PROFIT AND PRINCIPLES – FINDING A BALANCE WITH THE TRIPLE BOTTOM LINE

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ABSTRACT

Many Water Authorities throughout Australia have been through or are in the process of reforming their operations. For many, this means operating on a more commercial basis, with a progressively greater emphasis on the financial performance of their services. In many cases, these changes have led to a significant increase in the commercial performance of these businesses to the benefit of both the Water Authority and the broader community.

Whilst recognizing commercial viability as a fundamental prerequisite for sustainable development, given the nature of the urban water industry and its central importance in maintaining living standards and addressing environmental issues, progressive managers are beginning to ask the question;

"Is our commercial performance the single or even best measure of “success” in the management of our water services?"

Addressing this question is one of the issues at the forefront of development of the water industry.

The search for a more sustainable management framework has led to the development and promotion of the Triple Bottom Line. However, is this new framework a useable tool or are the reports “greenwash, public relations ploys without substance”\(^1\)

Cardno MBK’s experience in the development of a Triple Bottom Line Reporting format for one of Queenslands most progressive and environmentally responsible Council provides an insight into the current state of development of the Triple Bottom Line and provides a contribution toward the development of a practical framework.

KEY WORDS

Triple Bottom Line, Performance, Sustainability Reporting

INTRODUCTION

Noosa Council is a highly sought after tourist destination located on the Queensland Sunshine Coast. The Council’s Water Services business manages connections to around 40,000 premises. Keen to maintain its reputation as an unspoilt oasis, the Council has historically placed great emphasis on the environmental and social aspects of its operations.

\(^1\) Price Waterhouse Coopers, January 2000
Whilst acknowledging commercial viability of its operations as a fundamental prerequisite for sustainable development, Noosa Council consistently distinguished itself as an organization which values the environmental and social aspects of its operations as highly as its economic performance.

Like many Queensland Water Service Providers, Noosa Council commercialised its water and sewerage operations. However, where the general approach to commercialisation of water service providers has focussed (almost exclusively) on the need for the organisation to be financially viable, Noosa was seeking a structure and strategy which embodied the wider environmental and social objectives of its Corporate Plan. The search for a more sustainable management framework has led to the development of a Triple Bottom Line concept.

In undertaking this project, we found that, whilst many Local Government businesses espouse the values of a Triple Bottom Line approach (i.e they “talk the talk”), far fewer have developed a tangible reporting framework (i.e “walk the talk”).

This paper provides an outline of how one of the more proactive water authorities in Queensland have adopted and are developing a practical Triple Bottom Line approach as a mechanism for measuring the true value of their water services operation.

WHAT IS THE TRIPLE BOTTOM LINE?

“It is essential not only to make a profit, but also to care about people and protect the environment, and to be accountable for all three. We call this the “triple bottom line”\(^2\).”

As the name implies, the Triple Bottom Line recognises that, if a business intends to operate sustainably over the long term, it needs to achieve a balance between the commercial, social and environmental objectives of the enterprise.

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\(^2\) Michael Costello, CEO BC Hydro Triple Bottom Line Report, 2001
The TBL concept recognises the need for sustainability to be the driving force in development of its business. This means addressing the following issues:

a) **Financial Sustainability**: what do we want to achieve and how are we performing **COMMERCIALY**?

b) **Ecological Sustainability**: what are our goals and how will we measure our **ENVIRONMENTAL** performance? and

c) **Social Sustainability**: what are our **SOCIAL OBLIGATIONS** and how do we measure our performance in this regard.

The TBL mechanism recognises that the business goes beyond pure profit generation and includes a range of other measures and influences. Arguably, water is one of the industries in which the relationship between these three components is perhaps the most clearly defined. In order for the business to be viable in the long term, it needs to strike a balance between these (at times conflicting) objectives.

Where the TBL process differs from other “score cards” is in the fact that the TBL goes beyond just REPORTING the progress of a business against its nominated service standards. The TBL is an integrated process which provides a tool for MANAGING the day to day business decisions.

**WHY SHOULD A BUSINESS ADOPT A TRIPLE BOTTOM LINE REPORTING APPROACH?**

The drive toward more sustainable measures of business development is underpinned by the general perception within the community that companies should “go beyond their historical role of making a profit, paying taxes, employing people and obeying laws; they want companies to contribute to broader societal goals as well”.

The communities awareness on social and environmental issues has arguably been driven by high profile incidents among global corporations, particularly Shell (from and environmental perspective). Public condemnation of Shells Brent Spar oil rig proposal prompted the company to take a lead role in the development of sustainability reports.

Like many other corporations, Shell has found that “failure to provide information could be met with some suspicion and conceivably could lead to a loss of stakeholder support for the organization”. Hence, by the end of the 1990’s, corporate managers were increasingly expected to describe environmental and social performance intentions as well as provide information about an organizations financial performance.

**WHAT DOES THIS MEAN TO THE WATER INDUSTRY?**

Whilst perhaps a relatively new phenomenon in the operation of business in the private sector, the concepts of sustainable operation, encompassing environmental and social

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3 1999 Millennium poll on Corporate Social Responsibility, Price Waterhouse Coopers (Survey size: 25,000 consumers)

4 A project which “It was subsequently found that Shells original disposal plans were environmentally sound”, Price Waterhouse Coopers “Corporate Reputations and the Triple Bottom Line”.

objectives as well as commercial outcomes, has long been a feature of the Australian Water Industry.

Arguably, this emphasis on the “broader” impact of a water business operations stems from the development of the industry as a predominantly public sector function. Whilst the more recent emphasis on the water industry has been (correctly) on the commercial viability of the industries operation, the industry ethos still reflects a strong social and environmental ethic.

Developing from within the public arena, the water businesses were traditionally involved in the development of standards of service for customers and the development and adoption of environmental regulation. This first-hand involvement arguably creates a culture of commitment to social and environmental ideals rather than a culture of compliance with existing legislature.

Having an intrinsic understanding of the social and environmental objectives of their business and recognising the public demand for reporting a businesses “sustainability”, it is not surprising that the concept of Triple Bottom Line holds some appeal to a growing number of water industry practitioners. This framework potentially provides a tool for measuring and management of the entire business activities.

THE NOOSA PERSPECTIVE – A CASE STUDY IN TBL

Noosa is located in Queensland Sunshine Coast. The Council’s Water Services business manages connections to around 40,000 premises. The area is one of the most popular tourist destinations in Queensland with an emphasis on environmental serenity and a relaxed atmosphere.

Throughout recent economic reform initiatives, Noosa Council has consistently distinguished itself as an organization which values the environmental and social aspects of its operations as highly as its economic performance. Like many Queensland Water Service Providers, Noosa Council commercialised its water and sewerage operations in accordance with recent requirements of the Local Government Act.

However, where the general approach to commercialisation of water service providers has focussed (almost exclusively) on the need for the organisation to be financially viable, Noosa was seeking a structure and strategy which embodied the wider environmental and social objectives of its Corporate Plan.

Whilst Noosa accepted that a level of commercial accountability was unquestionably appropriate, the question raised by Council’s water and sewerage operations was:

“Is the cost the single or even best measure of our performance?”

Given that the operation of the water and sewerage business have a significant impact on the environmental and social standards within the community, should the business not be measured equally on its environmental and social as well as its financial performance?

Council then requested Cardno MBK undertake a review of the options and provide a concept report on how the Triple Bottom Line could be developed and applied across the business. Development of the TBL framework for Noosa Council broadly followed the
Sustainability Reporting Guidelines, developed by the Global Reporting Initiative\textsuperscript{6} Steering Committee.

Perhaps the most important milestone in the process is to establish Commitment to the TBL Concept at the Highest Levels. If an organisation is serious about its commitment to environmental and social ideals, then that commitment has to be endorsed at the highest levels of the business. In the case of Noosa Council's Water Services business, the TBL ethos was adopted as the basis of business's mission and vision statement. In addition, the key corporate strategic planning documentation including the Corporate Plan, Charter for Commercialisation and Annual Performance Plan were developed to reflect the TBL format and objectives. Each of these key business documents was signed off and accepted by the Director responsible for the business, the Senior Management team and the Council CEO and Mayor (as owners representative)

Development of a Customer Charter added further depth to the TBL process in providing greater accountability for the business on social issues\textsuperscript{7}.

The next step in the process will be to redevelop the business level strategies in a manner which highlights and supports the TBL objectives. This will be achieved through review and updating the Council Total Management Plan. The Total Management Plan is the business document which links the businesses overall strategic direction to the “coalface” of the organisation.

\textbf{Figure 2 A TBL framework}

In order for the mechanism to be at all meaningful, the TBL criteria needs to be clear, reasonable, measurable and relevant (both to the organisation and to individuals outside the organisation). In addition, it was important that the TBL did not result in duplication of effort in the Council’s reporting obligations. To ensure that the TBL was both comprehensive, relevant and consistent with the businesses statutory obligations, the TBL reporting mechanism would cover such issues as:

\textsuperscript{6} Why use the GRI? – The GRI is an international organisation which represents peak Accounting, Economic, and Environmental professional bodies in the UK, Canada, US and Japan as well as representation from major industry groups including the World Business Council for sustainable development, General Motors Corporation and ITT Flyght.

\textsuperscript{7} Development of a Customer Charter is also a requirement of the Qld Water Act 2000.
Economic and financial indicators

“Unless utilities are financially fit, they cannot deliver safe drinking water...... because clean, potable water is critical to producing food and preventing disease, it will remain a major factor in safeguarding public health....... and, maintaining clean water resources will become even more important in 2000 and beyond.”

The commercial performance of the organisation can be measured at two levels. The first is the direct financial performance of the business (ie, how efficient is the business), and the second is the economic impact of the business (ie, how do we affect/contribute to the local economy). Issues to be considered include:

- indicators of financial performance of the business (In Noosa’s case, these were drawn from the existing 10 year forecast financial model which highlights the businesses current and future financial position. These forecasts are updated annually and the results of the modelling used as the basis of the commercial targets in the Annual Performance Plan);
- economic measures of “success” (several measures of “success are being considered including the assessment of the economic and employment impact of the business using input/output multipliers);
- overview of the effect that suppliers have on our financial performance (As the operation of both Noosa’s water and sewerage treatment facilities has been contracted out to the private sector under long term contracts, maintenance of an effective relationship with key suppliers is a significant management objective; and
- measures of efficiency and financial sustainability.

Environmental Performance

The objective of this component of the TBL reporting mechanism will be to highlight the businesses current and forecast environmental performance and strategies. Key issues to be monitored, managed and reported against may include:

- compliance with the Council’s Integrated Environmental Management System (IEMS);
- measurement and monitoring of water use/demand through the Council’s Demand Management strategies established under the business’s Total Management Plan;
- landuse/biodiversity;
- operational parameters (eg, energy consumption, waste generation and disposal). These issues feature in the Noosa Water businesses Total Management Plan; and
- performance of suppliers (as mentioned above).

Social Indicators

Finally, the social indicators may accommodate both the internal (HR/staffing) issues and the external issues (eg, customer satisfaction). In the case of Noosa, it was agreed that the internal issues will be monitored and measured separately to the external issues of customer satisfaction. It is considered that the external measures are the more relevant to the businesses external stakeholders (eg regulators and customers). Many of the external factors will be measured and monitored as part of the Customer Charter. Issues to be considered include:

- levels of customer satisfaction as measured by random survey and monitoring of customer complaints as required under the Customer Charter; and
- quality of the service;

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8 American Water Works Association – “The future is here” Vol 92, Issue 1, January 2000
“WALKING THE TALK”

In developing the TBL concept for Noosa Council’s water services business, we found that, whilst many organisation espouse the virtues of their social and environmental programs, few have developed a tangible framework which accommodates the espoused values. Indeed, it appears to be becoming increasingly popular for local governments to put out an annual environment and social impact report, proudly proclaiming their commitment to the principles of the Triple Bottom Line. However, when members of the organisations senior management were contacted to discuss the TBL, many of them had little understanding of the concept or that it was included in their reporting framework.

This experience begged the question: “do these tools represent a substantial change in management focus or is it just an attempt to “greenwash” the organisation?”

Whilst accepting that these are early forays into environmental and social responsibility reporting, it is important that an organisation ensures that it can deliver detailed information to back up its claims of sustainability. “Failure to provide information could be met with some suspicion and conceivably could lead to a loss of stakeholder support for the organisation.”

In lay terms, whilst many organisations say the right thing (they “talk the talk”), only some appear to be able to support their claims with action (ie “walking the talk”).

CONCLUSION

As the water industry continues to change and develop into the 21st century, there is likely to be an increasing recognition of the value of the industry’s operation across a whole range of financial, social and environmental criteria.

Whilst it is imperative that water service providers are commercially viable, profitability will only be a single measure of the success for the industry. Water service businesses will increasingly need to develop/adopt performance management tools (such as TBL) which encompass the full range of social and environmental, as well as commercial responsibilities of the business. These tools will need to be rigorous and robust to avoid criticisms that the reports are “green wash, public relations ploys without substance”.

The water industry in Queensland is fortunate in that it is developing, or has developed, a range of tools which would facilitate the development of a TBL mechanism. The Total Management Plan, statutory requirements for a Customer Charter and Environmental Protection Regulations provide the “pieces of the puzzle”.

These concepts could be brought together into a single, comprehensive TBL report without creating an additional reporting burden.

The TBL framework developed at Noosa is a step in this direction. We do not pretend that this is a “definitive” answer to the issue of balancing social, environmental and financial performance, but it may serve as a useful starting point for discussion within the industry.

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9 Craig Deegan, University of Southern Queensland;“Trends in Accounting –Triple Bottom Line Reporting”, 17 November, 2000
10 PricewaterhouseCoopers, January 2000.
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