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TOMORROW'S CHALLENGES

GOODBYE TO THE TRIPLE BOTTOM LINE

IT'S TIME TO MEASURE CORPORATE SUSTAINABILITY IN A NEW WAY

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Through the Triple Bottom Line (TBL) approach and Global Reporting Initiative framework, corporate sustainability performance is currently the sum of various quantifiable indicators. This approach is at the core of the TBL methodology, where sustainability is divided into three domains (social, environmental, and economic), which are then further divided into various key performance indicators, or KPIs.

But can this methodology determine sustainability performance? In this article, we argue that it cannot. As a result, sustainability reports using the TBL idea make it hard to distinguish sustainable organizations from less sustainable ones. Such reports also encourage "greenwashing" as seemingly sustainable companies continue to conceal business-as-usual practices.

The measurement issue

Take a company that emits 10 million metric tons of CO_2 every year, consumes 50 million gallons of water, and recycles 40% of its paper usage. How can we measure its environmental performance? The easiest way would be to compare its KPIs over time to determine its improvement. But an extremely sustainable company may score very poorly if it is barely able to improve from year to year while a highly unsustainable company will appear better than it is because it makes large gains until its impacts on the environment become more responsible.

Another measurement option is to normalize the company's KPIs based on market capitalization or benchmark them to peers in the same sector. But even if companies use the same third-party auditing firm to ensure consistent measurement units and methodologies (which they do not), their different niches, products and services will require variable resource usage. In addition, these metrics focus on mitigating the environmental harm that firms cause rather than capturing the societal benefits they provide.

Another problem with the TBL approach is that while the environmental domain has quite standardized KPIs (largely due to the quantifiable first-order impacts or "footprint" of a company), the social and economic domains largely lack quantifiable indicators. And in all three domains, it's very difficult to combine KPIs into a meaningful metric. In the example above, it is not obvious how tons of CO_2, gallons of water, and recycling percentage can yield a "bottom line."

The TBL approach is based on two important claims: the measurement claim, which assumes that an entity can be divided into various, quantifiable indicators, and the aggregation claim, which assumes that indicators can be combined or added to derive a "bottom line." But a review by Norman and McDonald in 2004 debunked both claims, showing that sustainability cannot be broken down into a set of quantifiable indicators, and that such indicators can't be combined.

Time to think holistically

We believe corporate sustainability should be seen as a whole rather than a combination of subparts. This is why we favor abandoning the TBL and measuring sustainability in a more holistic way.

This leads to a systems thinking approach, whereby corporate sustainability can refer to the impacts of a firm on its stakeholder system. Dyllick and Hockerts (2002) define corporate sustainability as "meeting the needs of a firm's direct and indirect stakeholders without compromising its ability to meet the needs of future stakeholders." A more holistic framework would therefore measure corporate sustainability through a firm's stakeholders, including NGOs and non-conventional stakeholders that represent the needs of silent and future stakeholders such as the environment and future generations.

"Landscape approaches" in particular are gaining traction as firms understand not only the impacts at the farm or plant that their goods originate from, but also the impacts on the environments and communities in the surrounding ecosystem. Big companies taking this approach include Starbucks, Unilever, and SAB Miller. Starbucks and Unilever (which owns the Lipton and PG Tips tea brands) are developing climate-smart approaches to coffee and tea production, educating producers, and giving them incentives to protect ecosystems. SAB Miller, the second largest brewer in the world, is working with local communities, governments, and other stakeholders that are affected by the areas it sources water from.

Other companies are based entirely on a holistic approach to sustainability. These include Tesla Motors, which has created an entirely electric fleet of high-performance cars, plus "Superchargers," where users can rapidly recharge their batteries for free for longer-distance trips. By developing a sustainable transportation system and not merely a car, the firm can argue that companies should buy a Tesla not because it is electric, but because it's better.

Other enterprises are starting to move away from the heavy emphasis on KPIs and developing more holistic and systemic approaches to sustainability. Puma, for example, has begun to assess the environmental cost of producing each product from a systemic perspective. By incorporating this into its strategy and fostering a better system for developing clothing and apparel, Puma has the potential to re-establish itself as a sustainable company and disrupt the clothing industry.

However, there is a larger issue that needs to be addressed. In addition to being practiced in a more holistic fashion, sustainability also needs to be measured more holistically to move away from the TBL approach. A critical question that follows is: should the holistic sustainability performance of a firm be measured internally? In the next article in this series, we propose a stakeholder-driven approach.

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This article is the first in a three-part series.

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