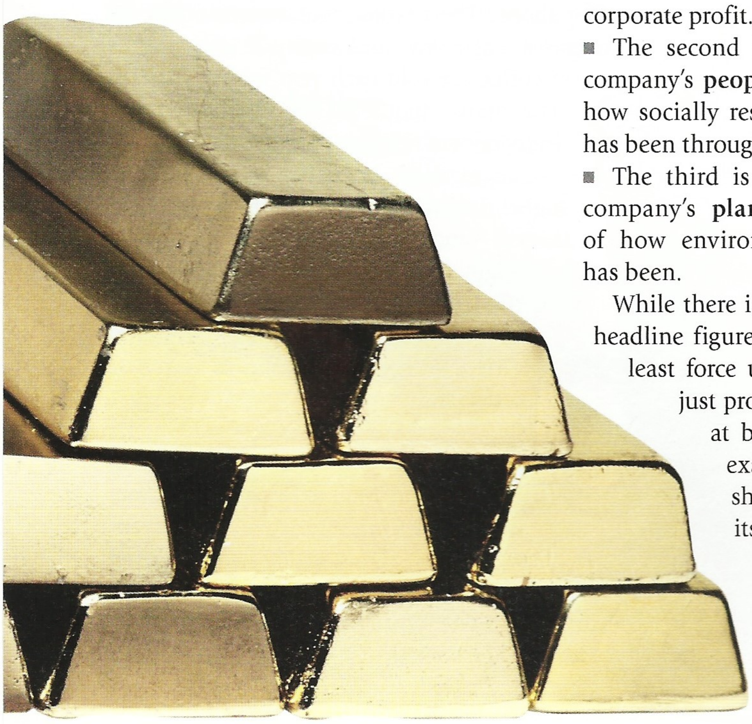
Triple bottom line

Assessing business performance

Is there a way of calculating profit that takes into account the need for corporate social responsibility?

For those in need of time-saving shortcuts, the term **bottom line** has always been a useful way of skipping the analysis and going straight to the conclusion. The 'bottom line' often refers to a business' profit or loss — which is usually recorded on the bottom line of a financial statement. Managers will frequently ask their subordinates for the BLUF (bottom-line up-front), suggesting that they don't have time to read the detail of reports and just want to hear the key points.



However, grabbing at the headlines while ignoring the story behind them is a risky game. Decisions that are only based on the bottom line may well be different to those that have been taken with a wider appreciation of the context.

Behind the headlines

Finding the balance between needing to know the critical information quickly and allowing oneself enough time to digest the analysis effectively is not easy. But it is a key skill that you need to master as both an A-level business student and a businessperson when assessing the real performance of a business. John Elkington's **triple bottom line (TBL)** model offers a neat halfway house between speed and breadth. The main tenet of the model is that companies should prepare three different bottom lines:

- One is the traditional measure of corporate profit.
- The second is the bottom line of a company's **people account**: a measure of how socially responsible an organisation 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.

While there is still a clear focus on the headline figures, the TBL model does at least force us to consider more than just profit and loss when looking at business performance. For example, if a corporation shows a monetary profit but its poor working conditions cause hundreds of deaths, and the government has to spend more taxpayer money on healthcare, it is clear that this business has failed in its social responsibilities. Moreover, the profit has been gained only as a result of the exploitation of its workers. The financial account won't tell you this but the TBL will. You can probably think of examples of firms that have acted in this way.

As an idea, TBL came to prominence in the early twenty-first century when the hitherto hidden social and environmental costs of cost cutting and profit chasing increasingly made it into the public domain. Unethical activities such as the deforestation of the Amazon basin, the excessive use of hydrocarbons and the exploitation of cheap labour were becoming widely known and widely opposed. TBL was an acknowledgement of those changing attitudes and it provided organisations with a structure to account for the full costs of business.

Case study: gold mining

People account

Gold mining is a global business, with operations on every continent except Antarctica. About three-quarters of the world's gold comes from enormous, high-tech, open-pit mines that consume more electricity and water than entire cities.

When produced in accordance with high safety, environmental and social standards, gold provides benefits such as jobs, skills, improved infrastructure and higher tax revenues. According to the World Gold Council, gold mining directly contributed US$83.1 billion to global GDP in 2013. Once the indirect economic impact is taken into account, via the positive multiplier, this figure increases to US$171.6 billion.

But poor countries with untapped gold reserves, low labour costs and relaxed regulatory controls have an obvious


Deforestation looks bad on the planet account

attraction for less scrupulous gold miners. According to the UN, between 5–10 million people in poor countries in Africa, Asia and South America struggle to make a living mining for gold — often in dreadful and dangerous conditions associated with artisanal or small-scale mining. In these mines, poisonous mercury is used as the extraction agent, and workers are exposed to it every day.

Poor regulation means that many miners lack safety equipment and expertise and thus accidents occur frequently. Landslides and tunnel collapses can injure miners or bury them alive. In 2013 the Jebel Amir mine in the North Darfur region of Sudan collapsed and killed up to 100 miners. These incidents would not be reported on a standard profit-and-loss account and so for situations like this the concept of the TBL gains in significance.

Planet account

In addition to destroying many beautiful landscapes, gold mining also leaves behind more waste per gram than mining for any other metal. The waste, usually a grey liquid sludge, is often laden with deadly cyanide and toxic heavy metals, which leach into the soil and poison the local ecology.

Many gold mines dump their toxic waste directly into natural water bodies. The Lihir gold mine in Papua New Guinea, for example, is said to dump over 5 million tonnes of toxic waste into the Pacific Ocean each year, destroying corals and other ocean life.

The solution? Fairmined

TBL analysis and the resultant pressure to improve practices and reduce social and environmental impacts has forced many businesses in the gold-mining industry to take a greater account of their practices. In particular, it has helped to encourage the growth of the Fairmined movement, which operates in much the same way as the Fairtrade label on goods such as bananas, coffee and chocolate. Fairmined is an assurance label that certifies that gold has been mined by an empowered mining organisation that meets world-leading standards for responsible practices. The label was created by the Alliance for Responsible Mining (ARM), a non-profit organisation globally recognised as a leader and pioneer of responsible artisanal and small-scale mining.

Fairmined gold is more expensive than gold produced by other means. The extra 'premium' is returned to a cooperative that decides how to distribute it for the benefit of the workers in the mine (e.g. for equipment, health and safety) and the local community (e.g. education, welfare, health programmes).

In 2013 Chopard — a leading-designer of luxury jewellery and watches — committed to buying gold only from Fairmined-certified mines. In April 2014 Chopard opened the Basel world watch fair with the world's first Fairmined gold watch. Later on that year, Chopard produced the Palme d'Or — the highest prize of the Cannes Film Festival — in Fairmined gold.

> As a century old family-run business, we are very aware of our responsibilities in our journey to sustainable luxury. It is not an easy journey but it is the right one.
>
> Caroline Scheufele, artistic director, Chopard

It is clear from such a quote that Chopard takes a holistic view of its social and environmental responsibilities, understanding that 'people' and 'planet' can play a valuable role in its future success. John Elkington would surely approve.

George Vlachonikolis teaches business at d'Overbroeck's College, Oxford.