet-spot or that strives to fit as much of its activities into that zone should have real long term advantages over its competitors.

## **Conclusions**

Trajectories for transdisciplinary strategies combine economic, social, and environmental aspects, leading to sustainable development, main objective of the seventh Framework Programme (FP 7). The increasing emphasis on the reporting of non-financial information and new measurement tools herald the prospect of clearer and more direct connections between an economic entity's worth and its social and environmental strategies. The business-integrity issues raised by recent corporate scandals and stressed by the present global economic crisis have, in turn, heightened the focus on transparent and relevant reporting.

Every action you take in business has two components: an impact on profits and an impact on the world (social benefits). Companies' goal should be to develop strategies and change operations to move toward a spot where they may bled a high profit and an elevated social benefit.

A transition process is occurring which eventually will subject environmental and social disclosure to the same professional importance that financial reports receive today. The companies that stand to gain the most are those that carefully examine these trends and devise strategies that offer competitive advantage.

In our opinion, more and more companies are using sustainability reporting, encompassing the social, environmental and economic impact, not just as an accounting tool but to drive strategy, unlocking new sources of revenue and growth. TBL reporting aims both to measure the direct or marginal benefits and to assess the structural pattern of institutional development and the related qualitative social and environmental services network.

The criticism about triple bottom line reporting argues about an increase of corporate social responsibility and the limited amount of disclosures. It is also criticized that organizations often have good intentions in sustainability matters, but they cannot transform those intentions into actions and results. Therefore we consider that for giving the right answer to these needs a model that helps the understanding of relationships emerging from the three levels of reporting (economic, social, and environmental) by combining them with the human being factor is necessary and will be developed in our future research.

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