In Press, Business Ethics Quarterly

Getting to the Bottom of "Triple Bottom Line"*

by Wayne Norman and Chris MacDonald
March 2003

Abstract:

In this paper, we examine critically the notion of "Triple Bottom Line" accounting. We begin by asking just what it is that supporters of the Triple Bottom line idea advocate, and attempt to distil specific, assessable claims from the vague, diverse, and sometimes contradictory uses of the Triple Bottom Line rhetoric. We then use these claims as a basis upon which to argue (a) that what is sound about the idea of a Triple Bottom Line is not novel, and (b) that what is novel about the idea is not sound. We argue on both conceptual and practical grounds that the Triple Bottom Line is an unhelpful addition to current discussions of corporate social responsibility. Finally, we argue that the Triple Bottom Line paradigm cannot be rescued simply by attenuating its claims: the rhetoric is badly misleading, and may in fact provide a smokescreen behind which firms can avoid truly effective social and environmental reporting and performance.

Introduction

The notion of "Triple Bottom Line" (3BL) accounting has become increasingly fashionable in management, consulting, investing, and NGO circles over the last few years. The idea behind the 3BL paradigm is that a corporation's ultimate success or health can and should be measured not just by the traditional financial bottom line, but also by its social/ethical and environmental performance. Of course, it has long been accepted by most people in and out of the corporate world that firms have a variety of obligations to stakeholders to behave responsibly. It is also almost a truism that firms cannot be successful in the long run if they consistently disregard the interests of key stakeholders. The apparent novelty of 3BL lies in its supporters' contention that the overall fulfilment of obligations to communities, employees, customers, and suppliers (to name but four stakeholders) should be measured, calculated, audited and reported – just as the financial performance of public companies has been for more than a century. This is an exciting promise. One of the more enduring clichés of modern management is that "if you can't measure it, you can't manage it". If we believe that ethical business practices and social responsibility are important functions of corporate governance and management, then we should welcome attempts to develop tools that make more transparent to managers, shareholders and other stakeholders just how well a firm is doing in this regard.

In this article we will assume without argument both the desirability of many socially responsible business practices, on the one hand, and the potential usefulness of tools that allow us to measure and report on performance along these dimensions, on the other. These are not terribly controversial assumptions these days.[1] Almost all major corporations at least pay lip service to social responsibility – even Enron had an exhaustive code of ethics and principles – and a substantial percentage of the major corporations are now issuing annual reports on social and/or environmental performance.[2] We find controversy not in these assumptions, but in the promises suggested by the 3BL rhetoric.

The term "Triple Bottom Line" dates back to the mid 1990's, when management think-tank AccountAbility coined and began using the term in its work.[3] The term found public currency with the 1997 publication of the British edition of John Elkington's *Cannibals With Forks: The Triple Bottom Line of 21st Century Business*.[4] There are in fact very few references to the term before this date, and many (including the man himself) claim that Elkington coined it. In the last three or four years the term has spread like wildfire. The Internet search engine, Google, returns roughly 25,200 web pages that mention the term.[5] The phrase "triple bottom line" also occurs in 67 articles in the *Financial Times* in the year preceding June 2002. Organisations such as the Global Reporting Initiative and AccountAbility have embraced and promoted the 3BL concept for use in the corporate world. And corporations are listening. Companies as significant as AT&T, Dow Chemicals, Shell, and British Telecom, have used 3BL terminology in their press releases, annual reports and other documents. So have scores of smaller firms. Not surprisingly, most of the big accounting firms are now using the concept approvingly and offering services to help firms that want to measure, report or audit their two additional "bottom lines". Similarly, there is now a sizable portion of the investment industry devoted to screening companies on the basis of their social and environmental performance, and many of these explicitly use the language of 3BL.[6] Governments, government departments and political parties (especially Green parties) are also well represented in the growing documentation of those advocating or accepting 3BL "principles". For many NGOs and activist organisations 3BL seems to be pretty much an article of faith. Given the rapid uptake by corporations, governments, and activist groups, the paucity of academic analysis is both surprising and worrisome. Our recent search of the principal academic databases turned up only about a dozen articles, mostly concentrated in journals catering to the intersection of management and environmentalism. One book beyond Elkington's has been published, but this was written by a former IBM executive, not an academic. [7] (The generally languid pace of the academic publishing industry may be partly to blame here, given the relative novelty of the concept.)

In this paper, we propose to begin the task of filling this academic lacuna. We do this by seeking answers to a number of difficult questions. Is the intent of the 3BL movement really to bring accounting paradigms to bear in the social and environmental domains? Is doing so a practical possibility? Will doing so achieve the goals intended by promoters of the 3BL? Or is the idea of a "bottom line" in these other domains a mere metaphor? And if it is a metaphor, is it a useful one? Is this a form of jargon we should embrace and encourage?

Our conclusions are largely critical of this "paradigm" and its rhetoric. Again, we are supportive of some of the aspirations behind the 3BL movement, but we argue on both conceptual and practical grounds that the language of 3BL promises more than it can ever deliver. That will be our bottom line on Triple Bottom Line.

What do supporters of 3BL believe?

There are two quick answers to the question in the above section heading: first, different supporters of 3BL seem to conceive of the 3BL in a variety of ways; and second, it is rarely clear exactly what most people mean when they use this language or what claims they are making on behalf of "taking the 3BL seriously". Despite the fact that most of the documents by advocates of 3BL are explicitly written to introduce readers to the concept and to sell them on it, it is difficult to find anything that looks like a careful definition of the concept, let alone a methodology or formula (analogous to the calculations on a corporate income statement) for calculating one of the new bottom lines. In the places where one is expecting a definition the most that one usually finds are vague claims about the aims of the 3BL approach. We are told, for example, that in the near future "the world's financial markets will insist that business delivers against" all three bottom lines.[8] If "we aren't good corporate citizens" – as reflected in "a Triple Bottom Line that takes into account social and environmental responsibilities along with financial ones" – "eventually our stock price, our profits and our entire business could suffer".[9] 3BL reporting "defines a company's ultimate worth in financial, social, and environmental terms". Such reporting "responds to *all* stakeholder demands that companies take part in, be accountable for, and substantiate their membership in society". Further, 3BL is "a valuable management tool – that is, an early warning tool that allows you to react faster to changes in stakeholders' behaviour, and incorporate the changes into the strategy before they hit the [real?] bottom line".[10] Many claims on 3BL's behalf are very tepid indeed, suggesting little more than that the concept is "an important milestone in our journey toward sustainability," or an approach that "places emphasis"[11] on social and environmental aspects of the firm, along with economic aspects, and that "should move to the top of executives' agendas".[12]

From these many vague claims made about 3BL it is possible to distil two sets of more concrete propositions about the meaning of the additional bottom lines and why it is supposed to be important for firms to measure and report on them. (For the sake of brevity and economy of illustration, from this point on we will look primarily at the case of the so-called social/ethical bottom line.[13] But most of the conceptual issues we will explore with this "bottom line" would apply equally to its environmental sibling.)

A. What does it mean to say there are additional bottom lines?

➲ (*Measurement Claim*) The components of "social performance" or "social impact" can be measured in relatively objective ways on the basis of standard indicators. (See Appendix 1 for examples of indicators used in actual social performance reports.) These data can then be audited and reported.

- (*Aggregation Claim*) A social "bottom line" – that is, something analogous to a net social "profit/loss" – can be calculated using data from these indicators and a relatively uncontroversial formula that could be used for any firm.

B. Why should firms measure, calculate and (possibly) report their additional (and in particular their social) bottom lines?

- (*Convergence Claim*) Measuring social performance helps improve social performance, and firms with better social performance tend to be more profitable in the long-run.
- (*Strong Social-obligation Claim*) Firms have an obligation to maximise (or weaker: to improve) their social bottom line – their net positive social impact – and accurate measurement is necessary to judge how well they have fulfilled this obligation.
- (*Transparency Claim*) The firm have obligations to stakeholders to disclose information about how well it performs with respect to all stakeholders.

In short, 3BL advocates believe that social (and environmental) performance can be measured in fairly objective ways, and that firms should use these results in order to improve their social (and environmental) performance. Moreover, they should report these results as a matter of principle, and in using and reporting on these additional "bottom lines" firms can expect to do better by their financial bottom line in the long run.

We will not examine each of these claims in isolation now. Rather we will focus on some deeper criticisms of the 3BL movement by making reference to these five central claims about the project and its aims. The most striking general observation about the two sets of claims is how vaguely one has to formulate most of them in order for them to be plausible. That is, the truth of many of these claims is salvaged at the expense of their power. Consider, for example, the Transparency Claim. Of course everyone accepts that there are obligations (or at the very least, good reasons) to report *some* information to various stakeholders. The question is, what information do stakeholders actually have a right to, and how would one justify such rights-claims? When is it perfectly legitimate to keep secrets from outsiders, including competitors? We have not found any guidance on these issues in the burgeoning literature on the 3BL.

In a moment we will turn to the most distinctive and novel aspect of the 3BL idea – the Aggregation Claim. We will argue that this claim, which is essential to the very concept of a bottom line, is untenable. We can sum up our critique with the slogan, "what's sound about the 3BL project is not novel, and what is novel is not sound".

What is sound about 3BL is not novel

Again, it goes without saying that all 3BL advocates believe that corporations have social responsibilities that go beyond maximizing shareholder value. Indeed, many uses of "Triple Bottom Line" are simply synonymous with "corporate social responsibility" (CSR) – for example, when the CEO of VanCity (Canada's largest credit union) defines "the 'triple bottom line' approach to business" as "taking environmental, social and financial results into consideration in the development and implementation of a corporate business strategy".[14] Nowhere does one find advocates of measuring, calculating and reporting on the "social bottom line" who nevertheless maintain that the financial bottom line, or shareholder value, is the only thing that really counts. But again, the belief in CSR was alive and well long before the 3BL movement. The same is true of faith in the general belief that attention to social responsibility and ethics should help a firm sustain profits in the long run (the Convergence Claim, above). This belief has increasingly been part of mainstream management theory at least since the publication of Edward Freeman's 1984 classic, *Strategic Management: A Stakeholder Approach*.[15]

Now it might be argued that what is new about the 3BL movement is the emphasis on measurement and reporting. But this is not true either. Those who use the language of 3BL are part of a much larger movement sometimes identified by the acronym SEAAR: social and ethical accounting, auditing and reporting. This movement (to use that term loosely) has grown in leaps and bounds over the past decade, and has produced a variety of competing standards and standard-setting bodies, including the Global Reporting Initiative (GRI), the SA 8000 from Social Accountability International, the AA 1000 from AccountAbility, as well as parts of various ISO standards.[16] The most important function of these standards is to identify indicators of social performance as well as methodologies for measuring and auditing performance along these indicators (again, see Appendix 1 for some examples of social-performance indicators). In general it would be safe to say that anyone supporting the SEAAR movement would endorse at least four of the five 3BL claims listed above – and certainly the Measurement and Transparency Claims – if only because of the relative weakness or generality of these claims. But only the Aggregation Claim is truly distinctive of a "bottom line" approach to social performance, and this claim is definitely not endorsed by any of the major social-performance standards to date.[17] In the following sections we will try to show why this rejection of the Aggregation Claim is justified and why this should lead us to avoid the rhetoric of 3BL even if one endorses the general aims of the SEAAR movement.

One often has the impression that 3BL advocates are working with a caricature that has traditional "pre-3BL" or "single-bottom-line" firms and managers focussing exclusively on financial data, like *le businessman* mindlessly and forever counting "his" stars in Saint-Exupéry's *Le Petit prince*. But obviously, even a pure profit-maximiser knows that successful businesses cannot be run like this. Indeed, most of the data to be reported on the so-called social-bottom-line is already gathered by the standard departments in any large organisation. For example, Human Resource departments will typically keep records on employee turnover, employee-demographic information by gender and/or ethnicity, and various measures of employee satisfaction; good Marketing and Sales departments will try to track various measures of customer satisfaction; Procurement departments will monitor relationships with suppliers; Public Relations will be testing perceptions of the firm within various external communities, including governments; the Legal department will be aware of law suits from employees, customers or other stakeholders; and so on. Of course, what is distinctive of the recent trend in corporate social responsibility is that many of these various figures are now being externally verified and reported, not to mention gathered in one document rather than being scattered among many departments oriented toward different stakeholders. But the only point we wish to make here is that much of the information that goes into any report or calculation of a 3BL already figures in the deliberations of strategic planners and line managers even in the most "single-bottom-line"-oriented corporations.

In short, if there is something distinctive about the 3BL approach, it cannot be merely or primarily that it calls on firms and senior managers to focus on things besides the traditional bottom line: it has never been possible to do well by the bottom line without paying attention elsewhere, especially to key stakeholder groups like employees, customers, suppliers and governments. To give but one clear example, a firm that has consistently done as well as any of the "profit-maximising" rivals in its sector is Johnson & Johnson. Some six decades ago J&J published its Credo announcing that its primary stakeholders were its customers, employees and the communities it operated in – in that order, and explicitly ahead of its stockholders. The Credo, which is the first thing to greet visitors to J&J's homepage (www.jnj.com) ends by affirming that "Our final responsibility is to our stockholders…. When we operate according to these principles [i.e., those outlining obligations to other stakeholders], the stockholders should realize a fair return". These words were written in the 1940s and are hardly revolutionary today.

Now we are certainly not claiming that most major corporations are already functioning the way 3BL advocates would like them to. The point is merely that once we formulate 3BL principles in a way that makes them plausible, they become vague enough that many mainstream executives would not find them terribly controversial (nor, perhaps, terribly useful). 3BL advocates would certainly have corporations *report* more of the data they collect on stakeholder relations than they typically do at present. But even here, as we shall explain in a moment, there is nothing distinctive to the 3BL approach to the call to audit and report social and environment performance. If there are good justifications for firms to report such data, these will be independent of the distinctive feature of the 3BL: namely the Aggregation Claim, the idea that it is possible in some sense to quantify a firm's social performance in a way that arrives at some kind of "bottom line" result.

What is novel about 3BL is not sound

The keenest supporters of the 3BL movement tend to insist, if only in passing, that firms have social and environmental bottom lines *in just the same way* that they have "financial" or "economic" bottom lines. We submit that the only way to make sense of such a claim is by formulating it (roughly) in the way we have with the Aggregation Claim, above. That is, we cannot see how it could make sense to talk about a bottom line analogous to the bottom line of the income statement unless there is an agreed-upon methodology that allows us, at least in principle, to add and subtract various data until we arrive at a net sum.

Probably the most curious fact about the 3BL movement – certainly the one that surprised us most as we researched it – is that none of the advocates of so-called 3BL accounting ever actually proposes, presents or even sketches a methodology of the sort implied by the Aggregation Claim. In other words, for all the talk of the novelty of the 3BL idea, and for the importance of taking all three "bottom lines" seriously, nobody (as far as we know) has actually proposed a way to use the data on social performance to calculate some kind of a net social bottom line.[18] The charitable interpretation of this stunning omission is that advocates of the concept see these as early days for the idea of real social and environmental bottom lines, and hope that progress on a methodology will come once the general desirability of the idea has gained acceptance.[19] In this section we will suggest that this is probably a vain hope. We will first try to give some indication of how disanalogous the evaluations of financial and social performance are. Then we will argue that in fact there is good reason to think that it would be *impossible* to formulate a sound and relatively uncontroversial methodology to calculate a social bottom line.

If it makes sense to say that there is a bottom line for performance in some domain, x, that is directly analogous to the financial bottom line, then it makes sense to ask what a given firm's x-bottom line is. And there should be a relatively straightforward answer to this question, even if we do not yet know what that answer is. So we might reasonably ask of firms like The Body Shop, or British Telecom, or Dow Chemical – all companies that have claimed to believe in the 3BL – what their social bottom line actually was last year. But just posing this question conjures up visions of Douglas Adams's comic tour de force, *The Hitchhiker's Guide to the Galaxy*, in which the greatest of all computers is asked to come up with an answer to "the great question of Life, the Universe and Everything". That answer, which takes seven-and-a-half million years to calculate, is "42".

At least part of the charm in this *Hitchhiker* shtick is that "42" seems wrong not because it arrives at the wrong number, but because it is ridiculous to think that the answer to such a question could be expressed numerically or even just with one word (especially a dangling adjective – 42 *what*?). We do not know exactly what the answer should look like – indeed we may not really know what that question means – but we are pretty sure such a "great question" cannot be solved that succinctly.

Perhaps this is how you would feel if you asked what the social or environmental "bottom line" of a firm was, and someone told you it was 42, or 42-thousand, or 42-million. We may not be sure what the right answer should look like, but this kind of answer, even (or especially?) if it were expressed in monetary units, just does not seem right. So it is worth reflecting for a moment about what *would* look like a plausible answer to the question of what some particular firm's social bottom line is. We can have good grounds for thinking that one firm's social performance (say, BP's) is better than another's (say, Enron's); or that a given firm's social/ethical performance improved (Shell) or declined (Andersen) over a five-year period. And indeed, our judgments in these cases would be at least partly based on, or reflected in, the kind of indicators that various proposed social standards highlight – including, for example, charitable donations, various measures of employee satisfaction and loyalty, perceptions in the community, and so on. But this is still a long way from saying that we have any kind of systematic way of totting up the social pros and cons, or of arriving at some global figure for a firm's social performance.

The problem with alleged analogy between the "traditional" bottom line and social or environmental bottom lines runs deeper still. The traditional bottom line, of course, is the last line of the income statement indicating net income (positive or negative). Net income is arrived at by subtracting the expenses incurred by the organisation from the income earned by it within a given period.[20] We have just suggested that we are not sure what the social version of this "line" should look like, or in what sort of units it should be expressed. But we are also puzzled when we look for conceptual analogies *above* the bottom line, so to speak. What are the ethical/social equivalents or analogues of, say, revenue, expenses, gains, losses, assets, liabilities, equity, and so on? The kinds of raw data that 3BL and other SEAAR advocates propose to collect as indications of social performance do not seem to fit into general categories, analogous to these, that will allow for a straightforward subtraction of "bads" from "goods" in order to get some kind of net social sum.

With reference to typical SEAAR criteria we could imagine a firm reporting that:

(a) 20% of its directors were women,
(b) 7% of its senior management were members of "visible" minorities,
(c) it donated 1.2% of its profits to charity,
(d) the annual turnover rate among its hourly workers was 4%, and
(e) it had been fined twice this year for toxic emissions.

Now, out of context – e.g., without knowing how large the firm is, where it is operating, and what the averages are in its industrial sector – it is difficult to say how good or bad these figures are. Of course, in the case of each indicator we often have a sense of whether a higher or lower number would generally be better, from the perspective of social/ethical performance. The conceptual point, however, is that these are quite simply not the sort of data that can be fed into an income-statement-like calculation to produce a final net sum. For one thing, most of these figures are given in percentages, and one obviously cannot add or subtract percentages attached to different figures – for example, (a) and (b), above, do not add up to 27% of *anything*. But even when there are cardinal numbers involved (e.g., "...8 employees of Shell companies...lost their lives in 1997...."[21]), it is not at all clear where on a given sliding scale we treat a figure as a "good" mark to raise the "social bottom line" and where we treat it as a "bad" mark that takes away from the bottom line. (Is eight a high number or a low number for fatalities from the worldwide operations of a firm like Shell? Something to be proud of or ashamed of?) Again, we are not disputing that these are relevant considerations in the evaluation of a firm's level of social responsibility; but it does not seem at all helpful to think of this evaluation as in any way analogous to the methodology of adding and subtracting used in financial accounting.[22]

An Impossibility Argument

Ultimately, we argue, there are fundamental philosophical grounds for thinking that it is impossible to develop a sound methodology for arriving at a meaningful social bottom line for a firm. There is a strong and a weak version of the argument: the strong version says that it is in principle impossible to find a common scale to weigh all of the social "goods" and "bads" caused by the firm; and the weak version says, from a practical point of view, that we will never be able to get broad agreement (analogous, say, to the level of agreement about accounting standards) for any such proposed common scale.[23] We would not pretend to be able to demonstrate the strong version here, since it would require a significant detour into the realm of moral epistemology. But we do think we can give a glimpse at why the weaker version of our critique is plausible, and that should be enough to cast doubt on the prospects of Triple Bottom Line accounting.

We can begin by expressing this "impossibility" argument in the decidedly less metaphysical terminology of accountancy. One of the three basic assumptions underlying the methodologies of the standard financial statements, including the income statement, is the so-called "unit of measure" assumption – that all measures for revenue, expenses, assets, and so on, are reducible to a common unit of currency.[24] What is lacking in the ethical/social realm is an obvious, and obviously measurable, common "currency" (whether in a monetary or non-monetary sense) for expressing the magnitude of all good and bad produced by the firm's operations and affecting individuals in different stakeholder groups.

Part of the problem is that it is difficult to make *quantitative* assessments of how good or bad some action or event is; and partly it is that we seem to be dealing with *qualitative* as well as quantitative distinctions when we evaluate the social impact of corporate activities. Again, let us start with the "objective" indicators of social performance that are now being used in corporate social reports and in the leading social-auditing standards. Let us consider the comparatively simple task of merely trying to determine whether some particular "good" score outweighs another particular "bad" score. Imagine a firm with any one of the following pairs of scores in its record:

- Pair 1: a generous family-friendly policy that includes extended maternity-leave as well as part-time and job-sharing provisions for women returning to the firm after maternity leave, but also three sexual-harassment suits against it in the past year.
- Pair 2: an "ethical sourcing" policy for its overseas contractors that is audited by an international human-rights NGO, but also a spotty record of industrial relations at home, including a bitter three-month strike by members of one union.
- Pair 3: a charitable donation equal to 2% of gross profits, but also a conviction for price-fixing in one of its markets.

Other things equal, is there any obvious way to judge whether any one of these pairs of data would result in a net gain or loss on the firm's social bottom line? We could also consider the challenge of comparing good to good and bad to bad. For example, would a firm do more social good by donating one-million dollars to send underprivileged local youths to college, or by donating the same amount to the local opera company? How should we evaluate the charitable donation by a firm to a not-for-profit abortion clinic, or to a small fundamentalist Christian church? Examples like these make it clear that although there are many relevant and objective facts that can be reported and audited, any attempt to "weigh" them, or tot them up, will necessarily involve subjective value judgments, about which reasonable people can and will legitimately disagree. (And of course this task can only get more difficult when there are hundreds of data points, rather than just two, to tot up.)

The power of this illustration does not rest on acceptance of any deep philosophical view about whether all value judgments are ultimately subjective or objective; it rests only on a realistic assessment of the open-ended nature of any attempt to make a global assessment of a firm's social impact given the kind of data that would go into such an evaluation. In the language of moral philosophers, the various values involved in evaluations of corporate behaviour are "incommensurable"; and reasonable and informed people, even reasonable and informed moral philosophers, will weigh them and trade them off in different ways. To say they are incommensurable is to say that there is no overarching formula that can be appealed to in order to justify all of these trade-offs (e.g., to decide definitively what the net social impact is for any of the pairs listed in the preceding paragraph).[25] In short, whatever is going on in this sort of normative evaluation, it would seem to be about as far as you could get from the paradigm of the accountant performing calculations on the basis of verifiable figures and widely accepted accounting principles.

One suspects that numerous problems with the aggregative assumptions underlying 3BL have gone unnoticed in part because they are also implicit in many discussions of CSR. It is common for advocates of 3BL and CSR to talk of the "social performance" or "social impact" of a firm, as if this captured everything that was relevant for an ethical evaluation of the firm. (Indeed, in articulating these theories throughout this paper we have had to use these expressions.) On this view, what is morally relevant is how the firm improves its positive impact on individuals or communities (or reduces its negative impact). Presumably "social impact" here must be closely related to "impact on well-being" (including the well-being on non-human organisms). In the language of moral philosophy, this is to locate all of business ethics and social responsibility within the *theory of the good*: asking, roughly, how does the firm add value to the world? Obviously, this is a very relevant question when evaluating a corporation. But much of what is ethically relevant about corporate activities concerns issues in what moral philosophers call the *theory of right*: e.g., concerning whether rights are respected and obligations are fulfilled. Now clearly there are important links between our views about rights and obligations, on the one hand, and the question of what actions make the world better or worse, on the other. But unless we are the most simple-minded act-utilitarians, we recognize that the link is never direct: that is, we do not simply have one obligation, namely, to maximize well-being.[26] Sometimes fulfilling a particular obligation or respecting a particular person's rights (e.g. by honouring a binding contract that ends up hurting the firm or others) might not have a net positive "social impact" – but it should be done anyway. More importantly, for our purposes here, obligation-fulfillment and rights-respecting are not what we might call "aggregative" concepts. They are not things that a good individual or firm should necessarily be trying to increase or *maximize*. If you have an obligation, then you should try to fulfill it. But there is no special value in obligation-fulfillment per se. If you promised to pay someone back in the future then you must do your best to pay them back. And if you do, that is something that improves our ethical evaluation of you, so to speak. But you do not become more ethical by maximising the number of promises you can make in order to maximise your social performance as promise fulfiller. Put another way, for a firm and its managers to keep their promises is a good thing, an ethical thing, a socially responsible thing. But other things equal, you are not more ethical or responsible by making and keeping ten promises than you are by making and keeping one promise. To conceive of ethics and social responsibility as necessarily aggregative is to confuse very different ethical categories; and yet that is what happens in the logic of 3BL (and much of CSR) when we treat all ethically relevant aspects of a firm as if they can be measured in terms of social impact.[27]

Conclusion: What use Bottom Lines without a bottom line?

We cannot help but conclude that there is no meaningful sense in which 3BL advocates can claim there is a social bottom line. (Again, we believe that analogous arguments would undermine the idea of an environmental bottom line; but that argument deserves more space than we could devote to it here.) This piece of jargon is, in short, *inherently misleading*: the very term itself promises or implies something it cannot deliver. This raises two issues worth reflecting upon. First, why has the idea spread so quickly, not just among Green and CSR activists, but also among the top tier of multinational corporations? And secondly, should we be concerned about the use, and propagation of the use, of jargon that is inherently misleading?

There is no simple answer to the first question, and certainly no general explanation for why so many different kinds of individuals and groups have found the language of 3BL so attractive. There are no doubt many conflicting motivations at play here, and by and large we can do no more than speculate about the mental states of different key actors. For many grassroots activists it is likely that the metaphor of bottom lines captured perfectly their long-held sense that social responsibility and environmental sustainability are at least as important as profitability when evaluating the performance and reputations of firms. After all, in ordinary discourse, when one announces that one's "bottom line" on a given subject is *P*, it rarely means more than that the speaker wants to convey that *P* is something worth noting, perhaps as a way of summing up.[28] For some of the initiators and early adopters of the concept within activist circles (including Elkington himself), it is likely that there were also perceived rhetorical advantages to borrowing from the "hard-headed" language and legitimacy of accountancy.[29] Perhaps senior executives would find it easier to take seriously the fuzzy notions of CSR and sustainability if they could be fit into more familiar paradigms with objective measures and standards. Many of these early movers (including Elkington himself[30]) were also offering large corporations consulting and auditing services that were built, at least in part, around the 3BL paradigm; and they would soon be joined, as we noted at the outset, by some of the most powerful "mainstream" accounting and consulting firms. Paid consultants have, of course, mixed motives for promoting and legitimising something like the 3BL paradigm: on the one hand, they can be committed to the utility for the clients of collecting, auditing, and reporting social and environmental data (for reasons given in list B, above); but on the other, they cannot be blind to the fact that this opens up a market niche that might not otherwise have existed. Corporations are almost certainly paying more for SEAAR-related services now than they were previously paying for ethics and CSR consultants.

More fanciful leaps of speculation are necessary for explaining the motivations of some of the early adopters of 3BL rhetoric and principles among multinational corporations. As we have noted already, there are a number of corporations that have long prided themselves on their traditions of social responsibility and good corporate citizenship. Having succeeded despite putting principles ahead of short-term profits is part of the lore in the cultures of companies like Johnson & Johnson, Levis Strauss, Cadbury's, and IKEA. And in the cultures of many smaller or more recent firms, from The Body Shop to your local organic grocer, CSR and green principles have often served as the organisation's very raison d'être.[31] For many of these firms, social and environmental reporting provides an opportunity to display their clean laundry in public, so to speak. They have long sought to improve their social and environmental performance, so they can be confident that reporting these achievements publicly will cause little embarrassment. Indeed, insofar as many of these firms make social responsibility part of their corporate image (hoping to woo the increasingly large pool of consumers and investors who claim to be willing to pay more to support ethical firms), the adoption of 3BL principles and the production of social reports is *consistent with* other strategies of brand management. (This observation is not meant in any way to reduce these efforts to a simple marketing strategy, but just to show why they are a logical step in a direction in which the firm was already traveling.)

The adoption of 3BL rhetoric by a number of very prominent multinationals *without* traditions of support for green and CSR principles is a more curious phenomenon. Perhaps it should not be wholly surprising that prominent on this list are some firms trying to shake off recent reputations for decidedly *irresponsible* business practices or aloof management structures – firms like Shell and BP, British Telecom, AT&T and Dow Chemical. Now we certainly do not wish to cast aspersions on the principled convictions that have been expressed repeatedly in reasoned, and sometimes almost evangelical, fashion by corporate leaders such as BP's Sir John Browne and Shell's Sir Mark Moody-Stuart.[32] Any impartial observer must be impressed with the way these two have been able to make real changes in the cultures of their organisations and to achieve real improvements in terms of human-rights issues and emissions reductions. At the same time, some critics have noted how useful it can be to multinational companies to adopt some of the rhetoric and principles of their critics from the world of the increasingly influential NGOs. David Henderson refers to this as a strategy of "sleeping with the enemy", and Robert Halfon's take is revealed in the two-part, Churchillian title of his report, *Corporate Irresponsibility: is business appeasing anti-business activists?*[33] Without similarly casting any aspersions on the integrity of John Elkington, a long-standing critic of capitalism and globalisation, it is noteworthy that he seems to have had nothing but good to say about Shell since he was contracted by them to help prepare their first 3BL report.[34]

And this leads us to the second question we posed at the start of this section: should we be concerned about the use, and propagation of the use, of 3BL jargon that is inherently misleading? From an abstract normative point of view the answer clearly has to be Yes. If the jargon of 3BL implies that there exists a sound methodology for calculating a meaningful and comparable social bottom line, the way there is for the statement of net income, then it is misleading; it is a kind of lie. Even if advocates of 3BL were to issue explicit disclaimers to this effect, and to admit that it was little more than a slogan or shorthand for taking social and environmental concerns seriously, there are still reasons for concern. For one thing, words and expressions continue to carry connotations despite official renunciations – including, for new jargon, the misleading connotation that there is something novel about the new concept. But there is another more serious concern that should trouble the most committed supporters of CSR and sustainability principles who have embraced the 3BL.

The concept of a Triple Bottom Line in fact turns out to be a "Good old-fashioned Single Bottom Line plus Vague Commitments to Social and Environmental Concerns". And it so happens that this is exceedingly easy for almost any firm to embrace. By committing themselves to the principles of the 3BL it sounds like companies are making a *more* concrete, verifiable commitment to CSR and sustainability. And no doubt many are. But it also allows them to make almost no commitment whatsoever. Without any real social or environmental bottom lines to have to calculate, firms do not have to worry about having these "bottom lines" compared to other firms inside or outside of their sector; nor is there likely to be any great worry about the firm being seen to have declining social and environmental "bottom lines" over the years or under the direction of the current CEO. At best, a commitment to 3BL requires merely that the firm report a number of data points of its own choosing that are potentially relevant to different stakeholder groups – typically in the form of a glossy 3BL report full of platitudinous text and soft-focus photos of happy people and colourful flora.[35] From year to year, some of these results will probably improve, and some will probably decline. Comparability over time for one firm is likely to be difficult and time-consuming for anybody without a complete collection of these reports and handy filing system. The firm can also change the indicators it chooses to report on over time, perhaps because it believes the new indicators are more relevant (...or perhaps to thwart comparability). And comparability across firms and sectors will often be impossible. At any rate, such comparisons will be on dozens or hundreds of data points, not on any kind of global figure like profit/loss, cash flow, return-on-investment, or earnings-per-share. (For example, company A might have more female directors and fewer industrial accidents than company B; but company B might have more female executives and fewer fatalities than company A; and so on across the various data points, many of which will not even be common to both reports.) In short, because of its inherent emptiness and vagueness, the 3BL paradigm makes it as easy as possible for a cynical firm to appear to be committed to social responsibility and ecological sustainability. Being vague about this commitment hardly seems risky when the principal propagators of the idea are themselves just as vague.

Once again, we do not wish by these remarks to be casting aspersions on any particular firm that has adopted 3BL rhetoric and issued some form of 3BL report. We have tried to emphasize that there can be many non-cynical motivations for doing this. A careful reading of these reports is often sufficient to judge a firm's real level of commitment to the principles.[36] If activists interested in propagating the rhetoric of Triple Bottom Line are not troubled by its inherently misleading nature (perhaps because they feel the ends justify the means), they should at the very least be concerned with the fact that it is potentially counterproductive (that is, a means to ends they do not think are justifiable).

We think it likely that the *future* of firms deciding voluntarily to report on their social performance will end up looking very much like the *history* of firms deciding to bind themselves to a corporate code of ethics. On the one hand, the mere fact that it has produced a social report or a code of ethics tells us very little about a firm's actual commitment to the principles expressed in the documents.[37] It is relatively costless to produce these documents, and – especially if they are relatively vague – they do not generally open up any serious risks for a corporation. On the other hand, both types of documents can play a critical role in a firm's serious strategy to improve its ethical and social performance and to integrate this goal into its corporate culture. It is our belief that clear and meaningful principles are most likely to serve firms of the latter type; and that vague and literally meaningless principles like those implied by the Triple Bottom Line are best only for facilitating hypocrisy.

Notes:

* Much of the preliminary research for this paper was carried out while Wayne Norman was a Visiting Scholar at the Center for Social Innovation at the Graduate School of Business, Stanford University; and we thank the Center for its generous support. We are also grateful for numerous challenges and suggestions from audiences at the Conference on Developing Philosophy of Management, St. Anne's College, Oxford, and the Université de Montréal. Special thanks go out to Christopher Cowton, Jim Gaa, Marya Hill-Popper, and Bryn Williams-Jones, as well as to the referees of this Journal.

[1] According to a comprehensive poll conducted for *Business Week* magazine's issue of September 11, 2000, fully 95% of respondents agreed with the following claim: "U.S. corporations should have more than one purpose. They also owe something to their workers and the communities in which they operate, and they should sometimes sacrifice some profit for the sake of making things better for their workers and communities". By contrast, only 4% agreed with the position most closely associated with Milton Friedman in his oft-reprinted article, namely that: "U.S. corporations should have only one purpose – to make the most profit for their shareholders – and their pursuit of that goal will be best for America in the long run". The poll was conducted by Harris, with a sample of over 2000 respondents and a margin of error of plus-or-minus 3%.
[2] Enron's code of ethics (July, 2000) runs to over 60 pages. According to Helle Bank Jørgensen of PriceWaterhouse Coopers, 70% of the British FTSE 350 report on their environmental and social performance. According to KPMG's *International Survey of Corporate Sustainability Reporting 2002*, 45% of the *Fortune* global top 250 companies (GFT250) are now issuing environmental, social or sustainability reports in addition to their financial reports. The number of companies participating in the Global Reporting Initiative now numbers "in the thousands." (*Trust Us: The Global Reporters 2002 Survey of Corporate Sustainability Reporting,* 2002)
[3] *Trust Us,* 4.
[4] John Elkington, *Cannibals With Forks: The Triple Bottom Line of 21st Century Business*, Stony Creek, CT: New Society Publishers, 1998.
[5] Informal search conducted March, 2003.
[6] There is now a huge annual "Triple Bottom Line Investing" conference (www.tbli.org). The Washington, D.C.-based Social Investment Forum (www.socialinvest.org) claims that in 2001 there was more than $2 trillion in professionally managed investment portfolios using social and environmental screening.
[7] Bob Willard, *The Sustainability Advantage: Seven Business Case Benefits of a Triple Bottom Line*. Gabriola Island, BC: New Society Publishers, 2002.
[8] Elkington, p. 20.
[9] From AT&T, at http://www.att.com/ehs/annual_reports/ehs_report/triple_bottom_line.html.
[10] Quotes in these last three sentences from Helle Bank Jorgensen of PriceWaterhouse Coopers from an article published in 2000 on www.pwcglobal.com (grammar corrected).
[11] Luciano Respini, (President, Dow Europe). "The Corporation and the Triple Bottom Line", http://www.dowchemical.at/dow_news/speeches/10-18-00.htm.
[12] Patricia Panchack, "Editor's Page: Time for a Triple Bottom Line", *Industry Week*, 1 June 2002.
[13] The collapsing of the categories of "ethical", "socially responsible", "social performance", etc, in many discussions of CSR raises serious conceptual issues. In particular, judging the extent to which one is ethical or responsible can rarely be reduced to a calculation of net impact. We will address some of these problems toward the end of this article.
[14] Dave Mowat, "The VanCity Difference: a case for the Triple Bottom Line approach to business", Corporate Environmental Strategy: the International Journal of Corporate Sustainability v. 9, no. 1 (2002), p. 24.

In an article in the on-line magazine, Salon.com, 13 August 2002, Arianna Huffington writes that the "key idea" of 3BL is "that corporations need to pay attention to both their stockholders and their stakeholders -- those who may not have invested money in the company but clearly have a de facto investment in the air they breath, the food they eat and the communities they live in". In other words, put this way, it is nothing more than the idea that corporations have obligations beyond maximizing shareholder value. One of the problems with this overly loose way of framing the idea of 3BL is that it is completely at odds with the ubiquitous claim that 3BL is a new concept and a new movement. Huffington echoes this spirit in the same article when she reports that "More than a hundred companies in America are seeking to redefine the bottom line -- moving away from conventional corporate accounting, where the only consideration is profit, to one that also includes the social and environmental impact the company is having. It's called the Triple Bottom Line".

[15] R. Edward Freeman, *Strategic Management: A Stakeholder Approach*, Boston: Pitman, 1984. A recent survey article (Thomas M. Jones, Andrew C. Wicks and R. Edward Freeman, "Stakeholder Theory: The State of the Art", in N. Bowie (ed), *The Blackwell Guide to Business Ethics*, Oxford: Blackwell, 2002, pp. 21-2), traces the insights of the stakeholder approach in mainstream management theory back as far as the 1930s. PriceWaterhouse Cooper's *Global CEO Survey*, released in January 2002, shows 68% of responding CEOs agreeing that corporate social responsibility is vital to the profitability of any company.

[16] For a critical evaluation of the "movement's" progress, see Rob Gray, "Thirty Years of Social Accounting, Reporting and Auditing: what (if anything) have we learnt?" *Business Ethics, A European Review*, January 2001, vol. 10, no. 1, pp. 9-15; and David Owen and Tracey Swift, "Introduction: Social accounting, reporting and auditing: Beyond the rhetoric?" *Business Ethics, A European Review*, January 2001, vol. 10, no. 1, pp. 4-8. For something of a how-to guide, see Simon Zadek, Peter Pruzan and Richard Evans, *Building Corporate Accountability: Emerging Practices in Social and Ethical Accounting, Auditing and Reporting*, London: Earthscan Publications, 1997.

[17] The GRI provides an instructive contrast to 3BL. With the agreement of hundreds of corporations and other organisation, this standard identifies a large array of minimal standards that corporations should meet without any attempt to aggregate or to rank or score companies on how far they exceed some of these minimal standards. A similar approach is defended in George Enderle and Lee A. Tavis, "A Balanced Concept of the Firm and the Measurement of Its Long-term Planning and Performance", *Journal of Business Ethics* 17: 1129-1144, 1998; see especially pp. 1135-6. By focusing on standards that are both agreed-upon and minimal, this rival approach makes it easier for outsiders to identify "rear-guard" firms that fail to meet some of the minimal standards. But it does this at the cost of not being able to identify or to guide the strategic deliberations of "vanguard" firms, since most "mainstream" firms can expect to meet the minimal standards. All of the rhetoric of 3BL advocates suggests that they could never be satisfied with the less ambitious approach taken by the GRI. At any rate, this rival approach is completely at odds with the metaphor of bottom lines and the inherent idea of continual, measurable improvement.

[18] We limit our claim here to the current generation of writers, consultants and activists who are explicitly endorsing a 3BL paradigm. There are surely some very valuable lessons for this generation in the generally unsuccessful attempts of a previous generation – largely from within the accounting profession – to develop a calculus of social accounting that could attach values to social benefits and losses. In addition to the articles cited in the preceding note, see Rob Gray, Dave Owen, Carol Adams, *Accounting and Accountability: Changes and Challenges in Corporate Social and Environmental Accounting*, Prentice Hall, 1996. We are grateful to Christopher Cowton and Jim Gaa for drawing out attention to these earlier debates.

[19] Elkington (p. 72) writes that "the metrics are still evolving". AccountAbility describes social and environmental accounting as "embryonic". See AccountAbility's "Triple Bottom Line in Action," http://www.sustainability.com/people/clients/tbl-in-action4.asp

[20] It really should be noted that the income statement, with its famous "bottom line", is but one of the principal financial statement used to evaluate the health of a firm. The others include the balance sheet, the statement of cash flows and the statement of owners' equity. For the sake of charity, we are assuming that when 3BL advocates speak of traditional management

preoccupations with "the bottom line" they are using this as shorthand for the use of all of the major financial statements – including the details revealed in the footnotes to these statements.

[21] Reported in *The Shell Report 1999: People, Planet and Profits*, p. 18.

[22] Another kind of methodology for evaluating performance would be a *rating scheme* that assigned scores to various levels of performance on certain key indicators. For example, a rating organisation might score firms out of 100 with, say, 10 of those points derived from data about charitable contributions as a percentage of the firm's profits. Perhaps a firm would get 2 points for each half-percent of its profits donated to charity up to a maximum of 10 points. Similar scores could be assigned on the basis of the percentage of women and minorities in senior positions, and so on. Schemes like these are sometimes used by firms that screen investment funds on ethical grounds, and one is described in detail and employed in a book produced by the ethics consultancy EthicScan, *Shopping with a Conscience,* Toronto: John Wiley & Sons, 1996. Now any such scheme will be loaded with inherently controversial value judgments about how morally worthy these various factors are; and for this reason, such schemes are unlikely ever to receive the kind of widespread support and legitimacy that is enjoyed, say, by most of the basic accounting standards. Our point here, however, is simply that ratings schemes like this constitute a very different paradigm for evaluation than the one used in financial accounting; and not simply because they are more controversial. Not surprisingly, none of the major organisations that has tried to develop international, cross-sector standards for reporting and auditing social performance has gone this route of trying to develop an overall rating scheme. Nor have the major ("Final Four") accounting firms who are lining up to sell 3BL auditing services.

[23] We do not wish to imply that setting "ordinary" accounting standards is an uncontroversial process; but simply that inherently moralistic social accounting will be significantly more controversial.

[24] Two of the other basic assumptions are the "separate entity" assumption (the assumption that the economic events measured can be identified as happening to the entity in question, an entity separable from other individuals or organizations for accounting purposes), and the "time period" assumption (the assumption that the economic events measured occur within a well-defined period of time). For these assumptions, see Thomas Beechy and Joan Conrod, *Intermediate Accounting, Volume 1,* Toronto: McGraw-Hill Ryerson, 1998, among other sources. These three assumptions sometimes go by different names, and are often accompanied by other assumptions not named here.

[25] Utilitarians might object in principle to these claims that there is (a) no common "currency" for evaluating the impact of corporate activities, and (b) no overarching formula to justify trade-offs involving different values affecting different individuals. In its most straightforward, classical formulations, utilitarians believe that "utility" is this currency, and that anything of value can ultimately be judged in terms of its impact on the amount of utility. We will ignore the fact that utilitarianism is no longer especially popular among academic moral philosophers. Even if it were in some sense the best moral theory, it would hardly rescue the 3BL model of social accounting. The theory itself does not provide any objective formula for extrapolating "utility impact" from the kinds of data that are typically reported in social reports (again, see Appendix 1 for examples of typical social indicators). Any two reasonable and well informed utilitarians would be just as likely to disagree about the net social impact of a firm's many operations as would two non-utilitarians.

[26] In a longer critique of 3BL and CSR it would be worth trying to identify just how much of the basic logic of these views is a reiteration of act utilitarianism. For a good summary of some of the stock criticisms of utilitarianism – particularly in the context of measuring social development – see Amartya Sen, *Development as Freedom*, Oxford University Press, 1999, pp. 54-61.

[27] It must be said that the brute notion of "social performance" or "social impact" also seems to flatten out the concept of *responsibility*. In effect, for advocates of CSR, the most socially responsible corporation is the one that has the greatest net social impact. But this erases many important "deontic" categories that are relevant for determining the nature of specific obligations. We are not always obliged to maximise "social impact". There are good and noble actions that we are not obliged to do (sometimes called supererogatory duties); other things that we are permitted to do but not obliged to do; other things that we are obliged to do even if they do not improve welfare; and so on. For a much richer notion of responsibility than the one implied in most writings on 3BL and CSR, see Enderle and Tavis, op. cit., pp. 1131-7.

[28] For example, a hockey broadcaster summed up a game in which team A defeated team B with the remark, "the bottom line is that team A out-hustled team B tonight". But surely in sports if there's a literal bottom line, it is reflected in the final score, not in the explanation for the score!
[29] Of course, post-Andersen, accountancy looks rather less hard-headed and legitimate than it did in 1997.
[30] Elkington is co-founder of the consultancy SustainAbility, and played a key role in the production of Shell's 3BL report, "Profits and Principles – does there have to be a choice?" (1998).
[31] Business for Social Responsibility in the USA has many hundreds of corporate members, most of which are small- to medium-sized enterprises.
[32] See, e.g., John Brown, "International Relations: the new agenda for business", Elliott Lecture, St Anthony's College, Oxford, 1998; or Mark Moody-Stuart, "Forward" in *Responsible Business,* London: Financial Times, 2000.
[33] David Henderson, *Misguided Virtue: false notions of Corporate Social Responsibility,* Wellington, NZ: New Zealand Business Roundtable, 2001; Robert Halfon, *Corporate Irresponsibility: is business appeasing anti-business activists?* Social Affairs Unit, Research Report 26, 1998.
[34] See, e.g., Elkington, pp. 10, 48, 125, 176.
[35] It is a bad sign when a report begins with an entirely glossy page used to announce that "This BP Australia Triple Bottom Line Report is printed on environmentally conscious paper". What exactly is "environmentally conscious paper", and how much of it is being used to make this announcement? Fortunately, the report, which was published in November 2001, is rather more specific when it comes to data on social and environmental performance.
[36] Some, but not all, are available on the homepages of 3BL-friendly firms mentioned throughout this article.
[37] We now have a couple of decades worth of experience with the widespread use of corporate ethics codes, and a number of studies suggest that most are neglected by corporations and have very little impact on their culture or operations. See, e.g., P.E. Murphy, "Corporate Ethics Statements: Current status and future prospects," *Journal of Business Ethics* 14, 1995: 727-40; and P.M. Lencioni, "Make Your Values Mean Something," *Harvard Business Review*, July 2002.

Appendix 1: Social Performance Indicators*

Here is a small sample of the kinds of data that are included in social reports. Such reports typically report dozens of different data points, and often give future targets and comparisons with past performance.

Diversity

- Existence of equal opportunity policies or programmes;
- Percentage of senior executives who are women;
- Percentage of staff who are members of visible minorities;
- Percentage of staff with disabilities.

Unions / Industrial Relations

- Percentage of employees represented by independent trade union organizations or other bona fide employee representatives;
- Percentage of employees covered by collective bargaining agreements;
- Number of grievances from unionized employees.

Health and Safety

- Evidence of substantial compliance with International Labor Organization Guidelines for Occupational Health Management Systems;
- Number of workplace deaths per year;
- Existence of well-being programmes to encourage employees to adopt healthy lifestyles.
- Percentage of employees surveyed who agree that their workplace is safe and comfortable.

Child labour

- Number of children working.
- Whether contractors are screened (or percentage screened) for use of child labour.

Community

- Percentage of pre-tax earnings donated to the community;
- Involvement and/or contributions to projects with value to the greater community (e.g. support of education and training programs, and humanitarian programs, etc.);
- Existence of a policy encouraging use of local contractors and suppliers.

*These representative indicators have been drawn from three sources:

- *Guided by Values: The VanCity Social Report (1998/99)* http://www.vancity.com/downloads/2592_1998socialreport.pdf
- Global Reporting Initiative's *Draft 2002 Sustainability Reporting Guidelines*, April 2002.
- *People, planet and profits, The Shell Report 2001*. (www.shell.com/shellreport)

A RESPONSE TO "GETTING TO THE BOTTOM OF 'TRIPLE BOTTOM LINE'"

Moses L. Pava

Abstract: Wayne Norman and Chris MacDonald launch a strong attack against Triple Bottom Line or 3BL accounting in their article "Getting to the Bottom of 'Triple Bottom Line'" (2004). This response suggests that, while limitations to 3BL accounting do exist, the critique of Norman and MacDonald is deeply flawed.

Wayne Norman and Chris MacDonald make a strong attack against Triple Bottom Line or 3BL accounting in their article "Getting to the Bottom of 'Triple Bottom Line" (Norman and MacDonald 2004). They correctly note that there has been relatively little academic research on this topic. This is particularly troublesome given that this term is now widely used in business circles. A Google search in February of 2004 returned roughly 52,400 web pages that mention this phrase.[1] One of the purposes of their paper, then, is to begin a rigorous debate about the strengths and weaknesses of 3BL. This is an important and long-overdue goal. Unfortunately, the authors' own conclusions are deeply flawed.

The authors begin their analysis by methodically setting out five claims that they believe are being made by the supporters of 3BL. These are as follows:

> *Measurement Claim*: the components of "social performance" can be measured in relatively objective ways on the basis of standard indicators.
>
> *Aggregation Claim*: A social "bottom line"—that is, something analogous to a net social "profit/loss"—can be calculated using data from these indicators and a relatively uncontroversial formula that could be used for any firm.
>
> *Convergence Claim*: Measuring social performance helps improve social performance, and firms with better social performance tend to be more profitable in the long run.
>
> *Strong Social-Obligation Claim*: Firms have an obligation to maximize (or weaker: to improve) their social bottom line—their net positive social impact—and accurate measurement is necessary to judge how well they have fulfilled this obligation.
>
> *Transparency Claim*: The firm has obligations to stakeholders to disclose information about how well it performs with respect to all stakeholders (Norman and MacDonald 2004: 246).

© 2007. *Business Ethics Quarterly*, Volume 17, Issue 1. ISSN 1052-150X. pp. 105–110

Immediately after presenting these five claims, the authors criticize the "vagueness" of these formulations. "[T]he truth of many of these claims is salvaged at the expense of their power," they write (Norman and MacDonald 2004: 246).

In particular, Norman and MacDonald believe that the transparency claim is especially weak. They state that everyone believes that corporations have obligations to disclose some information to stakeholders beyond financial measures, but the real questions is "what information do stakeholders actually have a right to, and how would one justify such rights-claims?" (Norman and MacDonald 2004: 246). I believe that the authors are correct when they complain that there is virtually no substantive discussion among academics about what *must* be disclosed, what *can* be disclosed, and what *may not* be disclosed to corporate stakeholders. And, to the extent that their article sparks a dialogue centered on this single issue, it will have served an important purpose.

However, this problem about the boundaries of what is appropriate and not appropriate to disclose is not unique to the advocates of 3BL accounting. This is a problem for *everyone* interested in more and better corporate disclosure, presumably even Norman and MacDonald. For example, Wal-Mart—which is not one of the companies that have adopted 3BL accounting—is currently under intense pressure to disclose the names of its overseas factories. The question of whether or not Wal-Mart has an obligation to disclose this information can be debated, but it does not hinge on one's acceptance or non acceptance of 3BL accounting.

The fundamental basis of the authors' rejection of 3BL accounting is based on their rejection of 3BL's so-called Aggregation Claim. Apparently they accept the other four claims of 3BL (even transparency). To Norman and MacDonald the Aggregation Claim is the only distinctive aspect of 3BL accounting. In their memorable words, "what's sound about the 3BL project is not novel, and what is novel is not sound" (Norman and MacDonald 2004: 247).

But Do Advocates of 3BL Really Accept the Aggregation Claim?

What Norman and MacDonald want for social and environmental reports is "an agreed-upon methodology that allows us, at least in principle, to add and subtract various data until we arrive at a net sum" (Norman and MacDonald 2004: 249). This, they state, is what the Aggregation Claim demands. But, given that this methodology does not exist, and given that this is the only distinctive claim of 3BL accounting, the whole movement, in their view, becomes "a kind of lie" (Norman and MacDonald 2004: 256).

It would seem that Norman and MacDonald's critique of 3BL accounting is wholly dependent on their assertion that advocates of 3BL really do accept the Aggregation Claim. According to Norman and MacDonald, "Organizations such as the Global Reporting Initiative and AccountAbility have embraced . . . the 3BL concept for use in the corporate world" (Norman and MacDonald 2004: 244). Surely then, one would imagine from the flow of their argument, these two organizations especially would fully endorse the Aggregation Claim.

But Norman and MacDonald note correctly just a few pages later that this, in fact, is not the case. They admit that "the Aggregation Claim . . . is definitely *not* endorsed by any of the major social-performance standards to date" (Norman and MacDonald 2004: 247). They also note, that in practice, *no* company endorses this claim. So if the Global Reporting Initiative, AccountAbility, and real businesses do not endorse the Aggregation Claim, who does?

Norman and MacDonald must and do admit that, in practice, no one actually accepts it. Their point is that even though no group really accepts the Aggregation Claim, logical consistency demands that advocates of 3BL *should* endorse the claim.

Here is how the authors derive their conclusion. "The keenest supporters of the 3BL movement tend to insist, if only in passing, that firms have social and environmental bottom lines *in just the same way* that they have 'financial' or 'economic' bottom lines" (Norman and MacDonald 2004: 249, emphasis in original).

Flawed Logic

There is no source for this claim. Given that the entire argument rests upon its truthfulness, this is surprising, especially in a paper that already includes thirty-seven endnotes. For the sake of argument, however, let us assume (despite the fact that this claim has not been documented) that it is true. Does the Aggregation Claim logically follow from the claim that firms have "social and environmental bottom lines in *just the same way* that they have 'financial' . . . bottom lines"?

The central point of my response is that it follows *only* if the advocates for 3BL already accept an Aggregation Claim for the financial bottom line. My most important disagreement with Norman and MacDonald is with regard to this precise issue. It is simply not the case that there exists a single number that aggregates financial performance, and therefore no one should demand this of social and environmental reporting either.

I think that one can argue that the overriding point of the metaphor of the triple bottom line is to challenge the traditionally held assumption that *any* number alone—including net income—can meaningful capture the appropriate assessment of corporate performance. Norman and MacDonald seem to take it as a matter of faith that net income, or the traditional bottom line, is the single source of financial information included in annual reports to shareholders. It is the number that *aggregates* financial performance. This is not the case, though.

For years there has been an increasing demand for better financial accountability. The Securities and Exchange Commission (SEC) and the Financial Accounting Standards Board (FASB) in the U.S. have met this demand by requiring additional disaggregated disclosures. Anyone who teaches financial statement analysis will tell you how important it is to *blend* information from many different sources about many different elements of performance. At the simplest level, no one would dream of evaluating a company without looking at operating cash flows in addition to net income. Similarly, no one would consider an investment by focusing on operating cash flows and completely ignoring a risk measure. Is there anyway to aggregate net income, operating cash flows, and risk? Not to my knowledge.

It is true that financial accounting continues to report a number called net income, but it is not true that accountants claim that this number tracks financial performance in a one to one fashion. What is truly confusing about the Norman and MacDonald paper is that they themselves seem to recognize this very point in an extended endnote. They state:

> It really should be noted that the income statement, with its famous "bottom line," is but one of the principal financial statements used to evaluate the health of a firm. The others include the balance sheet, the statement of cash flows and the statement of owners' equity. (Norman and MacDonald 2004: 259, n. 20)

What they fail to notice here, however, is how devastating this note is to their own argument. By everyone's agreement, net income does not aggregate financial performance into a single number. It is better thought of as a matrix of financial performance indicators. If so, why hold the advocates of 3BL reporting to a higher standard than is currently acceptable in the financial realm? In other words, if you can not summarize financial performance with a single, objective number, you certainly should not expect to summarize social and environmental performance in this way.

The Irony of a Triple Bottom Line

One of the major limitations of the business ethics movement, to date, has been the inability to measure and track social and environmental performance in a meaningful, consistent, and comparable way. But blaming the advocates of triple bottom line reporting for this failure is to blame the only group that has noticed this problem and is trying to remedy it. Rather than criticizing triple bottom line reports for their failure to provide a magical number that aggregates ethical performance, academics should understand the real import of 3BL reporting and try to improve it.

Triple bottom line reporting is a metaphor to remind us that corporate performance is multi-dimensional. Perhaps the phrase multiple bottom line reporting might have been a more accurate description of the goals for this movement, but this is not the crucial issue here. What is important to note is the irony inherent in the phrase 3BL. And this is exactly what Norman and MacDonald have missed. Isn't the very claim of more than one bottom line a contradiction in terms? Of course it is. But that's the point. There is no bottom line nor was there ever a bottom line—only multiple and contingent bottom lines.

Limitations of 3BL

Norman and MacDonald raise some important criticisms concerning 3BL accounting. Most importantly, their concern that some companies are abusing it to promote their own interests is accurate. Consider the case of tobacco company Brown and Williamson's triple bottom line report as an illustrative example of the problems of 3BL.

Specifically, the company's claim in its social and environmental report that "balancing responsibility to ensure the long-term sustainability of our company with our responsibilities as a good corporate citizen is not a dilemma" is, at best, hard to understand (see Brown and Williamson 2003: 51). Further, does the company recognize that cigarettes are addictive in nature? If so, the company does not say this in this report. Although the document does state explicitly that members of the "public health group" hold the position that nicotine is an addictive substance, the company itself does not take a position on this issue here (see Brown and Williamson 2003: 33). In fact, the company states that smokers "*choose* to use tobacco products" (the company's emphasis) and "should be free to do so."

In addition, a report advertising itself as "a social and environmental report" should include some specific statistics on the admitted dangers of cigarettes. For example, how many people die each year from smoking Brown and Williamson's cigarettes? We're told over and over again in the document that there are forty-five million smokers, but there are no specific statistics about the dangers these smokers are facing. Obviously, the company is trying to represent its own interests in the best possible light. There is nothing wrong with this. There is a problem, however, when one uses ethical *language* to hide unethical *behavior*.

What does all of this imply about 3BL reporting? Jettisoning it because it can be misused is like throwing out the baby with the bathwater. Certainly if we have learned anything over the last decade it is that even audited income statements are subject to manipulation. Just as no one is calling to get rid of income statements, no one should call for the abandonment of 3BL reporting.

Not Just an Academic Debate

This is not just an academic debate. The FASB is currently overhauling its basic conceptual framework. This project should be of critical concern to the business ethics community. Among other issues, the FASB is addressing the objectives of accounting and deciding which stakeholders will count. As of this writing it looks as though the FASB will re-assert its current and exclusive emphasis on information related to the prediction of cash flows, and will ignore social and environmental indicators (Bullen and Crook 2005). The FASB would be well-advised to examine the vast and growing business ethics literature on stakeholder theory before it commits itself once again to Milton Friedman's thin theory of profit maximization.

The triple bottom line is not a panacea. But, unlike Norman and MacDonald, I believe it is a step in the right direction. Triple Bottom Line accounting puts the notion of accountability back into accounting. Further, it is derived from a more ethically defensible theory of the firm than the traditional annual report with it sole emphasis on profit maximization for shareholders.

Note

1. My own Google search in July 2005 revealed 166,000 hits for "triple bottom line," an increase of more than 200 percent in just a year and a half.

References

Brown and Williamson Tobacco USA. 2003. *Social and Environmental Report 2002/2003*. Winston-Salem, N.C.: R. J. Reynolds Co.

Bullen, Hasley G., and Kimberly Crook. 2005. "Revisiting the Concepts" (May), www.fasb.org.

Norman, Wayne, and Chris MacDonald. 2004. "Getting to the Bottom of 'Triple Bottom Line,'" *Business Ethics Quarterly* 14(2) (April): 243–62.

RESCUING THE BABY FROM THE TRIPLE-BOTTOM-LINE BATHWATER: A REPLY TO PAVA

Chris MacDonald and Wayne Norman

Abstract: We respond to Moses Pava's defense of the "Triple Bottom Line" (3BL) concept against our earlier criticisms. We argue that, *pace* Pava, the multiplicity of measures (and units of measure) that go into evaluating ethical performance cannot reasonably be compared to the handful of standard methods for evaluating financial performance. We also question Pava's claim that usage of the term "3BL" is somehow intended to be ironical or subversive.

How we talk about business influences how we think about business. This is at least as true in business ethics as it is in other areas such as strategy, leadership, marketing, or human resource management, where every year potentially costly fads are launched by slogans compressed into the titles of bestsellers. Because our concepts and categories affect how we interpret our world, there is money to be made in business by introducing or propagating the right terminology—not least by selling consulting services based around the vocabulary.

There is nothing inherently sinister about this process. We all seek better understanding of our world, and often this requires new perspectives, distinctions and categories. To invoke that terribly overused but nevertheless evocative jargon of the 1990s, this is what it is to "think outside the box." Sometimes our current boxes blind us—even if they also, perhaps much more often, help to organize our understanding of the world in ways that reflect collective and time-honored wisdom. In a free and democratic society (especially one with a blogosphere!), new ideas and concepts are introduced daily, and there is some reason to hope that open debate and experimentation will *tend to* favor the ones that lead to clearer understanding.

Hence our initial interest in the so-called "Triple Bottom Line" (or 3BL), an allegedly new way of talking and thinking about corporate responsibilities. We began investigating the concept and the project behind it about five years after its coinage.[1] At that point we examined literally hundreds of websites and documents that were enthusiastically using and endorsing the concept, but with virtually none subjecting it to any critical scrutiny. Our primary aim in writing "Getting to the Bottom of 'Triple Bottom Line'" was to launch such a debate, and we are delighted

© 2007. *Business Ethics Quarterly*, Volume 17, Issue 1. ISSN 1052-150X. pp. 111–114

that Moses Pava has taken up this challenge. We find much to agree with in his thoughtful discussion.

The basic thrust of our case against the serious use of the language of 3BL is that it is "*inherently misleading*: the very term itself promises or implies something it cannot deliver" (Norman and MacDonald 2004: 254). The philosophical heart of the issue is our contention that the accounting paradigm is inappropriate as a comprehensive methodology for the ethical evaluation of a firm and its operations. Crucial *qualitative* distinctions—especially deontic distinctions between different kinds of obligations and responsibilities—would be bulldozed over by an entirely *quantitative* evaluative scheme. We presented a series of arguments for why it would be *impossible* to evaluate a firm's so-called "social performance" by aggregating the kinds of data typically measured in social reports (Norman and MacDonald 2004: 249–54). We do not say that any of the supporters of 3BL actually *claim to* aggregate the data in this way, but only that this is what they would *have to be able to do* (or at least hope to be able to do) for their analogy with financial accounting to have any meaning or credibility whatsoever. Interestingly enough, Pava does not contest any of our arguments for the impossibility of aggregating various measures of "social performance" to arrive at a "social bottom line."

So why does Pava not join us in cautioning against the use of the misleading accounting metaphor in the ethical evaluation of businesses? He seems to have two basic reasons for welcoming the propagation of the language of 3BL. First, he does not think that the impossibility of aggregating ethical or social performance into a single bottom line is especially problematic, because we cannot accomplish such aggregation with regard to financial performance either: "It is simply not the case that there exists a single number that aggregates financial performance, and therefore no one should demand this of social and environmental reporting either" (Pava 2007: 107). Pava is puzzled that we had already conceded this point in the original paper when we noted that "the income statement with its famous 'bottom line,' is but one of the principal financial statements used to evaluate the health of a firm. The others include the balance sheet, the statement of cash flows and the statement of owners' equity" (Norman and MacDonald 2004: 259, n. 20). He thinks this fact should be "devastating" to our own argument. We obviously disagree. Yes, there is, in effect, more than one financial bottom line, and a global assessment of the financial performance of a firm will involve astute "balancing" of these, along with assessments about the reliability of the data. But we must not lose sight of the power and usefulness of the social sciences of financial and managerial accounting and the way they enable us to identify, classify, and *aggregate* financial data. Small variations from year to year (and quarter to quarter) on these financial bottom lines (especially net income and cash flow) cannot be ignored by responsible managers or prudent investors; and the decisions they must take on the basis of these "numbers" can have a tremendous impact on all of the stakeholders of a firm. We cannot stress too strongly how different this picture is from the process of evaluating a firm's ethical or social performance by merely reporting hundreds of interesting and relevant bits of data, such as the number of women on the Board, the existence of an ethics code, or the number of workplace fatalities. Data like these, as important as they are individually, literally do not add up to anything.

There may be more than one useful financial statement, but there are not *hundreds*, all reporting different facts with different units of measure. To imagine financial reporting stripped of its aggregative function and in as crude a state as social reporting, consider the "cost of goods sold" category in the income statement. For a manufacturing firm, this typically includes monetary values for different kinds of inventories (e.g., raw materials, work-in-progress, finished goods). Now imagine that rather than adding up these values within the measure for the cost of goods sold (and ultimately, within the general category of "expenses"), a firm simply reported the *tonnage* of raw materials, the *square footage* of factory floor space for work-in-progress, and the *cubic footage* of stored finished goods. We could call these numbers three "inventory bottom lines," if you like; but this wouldn't get us much closer to understanding the financial state of the firm. Well that, with no exaggeration, is the state of so-called social-bottom-line reporting. Financial accounting may not be an exact science—and what social science is?—but nor is it simply a hodgepodge of disaggregated information. The next time a CEO tells you that her company believes in the 3BL and produces a 3BL annual report for shareholders and other stakeholders, ask her what the social bottom line was last year and how much it increased or decreased from the preceding year. She won't have an answer because the question itself is absurd.

Pava's second reason for sticking with the language of 3BL despite the absurdity at its core is, if you will, political and mildly subversive. He implies that the 'bottom line' metaphor in 3BL was never meant to be taken literally. Rather it is a deliberate irony, since of course the "very claim of more than one bottom line [is] a contradiction in terms" (Pava 2007: 108). Moreover, he adds, "that's the point. There is no bottom line nor was there ever a bottom line—only multiple and contingent bottom lines" (Pava 2007: 108). In other words, Pava seems to claim that 3BL advocates are not aspiring to have social performance evaluated with the same rigor, transparency and prominence as financial performance; rather, their intention is to defetishize financial bottom lines by reminding us that they are no more or less important or useful than any other so-called "bottom line." This may be how Pava himself wants to use the language of 3BL, but we see no evidence of this subversive strategy in the enthusiastic literature. The very inventors of the jargon, John Elkington and the consultancy SustainAbility, are in the business of selling consulting and auditing services to help multinational corporations produce glossy 3BL documents where social and environmental data is included in reports that had previously contained only financial statements.[2] Other major consulting and auditing firms have followed suit. Even among the activist non-governmental organizations pushing 3BL, we see no hint of the alleged irony. In almost every case they are trying to convince people who already take seriously the financial bottom line that they should also take seriously social and environmental bottom lines.

Now Pava himself clearly understands the political danger for the very movements that would like to advance the cause of CSR in this way. With a more powerful case study than we used ourselves, he demonstrates how the extreme vagueness of the notion of 3BL has the unfortunate consequence of allowing virtually any firm (even a tobacco firm!) to present itself as believing in the triple bottom line. And yet, despite this danger, Pava urges that getting rid of 3BL reporting "because it can be misused is like throwing out the baby with the bath water." But it is in fact the deceptive language of 3BL that is the bath water—and it is snake oil! The baby—call it what you will: CSR, social reporting and auditing, stakeholder management—was alive and well before it was dunked in this goo. Let's just rinse it off.

Notes

1. The currency of 3BL is generally traced to the British publication in 1997 of John Elkington's *Cannibals with Forks: The Triple Bottom Line of 21st Century Business*. This book was published in North America in 1998 by New Society Publishers of Gabriola Island, British Columbia, and Stony Creek, Connecticut. Elkington claims to have thought up the term in 1994.

2. Elkington and SustainAbility were most notably brought in to help with Shell's famous turnaround in 1997, and they helped prepare Shell's 1998 annual report, entitled *Profits and Principles: Does there Have to Be a Choice?* which is infused with the language of triple bottom line (available at www.shell.com). The language of 3BL is now somewhat less prominent in SustainAbility's own consulting services, which are described on its website, www.sustainability.com. The words "triple bottom line" do not appear to have been trademarked by Elkington. The Australian and New Zealand branches of Shell's rival, BP, have also produced annual reports with the words "triple bottom line" in the titles and with no apparent involvement by Elkington or SustainAbility. See, e.g., http://www.bp.com.au/news_information/press_releases/triple_bottom_line_report.pdf, an annual report which was audited by Ernst & Young, a company that continues to offer 3BL services in several markets (www.ey.com).

References

Norman, Wayne, and Chris MacDonald. 2004. "Getting to the Bottom of 'Triple Bottom Line,'" *Business Ethics Quarterly* 14(2) (April): 243–62.

Pava, Moses. 2007. "A Response to 'Getting to the Bottom of "Triple Bottom Line,"'" *Business Ethics Quarterly* 17(1) (January): 105–10.