Triple Bottom Line

Idea In Short

All businesses must make money. But triple bottom line companies realize that they can do more. The need for depleting natural resources has forced companies to move towards sustainable practices. This idea has recently gained importance in the corporate world. It is impacting the decision-making process of some of the top brands. TBL theory also says that if a business focuses on finances only and does not examine how it interacts socially, it cannot see the complete picture and therefore cannot judge how it is competing with other companies.

In 1999, John Elkington, the famed British management consultant and sustainability guru, coined the term Triple Bottom Line in his book, Cannibals With Forks: The Triple Bottom Line of 21st Century Business as a way of measuring performance in corporate America. The central idea behind this framework was that companies should both, make a profit and improve the well-being of the planet.

Triple Bottom Line

Triple Bottom Line [TBL] is a business concept that asserts firms should commit to measuring their environmental and societal impact in addition to their financial performance. It posits that if a firm solely focuses on profits and ignores social and environmental concerns, it cannot account for the total cost of doing business. One can understand the sustainability efforts of various corporations using this concept. Profit is essential in TBL. However, it should not be at the expense of social and environmental concerns.

Elkington suggested expanding our way of evaluating corporate performance by adding two further bottom lines to the original one. Instead of measuring only their economic bottom line, companies should also report on a social bottom line, i.e. on their contribution to social

equity and welfare, as well as on an environmental bottom line, i.e. on their ecological impact.

When introducing the concept of triple bottom line reporting, Elkington had high expectations. He argued that the triple bottom line could trigger a veritable system change towards a truly sustainable form of capitalism1. His hope was that the unaccounted side effects of business activity – what economists call externalities – would stepwise become incorporated into our way of assessing and managing firm's performance.

Components of TBL

The TBL model comprises of three elements (3Ps), namely:

1. Profit
2. People
3. Planet

Profit

In the traditional capitalist economy, a firm's success heavily depended on its financial performance, as measured by the profit it generated for its shareholders. Strategic planning initiatives and key business decisions were carefully crafted to maximize profits while reducing costs and mitigating risk.

However, when one looks at the profit from a TBL standpoint, profits should empower and sustain the community as a whole and not just shareholders' interests. Many purpose-driven leaders now recognize their power to impact the world without compromising their financial performance positively. In many cases, adopting sustainability initiatives has proven to drive business success2.

People

It measures the societal impact of an organization throughout its history. It refers to people within the organization like employees, shareholders, and the people outside the organization like the customers and other stakeholders. Organizations can serve society by ensuring fair hiring practices, good work-life balance, providing healthcare services, and a safe place to work. Many have formed strategic partnerships with non-profit organizations

that share a common purpose-driven goal.

Planet

It measures how environmentally responsible an organization has been. While businesses have typically been the most prominent contributors to climate change, they also hold the keys to driving positive change. Businesses should strive to make changes to reduce their carbon footprint.

Case Study

One of the world's largest restaurant companies, McDonalds believes that they have responsibility for long-term, sustainable value creation for shareholders while considering some of the most critical social and environmental issues.

They focus on creating an impact on a range of impact areas like

1. **Food quality and sourcing:** Helping to create a future of quality, secure and sustainable food because how our food is produced and where it comes from matter to our customers, communities, and the environment
2. **Our planet:** From minimizing packing, investing in renewable sources and partnering to advance regenerative and sustainable agriculture practices
3. **Community Connection:** McDonalds efforts at corporate responsibility can be found in its funding and support of the Ronald McDonald House. This entity provides housing and some limited indirect financial support for families whose children are undergoing treatment for life-threatening illnesses
4. **Job, inclusion and Empowerment:** We are serving bright futures by providing an opportunity for education and skills in the communities we serve and accelerating equity and inclusion across our business

One way that McDonalds attempts to be a responsible corporation is by promoting sustainable farming methods. McDonalds joined Unilever and Nestle in pledging to shift to entirely sustainably sourced palm oil. Clearcutting for palm tree plantation systems is a source of greenhouse gases, and the scales of the materials these companies use indirectly lead to a great deal of these adverse outcomes. In Europe, the company has launched a Flagship Farms initiative to showcase sustainability practices used by farms supplying

McDonalds. Examples include soil, water, and energy use for animal welfare and employee well-being. One poultry farmer, for instance, provides 25 million eggs per year to McDonalds from his 48,000-bird free-range flock. This program highlights successful sustainability practices in agriculture to show other farmers and suppliers what can be done.

Advantages

Reporting information about the business impact on sustainability will incorporate what the business is doing well and at what places it needs improvement to lead to increased transparency. It will reduce the risk of stakeholders on confidential information. Evidence of diminishing natural resources has made consumers aware of businesses' impact on the world. They realize that if we keep wasting resources, our resources will not be sufficient for our future generations. Placing equal value on Profit, People, and Planet is a significant step in the right direction for the business world. It would provide them with cheerful recognition, which would help them expand their business. One should realize that companies have a social responsibility to be accountable for the resources they use. Reporting companies' sustainability gives them a benchmark to follow against which they can improve for the coming years.

Disadvantages

To move to sustainable initiatives, some companies might have to change their complete infrastructure, and this would mean a massive investment on their end. Implementing new policies means an extensive readjustment of the company's operations. TBL does not include specific guidelines, which means companies do not know where to start and implement. Any external entity does not monitor companies, so that means that they can easily make fake claims about following TBL while doing nothing to back up those words. Another worry is that companies may say that they are socially and economically accountable, but the only proof they have mere pieces of paper or plaques on the organization's wall. TBL could be an overused and meaningless tactic like green claims on food labels to attract consumers' attention.

Summary

The overall goal of a sustainable business strategy is to impact society and the environment while benefitting the shareholders positively, thus the concept of TBL. Instead of a conventional bottom line, businesses should follow three bottom lines - Profit, People, and Planet. Many companies and their purpose-driven leaders have now started realizing their power to change the world through their sustainable business practices and set a benchmark for others to follow.