

# MANAGEMENT FOR THE TRIPLE BOTTOM LINE: A STAKEHOLDER PERSPECTIVE

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## Abstract

*Put simply, the way in which stakeholders react to company decisions can have a dramatic effect on the success or failure of a company's investment decision, be it on sales revenue, market share or any other strategic indicator (Earl et al., 2000).*

## Introduction

A stakeholder perspective in management can add value and improve triple bottom line performance. Stakeholders include companies; employees; communities; and those who work for or with you, care about or dislike your company, make your market, or make your work possible. A stakeholder view, instead of a shareholder view, is predicted to be better at delivering long term value, profitability, and sustainability. A stakeholder perspective can improve both strategic and tactical decision-making for a company or organization and increase the value of its accounting practices, use of information technology, and marketing strategies.

We suggest that the stakeholder perspective can enable a company to be more competitive and to gain a competitive edge, improve worker satisfaction, improve productivity, reduce risk, protect reputation and market, discover opportunities for new products and services, improve relations with regulators, facilitate good relations with supply chain and subcontractors, and reduce marketing costs.

These all factor into the triple bottom line model for management. The triple bottom line approach recognizes that imperfect markets and incomplete costs make short-term stock value to shareholders a poor measure of company value, wealth creation, or sustainability. The goal of triple bottom line management is to increase productivity and profits while improving the quality of life for customers, employees, communities; protecting and restoring the environment; and encouraging competitors and fellow-travelers to make the same adjustments.

By 2003 over a third of the Global 250 included the financial benefits of sustainability or corporate social responsibility as a main component of their economic reporting in sustainability reports (Kolk, 2003). By 2005 companies around the world were participating, with more than three-fourths of the Global 100 prepared reports on social and environmental performance (SustainAbility, 2006). Much of the pressure for this enhanced reporting has come from stakeholders rather than shareholders. More than 10,000 sustainability reports are prepared every year (most in Europe), but the lofty goals articulated in these reports are rarely fully incorporated in management decision making. And smaller organizations

have only recently been receiving more attention (EMAS, 2006). An enhanced stakeholder perspective can help facilitate this integration of stated goals with practice on the ground.

### **The Stakeholder Perspective**

Stakeholders include companies; employees; communities; and those who work for or with you, care about your company, make your market, make your work possible, or are affected by your operations, products and services. The perception of stakeholders as important actors in decision-making first began in urban and land use planning in the 1970s, where the interplay of social, economic, and environmental issues has been recognized as important for many years (Susskind and Cruikshank, 1987; Margoluis and Salafsky, 1998; Booher et al., 1999; Margerum, 2002). The stakeholder role in business management emerged in the 1980s, with several books and a series of papers arguing over its value and application (Freeman, 1984; Donaldson and Preston, 1995). The recognition that a stakeholder perspective can add value and improve sustainability of business has evolved more recently, in regulatory issues, strategy, finance, and governance (Turcotte and Gendron, 2005; Armstrong, 2005; Dempsey, 2005; Steurer et al., 2005). Stakeholder engagement has become a key part of reporting requirements in programs such as the Global Reporting Initiative and the AA1000 Standard (GRI, 2002; AccountAbility, 2006; Slater, 2004).

Stakeholders may include a wide range of actors, from regulators to workers, fellow travelers, supporters, and critics. Identifying the stakeholders is a first step. The list may range from 10-20 for a simple company or project to 50-60 or more (Winterfeld and Edwards, 1987; Grayson and Hodges, 2004). Stakeholders are then interviewed or studied so that their goals, values, and expectations can be identified. It may then be possible to group stakeholders into clusters with similar aims. Some are clearly much more important than others, so a ranking or weighting scheme may be of value (see Appendix).

Echoing a noted paper in environmental law, it has also been suggested that perhaps trees should have managerial standing (Starik, 1995). Starik argues that because non-human nature is not currently adequately represented by other stakeholder groups and that integration would provide a more holistic, value oriented and strategic approach. This is in some ways related to Deep Ecology as advocated by Naess (1989). This extensive stakeholder view seems unlikely to advance very quickly, but may eventually prove useful to improve consideration of complex environmental systems in decision making for sustainability.

### **Strategic Management**

Business managers have traditionally been taught that business decisions should be made that maximize the shareholders' return on investment (Friedman, 1970). Projects and investments are selected and implemented when the net present value (NPV) is positive. This approach is both simplistic and complicated. It is simplistic because decisions are made using a limited set of financial criteria and are strongly influenced by decisions about discount rate. It is complicated by the inherent role uncertainty plays in most decisions and by the difficulty in assessing the potential financial impact of many business activities when markets are turbulent or health or environmental risks or liabilities are not well understood.

The growing recognition that this is not enough, and that companies could be both environmentally friendly and profitable (Porter and van der Linde, 1995; Elkington, 1997; Gordon, 2001) has led to a broader consideration of company operations, including social and environmental costs and benefits. The triple bottom line both simplifies and complicates business decisions. It complicates decision-making by increasing the number of criteria upon which business decisions are made, making it less likely important

factors will be ignored (Schaltegger and Burritt, 2000). On the other hand, it simplifies many environmental and social decisions by specifying, clarifying, and evaluating potential costs, benefits, and risks using environmental and social criteria.

Elements of the stakeholder perspective and triple bottom line approach already exist in other established business performance enhancement programs. The Balanced Scorecard approach of Kaplan and Norton (1992) includes such elements and was developed to emphasize the difficulty and incompleteness of financial criteria as the sole criteria for all business decisions. More recently, the Lean Six Sigma approach emphasizes a number of criteria embraced by the triple bottom line (George et al., 2004; Pickrell et al., 2005).

Researchers have defined environmental management systems (EMSs) ranging from reactive to proactive (Dunphy et al., 2003; Lorton, 2006). For companies pursuing a strict compliance approach, financial criteria are often not even applied to environmental decisions. Decisions made in response to compliance requirements are made solely out of a desire to avoid violations and potential fines. These firms generally see compliance as a requirement, independent of financial decisions. They often fail to identify products and processes that are costing them money for compliance and those that are not (Schaltegger and Müller, 1998).

On the other hand, firms that go beyond reactive compliance approaches by using pollution prevention strategies often continue to make environmental decisions based solely on financial criteria (Schaltegger and Muller, 1998). Even decisions based on regulatory compliance will be made by identifying choices that offer the lowest costs. In many cases, environmental decisions are made using the same financial criteria and processes as other operating and investment decisions. The pollution prevention approach to environmental management usually provides organizations with a number of options for dealing with environmental issues. Using typical capital budgeting criteria, those options that yield the highest net present value are selected after estimating discounted cash flows for investments, operating costs and savings. Some of these companies now may prepare sustainability reports, touting their efforts, but confusing reporting sustainability with acting sustainably (Milne et al., 2006).

The most developed sustainable management programs follow the triple bottom line approach (Laszlo, 2003; Thurm, 2006). In doing so, some decisions may be made that would not be if the decisions were made solely on financial criteria. For example, steps to improve the environment often include external costs that are costs borne by society and have no immediate impact on the firm's financial statements. Switching from traditional financial criteria to the triple bottom line requires that organizations expand the consciousness of the external impacts that their decisions have on society and the environment. One step that can assist this change in mindset is to consider that these issues are likely to have financial impacts on the organization, either now or in the future. Even some externalities can become costs to an organization if the impacts on society and the environment are significant enough to influence changes in consumer demand or to cause governments to enact laws that eventually impose regulatory costs on organizations. The stakeholder perspective can help identify risks (potential trigger points) and opportunities for management (Grayson and Hodges, 2004)

### **Tactical Management**

Although the stakeholder perspective is most commonly used in strategic management, it can also be applied at the tactical or operational level (Earl et al., 2000; Hoffman, 2006). Stakeholder considerations can be applied in contracting, design and planning decisions, material selection, and operations. The first step is to identify key stakeholders (ideally this will already have been started at the strategic level) and their interests and performance goals. Then the competing or complementary goals of various

stakeholders can be weighted and balanced against corporate intentions and performance goals. This may be refined with sensitivity analysis and then subjected to a financial/risk efficiency review for decisions such as which contractor to hire, which material to use, or which location would be most appropriate for a new facility.

### **True Cost Accounting**

As the eminent British economist A.C. Pigou (1920) noted early in the last century, the market will fail unless it includes all costs. The flawed and incomplete market we have today, with enormous uncounted costs and incorrectly attributed costs, performs very poorly, and Milton Friedman's dictum, "A company's only responsibility is to increase profits for stockholders" leads to potentially catastrophic environmental and social costs (Friedman, 1970). Most markets today consider only a small fraction of the total transaction cost, leaving most "externalities" out of the picture (Antheaume, 2004; Bainbridge, 2006). If full costs were known many current market transactions would not occur; and we would face a much more hopeful, secure, and sustainable future (Schaltegger and Müller, 1999; Robért et al., 2002; McDonough and Braungart, 2002). Incorporating true costs in the market is probably the most important thing we can do, letting consumers choose the sustainable option because it is the best investment (Young 2006).

In fact, engaged stakeholders have helped make this new approach to accounting a requirement in several arenas. Failure to consider external costs has outraged and mobilized various stakeholder groups and brought new reporting requirements and new demands for more complete accounting. As broader accounting mandates have developed, companies have found that they can offer new benefits as well as additional costs.

Added reporting has helped companies better understand the life cycle costs of products, from the cradle to the grave, made, used, disposed, or cradle to the cradle, made, used, recycled, reused, or returned to nature (Sonneman et al., 2001; McDonough and Braungart, 2002). This is the goal of most sustainability reporting, from the Eco Management and Audit Scheme (EMAS) to the Global Reporting Initiative (Orbach and Liedkte, 1998; IEFEE, 2005; GRI, 2002; Rikkhardson et al., 2005). True cost accounting can also improve investment decisions (Moilanen and Martin, 1996). It will not be easy, because we haven't invested much money in studying these issues, and the flow pathways and impacts can be complicated and long term.

To understand the full costs of both human and ecosystem effects we need to know much more about material flow (Brigenzu et al., 2000; Pedersen and de Haan, 2006). This is something chemical engineers have studied for decades within facilities and companies, but all too often the boundary has been the edge of the plant--not the atmosphere, stream, field, or organism where small amounts end up and wreak havoc (Reck et al., 2006; Driscoll et al., 2007). Seemingly innocuous materials that are currently poorly regulated or studied can be ecotoxic. These include nitrogen and phosphorus, which can be very hard to manage and can have devastating effects on both terrestrial and aquatic ecosystems (Vitousek et al., 1997; Günther, 1997).

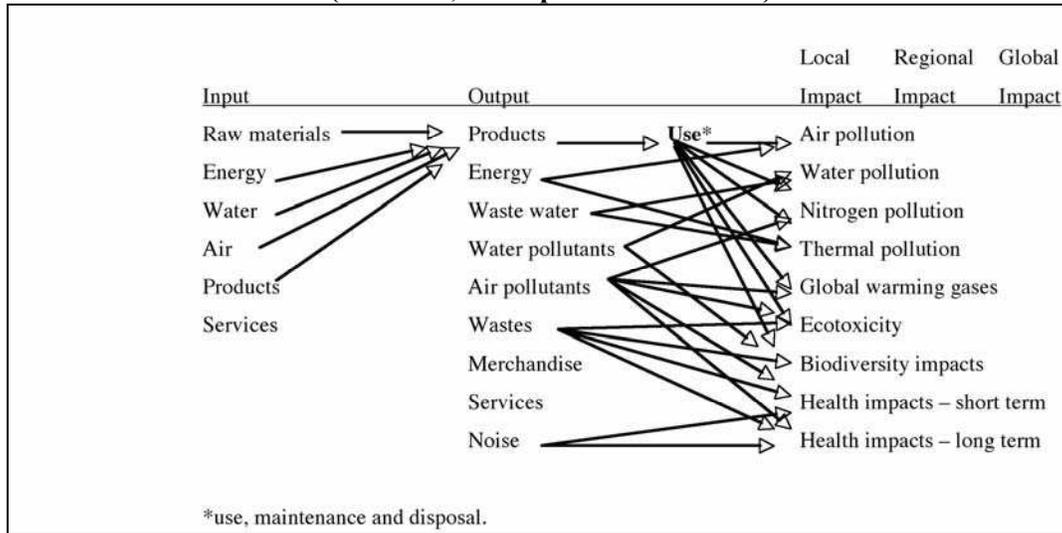
To better understand these issues we need to improve company balance sheets and update them regularly. These balance sheets will evaluate facilities, production, operation, maintenance, service and disposal (Sigma Project, 2002; Forum for the Future, 2003; ISAR, 2004; IFA, 2005).

These accounts and balance sheets need to be done at the enterprise or activity level as well as aggregated for the corporation or organization (Schaltegger and Müller, 1998). And then local, regional, state, and national accounts must be compiled to look for incrementally small leaks that become

significant when they are combined in the environment (Palm and Jonsson, 2003; Hansen and Lassen, 2003). The cumulative effects of zinc in runoff from buildings, equipment, and other sources may be ecotoxic, even when individual releases are low (Karlen et al., 2001). And finally the effects on the value of Nature's Services must be considered (Howarth and Farber, 2002).

**A Subset of a Revised Company Balance Sheet  
(Facilities, Transport Not Included)**

Figure 1



Although much progress has been made in environmental accounting (Gray et al., 1995; Rikkhardsson et al., 2002; Schaltegger and Burritt, 2000; Baue, 2006), the work has really just begun. Much more accurate and complete information is needed on a wide range of costs and benefits (Bainbridge, 2006). It also has to be made easier, so that small companies can develop reports that are complete and add value to operations. If we undertake this type of accounting today, it is labor intensive and therefore costly.

**IT and Data Mining Tools for Effective 3BL Stakeholder Reporting**

Modest investments in improved environmental accounting can lead to significant gains in Triple Bottom Line profitability, corporate image, and reduced liability. Environmental accounting demands new skills, tools, and more integrated accounting across department and division lines enterprise wide (Rikkhardsson et al., 2005; Schaltegger et al., 2006). A wide range of stakeholders, inside and outside the organization, can also benefit from having access to this information (Naert and Bainbridge, 2007). The growing importance of stakeholders has led to new software applications. Stakeholders may be identified and analyzed using software developed by companies, including Stakeware (Stakeware, 2006).

To exercise sound managerial control an organization needs access to high quality, pertinent, real-time data. Massive amounts of data are collected from a multitude of business-oriented transactions routinely tracked in a typical business day. If we add environmental and social information on top of this, the overload becomes even worse. Decision makers often feel they are overwhelmed by the avalanche of data they must sift through to capture a simple nugget of relevant, useful information. To facilitate the rapid improvement of accounting processes and procedures needed to produce an effective Triple Bottom Line accountancy will require organizations to successfully harness the value of information buried deep within the veins of its data repositories and accounting systems.

Information systems technology (IST) can be an enabling force for this task and can have a direct impact on the innovative operational results of an organization (Huang and Han, 2005). IST capability make it possible for an organization to capture the data required to monitor the appropriate metrics needed to assure the creation of quality products and services (Herbslep, 1997). TQM recognizes that product quality is achieved at every level of a process, and the output from quality processes is a quality product or service (Visitacion, 2003). The implementation of the stakeholder-oriented triple bottom line approach will increase the number of criteria upon which business decisions are made and increase the complexity of the decision-making metrics and data requirements. The parallel between the need to create and implementation of the “quality culture,” and the need to infuse an ecological and social accountability within the fabric of mainstream organizational thought and operations is in many ways a similar challenge.

Much remains to be done to define the best or ideal IT application tools and processes to identify, capture, cleanse, process, and disseminate the integrated data required to integrate stakeholders and implement the Triple Bottom Line approach. Tools that make this efficient and easy for even small firms to do are urgently needed. For larger firms this software/middleware might interact with Microsoft, SAP, Abacus, and other office accounting and management packages, while for the smaller firm these tools should be free or low cost (see, for example, Simpson et al., 2005) and ideally, easily integrated with programs such as Quicken or Quickbooks. And these should probably be on-line, to capture rapidly developing improvements in understanding.

The immense amount of data produced by most data repositories makes it nearly impossible for a person to effectively analyze the information that might help them make better decisions (Dass, 2006). Data Mining operations, however, as an evolving focus within the IT discipline, provide a promising solution. Data mining (DM) can be used to explore, collect, and analyze large volumes of data to detect hidden patterns and to convert raw data into valuable information (Chye, 2002). DM could very well be the ideal tool to use to expedite the implementation and realization of the stakeholder-oriented triple bottom line.

Management professionals across a range of disciplines will need to work together to blend the various process strategies, methodologies, and tools of DM for potential application in this more complex accounting and management environment. Using DM’s viability as a self-regulated, cybernetic tool, which can effectively sift through enterprise-wide database repositories discovering knowledge, and providing automated structured trend analysis may be of critical importance in speeding the transition to full cost accounting, profitability, and a sustainable future (Naert and Bainbridge, 2007).

Database developers, information source managers, and accountants must also be educated on the importance of this work and the need for readily accessible information (Lintott, 1996; Gray and Collison, 2002; Chua, 2006). This could help make sustainability reporting faster, cheaper, more effective, and more fun. Quality assurance and auditing systems also need to be refined (Beets and Souther, 1999; Wallage, 2000).

### **Marketing Strategies**

In marketing, a shift towards stakeholder thinking has occurred through a redefinition of what the marketing function entails. In 2004, the American Marketing Association (AMA) changed the definition of marketing away from “creating exchanges that satisfy individual and organizational needs,” towards “a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders” (Sevier, 2005). This approach of marketing moves towards long-term relationships with loyal customers as opposed to one-

time exchanges. It also considers other beneficiaries beyond the customers. Marketers have attempted to identify these stakeholders, including their norms, issues, influences, and power (Maignan et al., 2005). However, few efforts exist to identify qualitative needs of the stakeholders and the type of exchange relationships within the marketing system. Miller and Lewis (1991) suggest a value exchange model for all stakeholders, in which all partners receive, create, generate, and distribute values in a much more complex and dynamic value exchange system as compared to the original customer/organization interaction. Miller and Lewis (1991) defines the objectives of stakeholders as, “an objective is a value or a set of values that are sought by or on behalf of a person, persons, or organization and for which there is a willingness to make a sacrifice or effort.”

If we consider this sacrifice as a “price to pay,” we may also recognize that the value exchange goes beyond product for profit; and that social and environmental costs need to be included in true-cost-accountability. Miller and Lewis (1991) and Clulow (2005) recognize the challenge of balancing this system based on the weight and importance of stakeholders. So far, much of the effort has been devoted to avoiding anticipated problems. This may involve gaining the support of pressure groups so no consumer boycott will be initiated and brand reputation will not be hurt.

Few marketers have recognized the interdependence between stakeholders and the company as an opportunity to create vibrant living corporate community systems similar to natural systems. Patagonia and a few others have worked to identify their community and used sustainability as a factor to help keep the community together (Chouinard, 2004).

Beyond the clear identification of stakeholders’ needs, marketers also need to focus on better communication with their stakeholders. Information technology can support more complex communication strategies, but the type of messages sent are equally important. Targeting specific stakeholder groups, recognizing their value in the system, and doing so through authentic and transparent messages and information, will perhaps reestablish more trust and credibility in marketing communications.

### **Summary**

The stakeholder perspective is a powerful approach that can improve management of companies and organizations. It improves the level of understanding of the business environment, increases understanding of customer wants and needs, improves communication along the value chain and helps identify new opportunities, and identifies possible risks and potential costs. The stakeholder perspective can be used at the tactical or strategic level to improve profit and reduce risk. Effective use of the stakeholder perspective benefits from true cost accounting throughout product or service life cycles. This can be streamlined with better management of information systems and data management. Improved sustainability from use of the stakeholder perspective can improve product fit to customer demand and create new opportunities for marketing and improving customer relations.

Stakeholder involvement is required in several sustainability reporting systems and can be seen as a problem (new thinking, new systems) or an opportunity. We would argue that it is an opportunity that offers long-term value to the companies that embrace it, and the communities where they work, and to the stability of the planetary ecosystems that support us. Stakeholders desire what we all want: better, faster, cheaper, more sustainable and more fun!

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## Appendix

### A Brief List of Stakeholders

Authorizers  
 Regulators  
 Consumers  
 Executives  
 Managers  
 Workers  
 Workers families  
 Unions  
 Supply chain  
 Contractors and subcontractors  
 Distribution chain  
 Investment community  
 Media  
 Communities (plant locations, supplier plant location, impacted)  
 Competitors  
 Governments – local to national, international  
 Industry trade groups and associations  
 NGOs – social, environmental  
 Regional, national, global communities