## Stephanie Lewis

## 7BU009/UZ3

## 2.11: Assessment – Triple Bottom Line

**Define the Triple Bottom Line:**

With an increasing focus on sustainability, business leaders are beginning to realise the power of sustainable business strategies in driving business success by positively impacting the environment and society whilst also benefitting shareholders.

To mitigate complexities for businesses to define what sustainability means, create achievable goals, and to build strategies to meet those goals, the Triple Bottom Line (3BL) provides a common framework from within which businesses can better understand and report on their sustainability efforts. (Miller. 2020)

First coined by John Elkington in 1994, 3BL is a business concept which suggests that rather than solely focusing on profit, the success of a business should be focused and measured across 3 discrete areas - their financial, social, and environmental performance.

**Components of the Triple Bottom Line**

The components of the 3BL reflect financial, social, and environmental factors, commonly referred to as, the 3 Ps.

***Profit***

Critical to the success of any organisation in a capitalist economy is positive financial performance. Profit forms one of the components of 3BL.

***People***

People represents 3BL’s societal impact, or a business’ commitment to people. As part of a sustainable business strategy, the focus on people spans further than delivering value to shareholders. It encompasses all stakeholders involved in making business decisions, such as customers, employees, and community members. (Miller, 2020)

***Planet***

The third component relates to the environmental impact of doing business, with success attributed to making a positive impact on the planet.

**Why it is used**

(Chladek, 2019) states that debating whether-or-not to incorporate sustainability into business strategy is no longer an option, asserting that, in today’s world, is fundamental to long-term success. This is further supported by Harvard School Professor Rebecca Henderson, who noted that ‘doing well’ (making money) and ‘doing good’ (solving social and environmental problems) are intrinsically linked. Successful business strategies, creating shared value, must include both. (Henderson, 2022)

From an environmental perspective, a reported 71% of all industrial emissions generated from 100 companies in the energy sector (Miller, K. 2020). As the highest contributors to climate change, consequently businesses are central to driving positive environmental change. Many business leaders are recognising their responsibility to drive change. (Miller, 2020)

Whilst financial investment into sustainable business practices may appear counterintuitive, there are clear benefits to an organisation in driving growth. Notably, through protecting brand image and creating competitive advantage.

**Criticisms of the accounting technique**

3BL accounting suggests that the 3 components should be measured, calculated, audited and reported, just as financial performance has been for more than a century. (Norman et al. 2004) challenged the legitimacy of 3BL accounting:

***Transparency*** - Norman (2004) highlights the omission of any guidelines within the 3BL literature which allows interpretation from businesses to report and share what they choose to stakeholders. This creates an obvious accountability issue with 3BL model.

***Aggregation*** – The idea of quantifying a business’ social performance separately, and to somehow derive a ‘bottom line’ result, was highlighted as ‘untenable’ by Norman (2004) without any agreed-upon methodology. The key challenge being that intangible social and environmental impacts are difficult to measure.

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References:

Chladek, N. (2019) https://online.hbs.edu/blog/post/business-sustainability-strategies Accessed 19/3/2022)

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Miller, K. (2020) https://online.hbs.edu/blog/post/what-is-the-triple-bottom-line (Accessed 18/3/2022)

Norman, W. & MacDonald, C. (2004) Getting to the Bottom of ‘Triple Bottom Line’. Business ethics quarterly. [Online] 14 (2), 243–262.