



THE TRIPLE BOTTOM LINE

HOW BUSINESSES ARE BALANCING

P **P** **P**
PEOPLE PLANET PROFIT

BY DAN FOGEL

ASSOCIATE DEAN FOR WORKING PROFESSIONAL PROGRAMS, EXECUTIVE PROFESSOR OF STRATEGY,
WAKE FOREST UNIVERSITY

With media reporting daily on how climate change, poverty, immigration, and globalization are impacting people's lives, corporations are being confronted with an uncomfortable reality: Become part of the problem or become part of the solution. Therefore, many businesses are stepping up to the plate and exploring ways to merge profitability with social responsibility and environmental sustainability. In other words, they're focusing on the triple bottom line.

The phrase "triple bottom line" emphasizes balance between improving people's lives, protecting the planet, and generating a profit. It encourages corporations to make social and environmental issues part of their overall business objectives and to address a wider set of challenges beyond the confines of a specific business or industry. The assumption is that if corporations do not confront global issues, such as poverty, environmental degradation, and the interconnectedness of the world, they are likely to see a decrease in well-being throughout the world and, ultimately, in their own profits.

Sustainability—the view that our actions must leave in place a world that is at least as prosperous and environmentally sound as the one we

entered—is the guiding principle of the triple bottom line mentality. But what must a company adhering to the triple bottom line do to produce a more sustainable world? What impact does a company make by using triple bottom line practices, and why is this important?

First, the company is forced to analyze how its products, services, businesses, and processes can be improved to increase the sustainability of the corporation and the world. This analysis may result in a new focus on maximizing shareholder wealth while being sensitive to a world whose resources are finite and can only be generated using renewable resources. Other times, choices within the supply chain are reevaluated with increased sensitivity to human rights for suppliers, as in Nike's case, and to the carbon footprint created by production and distribution.

Ironically, some observers view a focus on the triple bottom line as one that produces the most value-maximizing business outcomes, because adhering to natural processes creates more valuable long-term results. There are even some companies, such as carpet manufacturers Interface and Tandus, that have restructured their entire business models with an emphasis on environmental sustainability. Now, Interface "leases" carpet

to its customers so that it can take responsibility for installation and carpet recycling.

Second, the triple bottom line uncovers new business opportunities at the bottom of the pyramid. Microfinance—the practice of providing small loans to people who have limited or no access to capital and who use social networks as collateral—has generated positive results in emerging markets, like India, because of its social and economic impact. This concept, pioneered by Nobel Prize winner Muhammad Yunus, is developed from a view that we can create business solutions for difficult social problems—in this case, extreme poverty.

Third, the triple bottom line forces companies to consider the economic value of the environment. Instead of viewing the environment as a free good, it is viewed as providing a service to corporations. Some economists estimate the value of services provided by the environment at a minimum of three times the world economy. For example, if these services were being taken into account, gas would be \$8 per gallon. The triple bottom line concept urges companies to find ways not only to preserve and protect these valuable services, but also to increase the viability of the environment.

Fourth and finally, profitable alternatives to philanthropy emerge as companies examine the triple bottom line. Imboiente, a consulting

and landscaping firm based in Portugal's Algarve region, repairs landscapes damaged by roads, dams, and civil engineering projects. The company also works with foresters and other landowners to reverse the effects of poor agricultural practices. Imboiente's success is attributed to a surprising combination of philanthropy and sound business practice that serves to improve the environment.

In addition to giving existing companies something new to consider, the triple bottom line has been a catalyst for the development of new markets. Consider the Chicago Climate Exchange, the world's first registry and trading system for reducing greenhouse gas emissions. The idea is to commoditize gas emissions, and by trading that commodity, one brings into play the advantages of capital markets. Why are people trading credits related to gas emissions? Because traders see the underlying asset value of the commodity. Many people believe that this rules-based market is one way to reduce pollution, which they view as a chief contributor to global warming.

Triple bottom line thinking also is influencing architecture and cityscapes. Environmental rating systems, such as the one by the U.S. Green Building Council's Leadership in Energy and Environmental Design (LEED), are becoming part of mainstream building codes. My recent research on environmental guidelines within

organizations shows that every major metropolitan area has created a sustainable-design office or unit to shape the design of buildings and communities. The New Urbanism movement in community development has created "integrated design" to represent this triple focus, which has been prevalent in Europe and parts of Asia for decades.

In order to assure that the triple bottom line concept isn't merely a fad and becomes part of every business culture, it must be instilled in the future generation of business leaders. Wake Forest is one of six U.S. founding members and one of 53 international partners of the Globally Responsible Leadership Initiative, an organization of corporations, business schools, and leadership centers that developed its educational principles based on the triple bottom line.

Emphasizing sustainability pushes corporate activity to balance financial outcomes with social and environmental impacts. Only then do we achieve true accountability.

Dan Fogel is Associate Dean for Working Professional Programs and Executive Professor of Strategy at the Babcock School, and is based at Babcock's Charlotte campus.



Old Gold and Green?

Although Wake Forest colors are black and gold, the Babcock School's new home in Charlotte will be gold and green. But don't start questioning its school spirit just yet.

You see, the School's uptown Charlotte location will be inside the largest green building between New York and Atlanta. The building, which is a component of Wachovia's First Street Cultural Campus, will be gold certified by the U.S. Green Building Council's Leadership in Energy and Environmental Design (LEED).

The LEED rating system acknowledges high-performance buildings that have less impact on the environment, are healthier for those who work and/or live there, and are more profitable than their conventional counterparts. The rating system is organized into five categories: Sustainable Sites, Water Efficiency, Energy and Atmosphere, Materials and Resources, and Indoor Environmental Quality. An Innovation and Design category awards points to LEED projects that develop new or more efficient solutions, employ new technologies, educate, or realize exemplary performance in another area.

LEED certification criteria help guide the decision-making regarding design, construction, operations, and management of a new building. The resulting structure is more energy and water efficient, costs less to operate and maintain, has higher lease-up rates than conventional buildings in its market, and contributes to the health and productivity of its occupants.