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A Theoretical Study of Triple Bottom Line Approach As A Tool of Reporting Corporate Social Responsibility of an Enterprise

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ABSTRACT

This paper attempts to gather knowledge about theoretical concept, logic and base of the triple bottom line reporting. It also tries to understand the logic of using triple bottom line approach for reporting activities undertaken by enterprises to shoulder their social responsibility. Feasibility of practical application of the said approach is also tried to understand along with gaining insight on the pros and cons associated with adopting the same for reporting social activities of the enterprise.

KEYWORDS : Triple bottom line reporting, corporate social responsibility, sustainability reports

Introduction:

It is a well understood fact that no company who is going to only concentrate on profit maximization and ignore other aspects like social and moral responsibility is going to sustain in the market for long. The emphasis is now on adhering to social responsibility in the areas of human development, community development and sustainment of environment. There is a deep nexus between a corporate and the society in which it operates. Society provides for the basic factors of production without which a corporate cannot exist. In turn, corporate owe good quality of products for the benefit of society. From time immemorial profit has been considered as the barometer of success of a corporate. But, in the race of earning high profits a corporate should make sure that it is not compromising on its quality. Also, it is a moral duty of the enterprise to provide for a healthy working environment to its employees and at the same time it is also expected from a corporate to contribute towards development of society on the whole. Indian corporate has very well accepted this and has started shouldering their social responsibility voluntarily. Indian companies like – Tata Group, Aditya Birla Group, Infosys, Indian Oil Corporation, Marico, SAIL, are a few examples.

Even Government of India is keenly interested and looking forward for a strong partnership with corporate in development of all the sectors of the country. It is expected from the Indian Corporate who qualifies on the grounds of Turnover, Capital Employed or Profit Performance to set aside and use 2% of its average net profit of last three years for undertaking social responsibility. An exhaustive list of activities that can be considered as social responsibility activity is also made available. But so far, government has not officially announced the format in which the social responsibility undertaken be disclosed in the annual reports of the corporate. Social Income Expense Statement, Value Added Statement, Triple Bottom Line are few of the approaches that are being used for this purpose.

Objectives:

Main objective to undertake this study is to acquire detailed information on the concepts of triple bottom line approach to report corporate social responsibility. In the course of study if possible logical linkage between sustainability reports prepared by enterprises for show casing their social responsibility activities and adoption of this approach will also be established.

Theoretical background of Corporate Social Responsibility:

The concept of Corporate Social Responsibility (CSR) began in the 1920s; however, due to the Great Depression and World War II, it failed to become a serious topic amongst business leaders until the 1950s. CSR found itself in the spotlight in 1951 when Frank Abrams, chairman of the board for Standard Oil of New Jersey, published an article in Harvard Business Review where he stated that is was business' obligation: to conduct the affairs of the enterprise to maintain an equitable and workable balance among the claims of the various directly interested groups, a harmonious balance among stockholders, employees, customers, and the public at large (Frederick, 2006)

In 1953, Howard Bowen made the first significant scholarly contribution by publishing the book, The Social Responsibilities of the Businessman. Here he proposed the CSR definition as "the obligations of business to pursue those policies, to make those decisions or to follow those lines of action which are desirable in terms of the objectives and values of our society" (Bowen, 1953)

According to Horrigan there is no widespread definition of CSR due to the high levels of ambiguity and controversy associated with the topic. (Horringan, 2010)

It has to be noted that "virtually all definitions of CSR include the notion that business firms (i.e., corporations) have obligations toward society beyond their economic obligations to shareholders" (Schwartz, 2011)

Nevertheless, CSR definition that captures the main aspects of the term can be proposed as "corporate initiative to assess and take responsibility for the company's effects on the environment and impact on social welfare." (www.investopedia.com/terms/c/corp-social-responsibility/, 2013)

CSR has become very important among the Indian corporate because they have realized that apart from profit maximization, it is also equally important to maximize goodwill and trust in the society at large. CSR is now not a matter of choice but a necessity. "Corporate houses are realizing that what is good for workers, their community, health and environment is also good for business." (N., 2008)

CSR is a multi dimensional concept. "In increasing relevance of CSR in India has stemmed from the fact that business cannot succeed by ignoring the human and social needs of our society." (Sanker Sen, 2008) Corporate like Microsoft, HUL, Tata group, Aditya Birla group, IOC etc. have been involved in serving community through donations etc to develop their brand capital through varied CSR activities.

Theoretical background of Triple Bottom Line:

The phrase "the triple bottom line" was first coined in 1994 by John Elkington, the founder of a British consultancy called "Sustain Ability". His argument was that companies should be preparing three different (and quite separate) bottom lines. One is the traditional measure of corporate profit—the "bottom line" of the profit and loss account. The second is the bottom line of a company's "people account"—a measure in some form of how socially responsible an organization has been throughout its operations. The third is the bottom line of the company's "planet" account—a measure of how environmentally responsible it has been. The triple bottom line (TBL) thus consists of three Ps: PROFIT, PEOPLE and PLANET. It aims to measure the financial, social and environmental performance of the corporation over a period of time.

Triple Bottom Line works on the assumption that the corporate is a member of the moral community, and this gives it some social responsibilities. This theory focuses on sustainability, and requires that corporate weigh its actions on three independent scales:-

1. **Economic** sustainability
2. **Social** sustainability
3. **Environmental** sustainability.

These three tabulations are all aimed at long-term sustainability.

Economic sustainability must focus on the long term because this is the primary goal of a corporate. In long run, a corporate that is economically viable will be able to contribute positively towards society and social well being of its members. A decision which creates an economic boon in the short-term, but causes long-term harm, would likely reduce this bottom line to such a degree that the action would be untenable. Only those decisions that would bear positive fruits in long run are undertaken.

Social sustainability gives importance on the balance of economic power in the society. Competition in the business arena is common, and encouraged, but maximizing the bottom line in social terms requires that a business foster an environment in which all can succeed. This is an era of cut throat competition but it should be kept in mind that the interest of people in the society is not ignored. This might seem counter-intuitive, but in the big-picture it is better for a whole society to thrive than for one single corporate to thrive alone. This will allow the company to continue to exist, and it will foster goodwill between the company and the society.

The requirement of **environmental** sustainability stems from the recognition that resources are not infinite, and leads to the reasoning that too much degradation will worsen our lives, lives of forth coming generations too. Corporate should not cause undue harm to the people around them and the people who will come later, and so this bottom line values some protection of the environment. Efforts should be made to renew some of the environments that have been harmed in the past; efforts should be taken to minimize damage to environment. Steps to conserve energy and protect environment should be taken as a promise to preserve environment. These environmental harms and gains form a part of this bottom line.

The rationale behind this tripartite theory is that if businesses calculate their gains and losses in this way they will be more likely to take actions which are to the benefit of both the business and the community.

The three pillars are a key component to good corporate citizenship through sustainability. Triple Bottom Line is a holistic approach to business that sees people, the planet and profitability (the three Ps) as equal pillars in a corporate mission. Interest in triple bottom line accounting has been growing across for-profit, nonprofit and government sectors. Many businesses and nonprofit organizations have adopted this sustainability framework to evaluate their performance. (Elkington, 1998)

Social Responsibility Accounting, Sustainability Report and Global Reporting Initiative:

An ethic of corporate social responsibility is a powerful reason to bring the three Ps to an enterprise's business plan. All the activities undertaken in the name of social responsibility by a corporate can be classified into the broad tabulations of triple bottom line and accounted for in proper form so as to communicate them clearly to the various stake holders. By doing so, the corporate undertaking their social responsibility may even publish it in their annual reports and reap benefits like:

1. Image building
2. Generate brand equity
3. Increase in employee loyalty
4. Increase in corporate reputation
5. Improved financial performance

Companies have to contribute towards social responsibility and undertake various socially responsible activities. This is pretty much compulsory for them to be more socially acceptable and loved. Few of the areas which is considered as social responsibility is as enumerated below:

1. Housing facilities
2. Health care and sanitation
3. Canteen facilities
4. Promoting Education
5. Career and training facilities
6. Protection and preservation of National Heritage, Arts & Culture
7. Community development
8. Environmental Sustainability and Conservation of energy
9. Staff welfare & Human Resources Development
10. Promotion of Sports
11. Research and development and Innovation
12. Human resource development & Staff Welfare
13. Eradication of Hunger, Poverty & Child welfare and Family Planning
14. Development of Agriculture
15. Sustainability of Urban Development and Public Transportation
16. Special recruitment
17. Promotion of Hindi language
18. Gender Equality and Women Empowerment
19. Benefits to armed forces
20. Contribution to Prime Minister's Relief Fund
21. Others

In order to account for these social responsibilities undertaken the companies need to prepare and present a sustainability report. Corporate sustainability reports, in term of an exact definition, are just as difficult to pin down, as is sustainability or corporate social responsibility definitions. What the reports include, how they are formatted, how extensive they are, and whether to actually produce one depends upon the company. Essentially, however, sustainability reports communicate the company's corporate social responsibility efforts to clients and stakeholders.

As the Global Reporting Initiative (GRI) explains, "A sustainability report is an organizational report that gives information about economic, environmental, social and governance performance". "A report conveys disclosures on an organization's impacts - be they positive or negative…", and is often available as a stand-alone document separate from financial annual reports and other financial information. Instead, the reports focus on the "people and planet" side of sustainability. Other common names for a sustainability report are corporate responsibility report, environmental report, corporate citizenship report, accountability report, and social report. Preparing and publishing a sustainability report is completely voluntary - for now. There are some that would like to make the practice mandatory so that sustainable efforts, or lack-thereof become very transparent for the public. (http://www.globalreporting.ord/home)

In response to the growing number of companies that are producing sustainability reports, the foundation of Global Reporting Initiative (GRI) was laid with the primary purpose to promote environmental and social sustainability, and provide "all companies and organizations with a comprehensive sustainability reporting framework that is widely used around the world". As such, they have created guidelines for reporting that are meant to help companies produce reports "that matter, contain valuable information about the organization's most critical sustainability-related issues, and make such sustainability reporting standard practice". The guidelines, first reported in 2000 and now in their fourth iteration called G4, are broken down into three categories - economic, environmental, and social with different "aspects" under each category. At first glance these guidelines appear complicated but in fact, they actually simplify the reporting process. International Corporate like The Marriott Corporation, Shangri-La, Wyndham Worldwide, and Mandarin Oriental prepares Sustainability reports following GRI guidelines which use Triple Bottom Line Accounting Approach. Various Indian corporate like Tata Group and Infosys have also adopted the same practice. A separate report is published every year in the annual report of the corporate and the same is even hosted on their official website.

Benefits of Sustainability Reports:

1. Enhances company image, and reputation.
2. Attracts and retains employees. Employees tend to be happier working with companies that take care of them, and give them the opportunities to give back to, and volunteer in, their local communities.
3. Engages stakeholders. The report is meant not only for consumers, but also for a company's stakeholders. It opens the door for conversation, accountability, and feedback.
4. Creates competition with industry peers. Issuing a report and following sustainability policies differentiates a company from its competitors and may also force the competitors to do the same.

While most of these benefits are difficult to quantify, there is no doubt that producing a report helps a company hold itself accountable to the goals that it has put into place in relation to sustainability, whether it has met those goals, and then enables management to communicate those goals and the progress it has made.

Bottlenecks in preparation of Sustainability Reports:

1. Some companies are of the opinion that reporting becomes too burdensome. For large enterprises it is very cumbersome to consolidate while for smaller enterprises it increases burden on the reporting staff.
2. Another criticism rises from the fact that too much or rather big data is required every year to prepare sustainability report which may be time consuming. Moreover, the nature of the data required is also complex.
3. Assessments of the achievements under different categories are complex. Since, all data is not easily available in monetary terms, conversion of data is also a tough job.
4. Cost constraints cannot be ignored.
5. Too many indicators are laid down in the guidelines. They appear to be complex and difficult on first glance. This may repeal companies from going into the roots of the same. Reporting with superficial insight into the guidelines does not give effective report.
6. Top management may not be ready for more disclosures and might want to keep certain data secretive for future.
7. Practical applications of the approach:

To name a few, Indian companies who adopts triple bottom line approach in preparing their sustainability reports are Infosys Technologies, Wipro, Mahindra & Mahindra, ITC, Indian Oil, NTPC, SAIL, HDFC, and Larsen & Toubro. These reports are published along with director's report in the annual report of the company every year. It is worth noting here that these companies have voluntarily adopted the said approach in the absence of any prescribed format for preparation of the sustainability reports. Majority of the companies follow the guidelines of GRI. (CCI, 2011)

Conclusion:

From the above study it is established that in India, at present there does not exist any prescribed or specified form of social reporting. Majority of the enterprises who adhere to the social activities do not account for the same. Mere outline or highlights of various activities undertaken by them during a particular period is presented by way of a director's report in their annual reports. But this cannot be considered as enough.

There is ambiguity as regards how the social responsibilities are accounted and incorporated in the financial statements of the companies. Nothing has been specified by Government, or even the Ministry of Corporate Affairs in area of presentation of corporate social responsibility. However, it is advised to all the companies to undertake social responsibility and do something for the betterment of society and its residents. There is even provision for compulsory social responsibility expenditure for few specified companies.

In the absence of any particular form of accounting, few of the companies prefer to give a description of the social activities undertaken by them while some have started preparing business responsibility report or sustainability reports based on GRI guidelines. It is also noticed that companies have preferred to adopt the triple bottom line approach to cover their social activities. Companies can easily classify the works done under one or many of the social activities into the three tabulations like – Profit, People and Planet. The Triple Bottom Line is an accounting framework aimed at moving beyond traditional profit measures or reporting corporate performance to incorporate social and environmental measures. The major challenge is that while economic performance is easily measured in money, environmental and social performances are not easily quantifiable in these terms. Nevertheless it is recommended that the companies should adopt triple bottom line approach for accounting their corporate social responsibility activities.

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