TRIPLE BOTTOM LINE

The sustainable development think tank, SustainAbility, is working with Shell to make their operations more 'sustainable'. This is one notable attempt by a major trans-national to apply the principles of the 'triple bottom line' to its business. Critics remain to be convinced whether this much-publicised repositioning amounts to more than sophisticated 'greenwash'. In this article John Elkington, author of the best-selling *Green Consumer Guide,* and Chair of SustainAbility explains why they have entered a partnership with Shell, and outlines some of the criteria for success.

I should explain SustainAbility's decision (as a values-led consultancy) to work with Shell. For two years after the Brent Spar and Nigerian controversies, my colleagues and I fended off requests for help from various parts of the Shell Group. There was no disputing Shell's need, but our logic was simple. First, rightly or wrongly, we sensed that many Shell executives were still in denial. Second, we believed we could better leverage change from outside. And, third, we work with the environmental, human rights and development movements: even had we wanted to say yes, a link-up would have been unacceptable to many of our own stakeholders.

But we kept a watching brief and – late in 1997 – accepted an invitation to meet and challenge a range of top Shell people, including chairman-designate Mark Moody Stuart. We found a widespread recognition that Shell must now perform against what we dub the 'triple bottom line' of sustainable development.

More specifically, we were impressed by:

- Cor Herkströter's candid analysis of the company's weaknesses
- the thoroughness of the Shell 'Society's Changing Expectations' stakeholder review
- the Committee of Managing Directors' clear commitment to the new accountability-map
- the development of Exploration & Production's sustainable development
- and the formation of the Shell renewables business, with clear market share targets.

Given that a sustainable oil company is a contradiction in terms, we were also intrigued by the brief of the new Shell Chemicals executive vice-president responsible for sustainable development. It not only covers health, safety and environment (HSE), but also such 'mainstream' areas as strategy and planning, portfolio management, mergers and acquisitions, and joint ventures. The implication: sustainability considerations will help reshape the Shell Chemicals portfolio of businesses over time. Hopefully, the approach will spread to other Shell businesses.

The sustainable development community, meanwhile, must develop its toolkit for triple bottom line accountability and management. Offered the opportunity to embark on a multi-year work programme with Shell's new Social Accountability Team, we consulted our own international Council and Faculty – and jointly concluded that the time had come to commit. This is an open-ended experiment, requiring extensive piloting in Shell businesses. We will report regularly on the experience and outputs.

If sustainable development is to become a global reality rather than remain a seductive mirage, governments, communities, companies and individuals must work together to improve their 'triple bottom line' (economic, social and environmental) performance. To this end, we not only need new forms of accountability but also new forms of accounting.

This does not mean that every aspect of a company's performance can – or should – be reduced to a 'common currency' of money values. But if we are to manage a given company's performance effectively we also need to be able to measure it. We must find accurate, useful and credible indicators of progress in terms of economic prosperity, environmental quality and social justice.

Sustainable value creation

Companies exist to create wealth, so the most direct contribution they can make to sustainable development is to create long-term value on an economically, socially and environmentally sustainable basis. A key twenty-first century challenge, in short, will be 'sustainable value creation'.

But how can we measure progress against the emerging economic, social and environmental performance indicators? Try to benchmark Shell's – or any other company's – performance against Shell's Statement of General Business Principles and you will find it hard, if not impossible. In part, this is a problem of data availability. But it also reflects weaknesses in accounting theory and the fragmentation of standards and metrics in this field.

This is a problem both for outsiders, who increasingly want to track corporate performance, and for companies like Shell. To create long-term trust and shareholder value, companies need to manage this complex new agenda, but to do so both companies – and their stakeholders – must be able to measure progress against the triple bottom line.

What about shareholder value?

At the heart of the emerging sustainable value creation concept is a recognition that for a company to prosper over the long-term it must continuously meet society's needs for goods and services without destroying natural and social capital.

The approach does not necessarily imply a new concept of what companies are primarily for; rather, it extends the time-horizon over which the full range of a company's – and its shareholders' – interests should be assessed. But it also, as signalled by stakeholders in Shell's 'Society's Changing Expectations' consultation process, demands a deep shift in corporate culture, values, decision-making processes and behaviour.

Happily, the evidence suggests no fundamental conflict between sustainable value creation and long-term shareholder value added. The real difference is that for value creation to be sustainable, a company must acknowledge and manage the full range of relevant economic, social, ethical and environmental costs associated with its activities.

Shell International has now assembled an internal Social Accountability Team, pooling resources with Arthur D Little (ADL) and SustainAbility, to develop a range of 'total net value added' metrics. The indicators will be developed with inputs from Shell's internal and external stakeholders.

What would triple bottom line accounts cover?

Unfortunately, these new forms of accountability have taken most parts of the accountancy world by surprise, with most accountants ill-prepared for the challenge.

Even financial accounting, evolving for 500 years, is still developing rapidly. There are huge debates, for example, over how to account for new financial instruments like derivatives. Environmental accounting has a much shorter history, of perhaps 20 years, with most progress made in the 1990s. And, while embryonic versions have been around for some time, social and ethical accounting and auditing are only now getting into their stride.

So we need intense, focused efforts not only to develop these three different forms of accounting but also to evolve frameworks which enable the results to be increasingly integrated – to ensure both full accountability and efficient business operations. Let's look briefly at each form of value in turn.

Economic value added: The scale of Shell's economic contributions is indicated by the figures for its sales (1997: over $171 billion), sales taxes (1997: over $43 billion) and total taxation paid (1997: over $50 billion).

Shell focuses on 'Return on Average Capital Employed', but another approach – 'Economic Value Added' (EVA) – is promoted by US investors concerned to know whether given companies or industries are adding or destroying value. The profits a company makes are adjusted for the costs of the capital employed. A linked concept, Market Value Added (MVA), calculates how much value a company has created since it was founded.

To measure total net value added, however, EVA and MVA values will need to be adjusted for the linked impacts – both positive and negative – on natural, human and social capital. The internalisation of such costs and benefits represents one of the greatest challenges both for business and for accountants.

Environmental value added: Among other things, we must adjust our measurements of wealth creation and profit with a charge for the natural capital employed – and, in the case of non-renewable resources, often consumed for a one-off benefit.

Our natural capital is a combination of renewable and non-renewable resources. Even in the case of renewable resources, the most important values are not in the timber produced by a forest or in the fish produced by a sea, but in the ongoing capacity of such ecosystems to produce yields on a sustained basis. Some types of natural capital may be substitutable by technology and other forms of man-made capital, but most are not.

Even companies pioneering in the environmental accounting field have typically not yet integrated environmental accounting into their mainstream accounting, although some are working in this direction. Key barriers include the lack of a standard methodology, the fact that accountants and auditors lack environmental experience, the difficulties involved in identifying environmental costs (particularly in companies pursuing integrated investment strategies), and the valuation of liabilities.

Social value added: The ultimate bottom line for any project or business must also be adjusted for impacts on human and social capital. In the case of human capital, we must account for knowledge and skills developed or lost. In the case of social capital, the focus might be on the levels of resilience, mutuality and trust in communities, be they villages, mega-cities or world regions.

New benchmarks are emerging, among them Social Accountability 8000 (SA 8000), developed by the US Council on Economic Priorities (CEP), and the revision of the International Chamber of Commerce's sixteen environmental principles to embrace emerging social requirements. New organisations like the UK-based Institute for Social and Ethical Accountability (ISEA) aim to bridge the divide between the different forms of accounting, auditing and reporting. But the social accounting challenge has hardly begun to be addressed.

Total net value added: Despite the barriers, we will see significant progress made on triple bottom line accounting, auditing, reporting and benchmarking. There will be huge debates about who sets the standards and how to value particular outcomes, but our understanding of which technologies, which companies and which economies are adding or subtracting value will be transformed.

Working with the Shell Social Accountability Team and ADL, we aim to evolve a better picture of the total net value added by Shell. If you would like more information, please call me on +44 171 937 9996 (e-mail: elkington@sustainability.co.uk).

From SustainAbility website (www.sustainability.co.uk/)

For more detail on SustainAbility's key recommendations to Shell, and evaluation of progress see *Shell: Relationship Assessment* on the SustainAbility website.