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Sustainability and Measuring What Matters - A Research Framework for Measuring Multiple Bottom Lines

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Sustainability and Measuring What Matters - A Research Framework for Measuring Multiple Bottom Lines

Disciplines
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Presented at the 2014 American Accounting Association Northeast Regional Conference.
Sustainability And Measuring What Matters....

A Research Framework for Measuring Multiple Bottom Lines

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What are Multiple Bottom Lines

The triple bottom line measures:
- Social equity,
- Economic outcomes, and
- Environmental factors

or

The company’s contribution to
- People,
- Planet AND
- Profit

Multiple bottom lines compute the “total cost” incurred

Simply measuring a Company’s Financial Bottom Line to determine their performance is insufficient
Argues that to truly measure a company’s achievements, the full impact of their efforts on society and the environment also needed to be computed.

Measurement of an entity’s financial, social and environmental contribution are considered equally as important.

Theorizes that Environmental Sustainability Research is often the more profitable course for a business in the long run.

Research is rudimentary and evolving.
Integrating the triple bottom line into an enterprise risk management program

By
Ernst & Young LLP
Craig Faris | Brian Gilbert | Brendan LeBlanc
Miami University
Brian Ballou | Dan L. Heitger
Defining Sustainability

Sustainability can be described in a number of ways. The most cited definition originates from Our Common Future, known also as the Brundtland Report. “Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.”

Within the context of this article, we will use the term sustainability synonymously with corporate social responsibility, corporate citizenship, stewardship and corporate responsibility.

The scope of this paper does not afford us the opportunity to explore the concepts of the “six capitals,” “value creation,” “integrated thinking,” “planetary limits” and “sustainable outcomes” distributed by the International Integrated Reporting Council (IIRC). However, we do lay the foundation for incorporating sustainability-related risks into an existing Enterprise Risk Management (ERM) framework.
Corporate Social Responsibility and Sustainability’s Evolving Role in Business

**Environmental**
- Energy-fuel, oil, alternative
- Water
- Greenhouse gases
- Emissions
- Waste reduction: medical; hazardous; non-hazardous; construction
- Recycling
- Reprocessing/re-use
- Green cleaning
- Agriculture/organic foods
- Packaging
- Product content
- Biodiversity

**Social**
- Public policy and advocacy
- Community investments
- Working conditions
- Health/nutrition
- Diversity
- Human rights
- Socially responsible investing
- Anticorruption and bribery
- Safety

**Economic**
- Accountability/transparency
- Corporate governance
- Stakeholder value
- Economic performance
- Financial objectives
Multiple bottom lines compute the “total cost” incurred

**Triple Bottom Line Profit Example**

- Currently, the cost of disposing of non-degradable or toxic products is borne financially by governments and environmentally by the residents near the disposal site and elsewhere.

- In TBL thinking, an enterprise which produces and markets a product which will create a waste problem **should not** be given a free ride by society.

- It would be more equitable for the business which manufactures and sells a problematic product to bear part of the cost of its ultimate disposal.

- Ecologically destructive practices, such as overfishing or other endangering depletions of resources are avoided by TBL companies.
Corporate Citizenship Theory:

- Outlines that a company’s practices impact many stakeholders and that its outcomes should be planned, executed and evaluated based on the impact on those stakeholders.

- Stakeholders may include shareholders, employees, customers, vendors, society and the environment.
Has Provided an Incentive for Companies to:

1) balance their priorities and strategic initiatives to ensure that they are strong corporate citizens,

2) consider the outcomes of their financial, social and environmental practices and not sacrificing one at the cost of another and

3) develop measures that evaluate an entities progress toward achieving their goals and initiatives that balance their priorities with all stakeholders.
Respected reporting institutes and registries:

- Global Reporting Initiative
- CERES
- Institute 4 Sustainability

Concern that companies are now using their sustainability and Corporate Citizen Reporting as a marketing / PR tool……
Difficulty is “True” Measurement

Corporate Financial Performance is Regulated /Comparable
Corporate Social Performance is Very Inconsistent

- Beresford’s Social Involvement
- Reputational ratings
- Social responsibility disclosures,
- Carroll’s Concern for Society
- Pollution control expenditures in Excess market return of ARs (SA/P/O)
- Ratings of Council On Economic Priorities
- Criterion validity of CSR1 disclosures (CSR1)
- Coding of ARs for CSR1
- CSR1 in ARs, CEP Indexes (CEP Indexes (SA/P/O))
- KLD scores and Fortune
- Fortune’s rating of ‘responsibility to the community
- Moskowitz reputation index (R) Reputation Survey
- Voluntary (vs. government ordered) product recall announcements (CSP in the face of adversity) (D)
Minimal Research to Date - Future research topics on measuring MBLs include:
1. Establishing a consistent construct of a MBL and TBL.
2. Determining how to best measure each bottom line so that it is objective and comparable from one entity to the next.
3. Improving the reliability of MBL/TBL and CSR measures.
4. Determine if different measurements for the same objective should be considered or rejected. IE: Can the CSR measure be independent from company to company? For example, for socially responsible behavior, the following two proposals were made by separate companies. One company has establish that socially responsible behavior, for them, would mean that they paid workers in plants in developing countries a wage higher than the standard for the region and at sufficient levels to be a living wage and to raise workers out of poverty. For a second company in Silicon Valley in the US, socially responsible behavior meant that they encouraged employees to not exceed 10 hours of work in any one day. In the past 15 – 18 hour workdays were the norm, leading to burnout and lack of productivity. If each company tracked their successes and failures with each particular policy, would this allow the two measures to be comparable between companies?
5. Determine if a total bottom line (compilation of financial, environmental and societal outcomes) can be calculated and if it is meaningful.
1. Definition and conceptualization of the construct of multiple bottom lines (MBL’s).
2. For what purposes do organizations use a MBL measurement?
3. What measurement tools and methodologies are firms using to measure their non financial bottom lines in their MBL computation?
4. Proposed measurement methodology for MBL’s.
5. Does computing MBLs that assess a company’s financial, societal and environmental outcomes result in improved financial results?
6. What bottom lines are companies measuring?
7. Is measuring a triple bottom line (financial, societal and environmental) linked to improved financial performance? In different countries, industries, etc.
<table>
<thead>
<tr>
<th></th>
<th>Future Research Opportunities (research gaps or minimal research):</th>
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<tbody>
<tr>
<td>1.</td>
<td>Measuring the degree of MBL adoption in for profit and NFP organizations.</td>
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<td>2.</td>
<td>Do for profit and not for profit (NFP) firms measure similar or different bottom lines?</td>
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<td>3.</td>
<td>What are the factors that drive a manager or organization to use a MBL measurement?</td>
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<td>4.</td>
<td>Does a manager or organization's propensity for innovation impact their willingness to adopt a MBL measurement system?</td>
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<td>5.</td>
<td>For what purpose do MBL adopters use the MBL approach for?</td>
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<tr>
<td>6.</td>
<td>Does adopting a triple bottom line approach (assigning value to financial, societal and environmental outcomes) result in improvements in each of the areas for adopters?</td>
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<td>7.</td>
<td>Is the MBL approach a successful approach for measuring alignment of organizational members toward strategic goals and initiatives?</td>
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<td>8.</td>
<td>Is the MBL approach a successful approach for strategy communication and implementation?</td>
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<td>9.</td>
<td>Does the MBL measurement show cause and effect relationships?</td>
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<td>10.</td>
<td>Are the measurements that organizations are using effective in measuring what the entity seeks to measure?</td>
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<td>11.</td>
<td>Can the MBL construct adopt any best practices from the Balanced Score Card (BSC) theory and methodology for measuring an entity's financial and non financial performance?</td>
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<td>12.</td>
<td>Does an organization's MBL measurement effectively measure the organizations success in the areas specified in their MBL?</td>
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<td>13.</td>
<td>Do organizations that adopt a MBL mindset and the methodology have compromised or improved financial outcomes?</td>
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<td>14.</td>
<td>Is there a business case for measuring MBLs (Herrmann, 2004)? Can CSR and TBL approaches help companies: improve risk management, protect and enhance their reputation and brand equity, build trust with stakeholders, improve resource efficiency and access to capital, address complex and growing regulations, improve relationships with different stakeholders (future employees, customers, business partners, socially responsible investors, regulators, and host communities), promote innovation and alternative ways of thinking; and assist with building future market opportunities.</td>
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