Triple Bottom Line Reporting

As awareness of environmental and social concerns increase, there is amplified support from the government, lobby groups and the general public to force companies to report and be accountable for such issues. Society places scrutiny on companies who do not conform to the public's general ethical standards, but there are no reporting regulations that allow society to evaluate how companies are measuring up against those core values. Ethical morals lead to sustainable development, which has been attributed to the success of many prosperous companies like IKEA (Willard, 143). Sustainability "creates long-term shareholder value by encompassing opportunities and managing risk derived from economic, environmental and social developments" ("Corporate Sustainability"). In brief, sustainability is a company's capacity to build capital maintenance while enhancing environmental quality and social justice. Users of financial statements are therefore looking beyond financial figures as indicators of sustainability. Triple bottom line (TBL) reporting has been termed as a new governance concept in which companies provide qualitative and quantitative descriptions of their financial, environmental and social performance over the last year (Papmehl, 20). This paper will explore what type of companies currently use TBL reports and what they are benefiting from the use of these publications. It will also investigate the lack of corporate social responsibility (CSR)[1] reporting and provide guidance on how Canadians can enhance the use of TBL reports.

Triple bottom line reporting was coined by the international consultancy group *SustainAbility*. Their objective is the promotion of social, ethical and organizational accountability. TBL is an extension of CSR reporting, which provides progressive, qualitative reports ("Common ground for social scrutiny," 52). To date, in Canada

[1] A report on how companies business processes impact on society.

approximately 150 TBL reports have been produced and it is estimated that up 2,000 reports have been generated worldwide (Papmehl, 25).

The evaluation of environmental performance is composed of measurement and disclosure of any harm an entity may be inflicting on the environment through their business activities as well as disclosure of any improvements they have made to better the environment. Hazardous actions include air emissions, water discharges and misuse of natural resources. Topics to be disclosed and measured as part of social performance include health and safety, human resource policies (equity and diversity), employee attitudes, human rights and ethical issues like child labour, bribery, privacy and corruption (Carrington and Lane).

Currently TBL reporting remains primarily voluntary as there are no explicit external environmental or social responsibility disclosure requirements in the CICA Handbook. Internal environmental liability disclosures are referred to in Section 3110 and Section 3290 of the CICA Handbook. "Asset Retirement Obligations", Section 3110 requires entities to recognize the fair value of a liability for an asset retirement obligation in the period in which it is incurred. Should the amount not be reasonably determinable it would be considered a contingent liability, "an existing environmental condition or situation involving uncertainty as to possible gain (gain contingency) or loss (loss contingency) to an enterprise that will ultimately be resolved when one or more future events occur or fail to occur"(CICA, CICA Handbook Section 3290 par.02).

Although the CICA has not set TBL standards some industries have lead the way by imposing high regulation, therefore requiring legal responsibility for disclosure. "The Big Five domestic banks are required under legislation to report on activities ranging from small-business financing and involvement in community development projects to branch closures and initiatives to improve access to banking services" ("3 Critical Issues," 43). The banking industry is exceeding the requirements of their reports by providing disclosure on other issues including the environment. There is also a trend among natural resource companies to provide some form of TBL reports mostly relating to their natural capital maintenance ("3 Critical Issues," 44).

Not only are investors interested in CSR initiatives but consumers have also become alert; a recent Ipsos-Reid poll found that 55 percent of respondents have purchased a product or service because they felt the company was a good corporate citizen (Arnot, 28). This survey attests that ethical decision making in the area of the environment and social responsibility does affect a company's bottom line and the business world must become aware and committed to triple bottom line reporting. Investors provide a double edged sword, they want organizations to meet short-term market expectations but will not accept disregard for corporate ethics.

The benefits of acting and reporting in an environmentally and socially responsible manner are observed in Jantzi's Social Index[2], "it has grown cumulatively over the past 5 years by 22.1 percent, outperforming the S&P/TSX Composite[3] which has grown by 18.6 percent and the S&P/TSX 60[4] which has only grown by 11.9 percent" (Turnball, 10). It was estimated in 2002 that 5 percent of Global Fortune Top 250 companies[5] publish some form of a CSR report ("Global Corporate Sustainability

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[2] An indicator of financial performance of sustainability-driven companies.
[3] An index consisting of the common stocks of the largest companies in Canada in terms of capitalization.
[4] Index consisting of 60 of the largest (measured by market capitalization) and most liquid (heavily traded) stocks listed on the Toronto Stock Exchange (TSX).
[5] Top 250 global public companies.

Report"). It is made evident through these reports that successful companies are those that use environmental and social criteria in their decision making process.

With no standards set in the area of environmental and social responsibility the format of TBL reports and their components vary from entity to entity therefore perplexing comparability. TBL reports are being communicated to investors in what some people consider applications of public relations. Many entities report on social responsibility in the MD & A portion of the annual report, although disclosure of environmental responsibility is being reported by some companies as a separate publication (Arnot, 32). Without legislation and authorized audits, several companies are putting on "game faces" and using their favourable social and environmental practises as marketing tools to promote themselves as ethical corporate citizens. In 2003, KPMG reported that only 15 percent of the total Canadian companies providing CSR disclosures reported negative information and only half of those companies offered a solution to the problem ("International Survey of Environmental Reporting").

There is a lack of CSR reporting in the private sector leaving stakeholders unaware of unjust practises made by private companies. Irving Oil exceeded the province of New Brunswick's air pollution limits 47 times in 2003 ("Irving refinery fined for pollution violations"). There may be numerous other infractions but there is no requirement for Irving Oil to release this information to the public in any form of an annual report, rather it is up to the media to expose the public to this information. Mandatory TBL reporting under Canadian GAAP will not rectify this predicament as private companies are not required to have their statements audited. Should they choose to have their statements audited they remain to be considered private information consequently impeding stakeholders from gaining insight into their social and environmental practises. If TBL reporting were to be legislated, private companies may challenge to place it as one of the sections covered under differential reporting therefore preventing the preparing of the reports all together in the private sector.

Along with the magnitude of variety of social and environmental reports, the disclosure itself is extremely diverse and complex. The current environmental disclosures of entities include detailed statistics depicting emissions of many compounds, but a trivial amount of relative information to aid readers judge the significance of those emissions. This type of disclosure is alluded to the form of information that was found in Enron's statements about their special entities, it was incomprehensible to investors; therefore impedes understandability.

TBL reporting seeks to have environmental and social responsibility issues classified as assets or liabilities, although a problem lies with the classification of liabilities. Liabilities represent a "probable future sacrifice of economic benefits arising from a present duty or responsibility to others, as a result of past transaction or events, where there is little or no discretion to avoid the obligations" (Kieso et al., 163). In countries where child labour is legal, no legal duty is present to provide education or nourishment for the children therefore no liability exists. Morally many would say that there is a responsibility for companies to pay for medical costs due to pollution they have caused through their toxic emissions, but no legal duty exists therefore it cannot be classified as a liability. Although these transactions cannot be classified as an element of the financial statement, they are however significant and therefore should be disclosed.

It is inconsistent to quantify the damage or the benefit that entities have imposed on the environment as there is no reliable measure. Reliability and consistency are both violated without a standard measure. Internal environmental liabilities have been addressed by the CICA Handbook but it does not tackle any social responsibility disclosures. External environmental liabilities like the decline of fish due to water emissions and environmental assets consisting of reduction in greenhouse gas emissions cannot be tangibly measured. To date, no dollar figure can be placed on the benefit of promotion of socially responsible campaigns like *Tim Horton's Children's Camp* or the *Ronald McDonald House*. The only possible means to measure external assets is through association, if gains or losses could be attributed to these practises.

As we align ourselves with conservatism, I feel that assets should not be realized but rather disclosed as the direct benefit of CSR campaigns cannot be measured and are difficult to associate. Liabilities on the other hand should be estimated as an estimate would be a better measure than nothing at all. Some environmental issues could be quantified and disclosed including pollutants, amount of recycling, compliance with regulation, energy consumed, expenditure for social and environmental improvements and indicators of human rights as well as any other significant information. It is however arguable that specific disclosure requirements may impede a company's competitive advantage (CICA, Reporting on Environmental Performance, 104).

Numerous energy and oil companies have found ways to measure their capital maintenance; Ontario Hydro has used a full cost accounting approach[6] to recognize their environmental externalities. Environmental and social criteria are used in their decision making to decrease the external costs society must incur. The criterion includes, resource

[6] Includes external costs and restoration costs

and energy use efficiencies, environmental impacts, social impacts, employment of renewable energy source, and financial integrity (Bennett and James, 327).

A western oil and gas company uses an environmental restoration cost estimate, in compliance with Section 3110 of the CICA Handbook to report their environmental externalities. The restorations costs are applied to each barrel of oil sold therefore these costs are not projected to the users of the statement while the well is being dug, however the estimated restoration cost is quantified in the notes (Magness, 16). I think that companies in the natural resource sector should be required to report environmental equity as it is an indicator of their potential for profitability as a going concern.

The lack of standards poses more than one dilemma; the social and environmental reports cannot be substantiated as many have not been verified by outside consultants nor is there any enforcement of numerous social and environmental unjustice practises. With no standard performance measure, current audits continually vary. Should regulation be put in place, assurance of TBL reports would provide a market niche in which accounting firms and consulting groups could both take advantage of. Reports generated by the two professions repeatedly differ, accountants produce an evaluation of an entity's procedures based upon standards agreed upon with the company's management; while consultants reports provide descriptions of what the organizations' have been doing on environmental and social levels (Ravlic, 35). Accountants must also abide to the professional structure of their audit; evaluation therefore requires more detail and involvement. It would therefore be most cost effective and consistent for companies to have accountants expand their yearly audit to include an examination of environmental and social performance. In order for accountants to compete on an equal footing with consulting groups, they will first have to overcome the bias that they are universal assurance provider's not just number crunchers.

Canada can follow in Europe's footsteps as they have paved the way in the areas of environmental audit practises. Eco-Management and Audit Scheme (EMAS) was implemented in Europe in 1993 and "requires that companies prepare publicity available environmental reports that must be validated by a qualified third party" (Beets and Souther, 133). Australia also issued a draft standard entitled "General Guidelines on the Verification, Validation and Assurance of Environmental and Sustainability Reports" (Triple Bottom Line). With increased legislation both countries have been able to form audit practises. Without the ability to physically measure externalities their reports also require mostly disclosure (Triple Bottom Line).

Even though the CICA has not set guidelines to report on environmental and social costs and benefits, other groups have stepped up to the plate to fill the gap. These groups promote business ethics and include the Global Reporting Initiative (GRI), the AA1000 Assurance Standard, the Corporate Responsibility Assessment Tool (CRAT), the Good Company Guidelines, the Dow Jones Sustainability Indexes, and the Jantzi Social Index (Arnot, 30). They have formed indicators and reports that equip companies to provide evaluations of their TBL performance as well as the production of indexes for stakeholders to make evaluations of a company's TBL.

GRI's purpose is to provide a common framework for sustainable reports to be used internationally. It allows stakeholders the ability to compare companies on the grounds of TBL by evaluating individual components including detailed definitions, procedures, formulae and references to ensure consistency across reports ("GRI

Reporting Framework"). The AAI100 Assurance Standard was formed by *AccountAbility*. Their standard is intended for assurance providers and supplements the GRI reporting guideline by providing guidance on how to report rather than what to report ("AA1000 Framework"). AAI100 Assurance Standards measures against three assurance principles: materiality, completeness and responsiveness.

CRAT was produced by the Conference Board of Canada. It is web-based and is intended to improve a company's TBL performance by permitting management to direct and measure their CSR initiatives against investors' expectations. CRAT allows organizations to view areas of CSR that show advancement while addressing areas that they are currently not fulfilling. It focuses on five areas of performance which includes governance and management practises, human resource management, community investment and involvement, environment, health and safety and human rights. CRAT is considered a management tool, leading companies strategically rather than providing a set of guidelines laying out disclosure ("About the CR Assessment Tool"). Canadian Business for Social Responsibility (CBSR) has produced The Good Company Guidelines which is another CSR evaluation tool that permits companies to identify areas that they need to be addressed and develop policies to report to stakeholders (Arnot, 30).

The Dow Jones Sustainability Indexes and the Jantzi Social Index differ from the other reports in that they track the financial performance of sustainability-driven companies ("Corporate Sustainability"). They use analytical frameworks to select companies for inclusion. They both offer performance benchmarks for investors to evaluate companies who use financial, environmental and social criterion ("About the JSI").

to be reliably measured.

Companies must be made accountable for their disregard for the environment, it is currently estimated that the environmental liability in the United States is between 2 and 5 percent of gross national product (Zuber, 44). I feel that this liability will continue to increase because it is cheaper for companies to turn a blind eye. TBL reports are expensive, the evaluation methods involved are very time consuming and the results can be detrimental to the company. As social and environmental disclosures remain voluntary and the disregard of these areas remains cheaper, solid corporate ethics is the only remedy to impede entities from cutting corners.

In a country where the New Democratic Party only holds 19 seats in Parliament it is evident that most Canadians would consider themselves capitalists (Calder). As a capitalistic society we can never expect white collar crime to vanish because amplified emphasis is placed on obtaining stock market expectations by increasing short term profits. Society is inherently greedy, we have overfished our seas and child labour was only discontinued when consequences were attached to it. Unethical decisions concerning the environment and the well being of society will continue to be made should we not place restrictions. Losses attributable to unethical decisions affect the sustainability of the necessities of life: air, water, shelter, and food as well as our livelihood.

It is observed that companies who demonstrate CSR initiaves in their corporate values are more likely to be producing TBL reports. There is no incentive for unethical companies to provide such reports as they would only be welcoming negative publicity. How often do you see a child voluntary confess that they have taken an extra cookie? Controversy has recently been raised surrounding Irving Oil's high emissions of sulphur dioxide in Saint John, New Brunswick ("Air not so bad in Saint John: Irving"). Irving Oil's spokesperson dismissed the sulphur dioxide measures and continues to advocate that Irving "operates in an honest and ethical manner with the highest standards to ensure the protection of employees, the public and the environment" ("Our Values"). Without the enforcement of TBL reporting entities will continue to dismiss the negative as they are not held accountable for it, especially in the private sector.

As the environmental impact of pollution continues to increase and society becomes more concerned with societal fairness and equity, TBL reports will become an instrumental means for ethical companies to communicate their CSR successes and failures to stakeholders. The benefits of acting and reporting on TBL is obvious as financial analysist consistently state that companies who report and improve on green and holistic issues have superior financial performance. Standard measures and disclosures for TBL reporting must be defined before legislation may be put in place. I do not think reports will ever be consistent as stakeholders rate elements of TBL reports differently among industries. Until the CICA reports on TBL, legislation may be provided by individual industries as has been seen in the banking industry. Measurement will remain the largest deterrence from standardized reporting because improvements or damage to the environment or society cannot be tangibly measured. I feel that Canada will take baby steps, moving in the direction of Europe by promoting disclosure of CSR initiatives thus allowing TBL reports to be substantiated as auditors will have something to attest to. To promote CSR initiatives and TBL reports, society as a whole must define their value system, presenting corporate accountability as a higher priority than profitability. With increased emphasis and legal requirements to provide TBL reports companies will have no choice but to comply. The bottom line is TBL reporting will force unethical companies out of the market place as their unsustainability will become transparent.

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