



# Is the Bottom Line the best Measure for Performance?

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- Emily Dick-Forde PhD CMA CA
- Lecturer, University of the West Indies



# PRESENTATION OUTLINE

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- **Myopia around Earnings**
- **Defining CSR and triple bottom line (TBL) reporting**
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# Preface- Eighteen foot pythons- in Barbados



June 9, 2006

Emily Dick-Forde PhD CMA CA

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# Is the Bottom Line the Best Measure for Performance?

- **Raises two issues:**
  - **In the context of financial information available to users, is the bottom line the best measure?**
  - **In the context of all possible information on a company, is it the best measure?**
  - **The answer is no to both questions.**
  - **That is not the end of my presentation- I have only just begun!**



# Myopia around Earnings

- **On October 16, 2001, Enron Corp. announced a \$1.01 billion “non-recurring charge” related to “losses associated with certain investments ... and early termination during the third quarter of certain structured finance arrangements with a previously disclosed entity.”**



# Myopia around Earnings

- **Chairman and CEO Ken Lay reassured investors about the strength of the company's core businesses, said he was “very confident in [Enron's] strong earnings outlook” and “reaffirmed” that the company was “on track to continue strong earnings growth.”**
- **Nevertheless, the writeoffs produced a third quarter loss of more than \$600 million and surprised Wall Street.**



# Myopia around Earnings

- **Moreover, the Wall Street Journal reported that \$35 million of the losses derived from business dealings with partnerships managed by the company's CFO, Andrew S. Fastow."**



# What is the bottom line?

- **A phrase that refers to “the conclusion of a matter”**
- **The traditional bottom line, of course, is the last line of the income statement indicating net income (positive or negative).**
- **The bottom line has been the main focus for attention by users of corporate accounts for decades .**





# Moving Away from Myopia

- **A recent survey into non-financial reporting from Deloitte Touche found that 92 per cent of respondents agreed financial reports alone cannot capture a company's strengths and weaknesses.**
- **Nearly three-quarters of executives questioned said that they were under increased pressure to use non-financial indicators. .**



# Moving Away from Myopia

- **'Investors are willing to pay a share premium for good governance and that quality of governance provides a well-above-average stock return,...That is interesting as you would argue that part of this (CSR) reporting is good governance, good disclosure.'**  
**CPA Australia.**



# Defining CSR and triple bottom line

- **CSR as a movement and a practice that promotes and seeks to embed into business operations a sense of responsibility and concern for how the activities of the business impact society**



# Defining CSR and triple bottom line

- **Additionally CSR seeks to widen corporate accountability beyond the traditional accountability to the providers of finance and government agents.**
- **CSR promotes accountability to a widely defined stakeholder group that includes shareholders, creditors, consumers and the local community.**



# Defining CSR and triple bottom line

- **This widened accountability is achieved through corporations reporting on the three dimensions of CSR. This report is called the triple bottom line report.**
- **The TBL describes the framework for measuring and reporting the performance of an enterprise using economic, social and environmental indicators.**



# The Triple Bottom Line Report

- **The *Triple Bottom Line* was a phrase coined by the consultant and campaigner, John Elkington**
- **Refers to the notion that organisations that were beginning to think about issues related to sustainable development needed to work away from a single, i.e. financial bottom line**
- **to recognise that organisations also have both social and environmental performance, or social and environmental bottom lines.**



# Commonwealth Secretary General McKinnon

- **CSR is:**
- **“measurable in the ‘triple bottom line’ of financial, social and environmental performance. It attracts and keeps good staff, builds reputations, differentiates brands, reinforces what we call the ‘licence to operate’”.**
- **(Source CNIS - Commonwealth News and Information Service Issue 288, 7 June 2006)**



# The Conference Board of Canada:

- **Corporate Social Responsibility is the overall relationship of the corporation with all of its stakeholders.**
- **Elements of social responsibility include investment in community outreach, employee relations, creation and maintenance of employment, environmental stewardship, and financial performance.**





# TBL and GRI

- **Leaders/senior managers of the business/enterprise must use this report to reflect on how they can improve performance in areas where they have not done well.**
- **The triple bottom line report has increased in credibility with the production of guidelines for reporting from the Global Reporting Initiative (GRI).**



# TBL and GRI

- **The extensive use of the guidelines underscores its importance and widespread knowledge of its existence. There are currently 831 companies in the GRI database (as of May 2006 when I checked) preparing their sustainability reports using the GRI guidelines.**



# Table 1 GRI Guidelines Reporting Principles

- **Transparency**
- **Inclusiveness**
- **Auditability**
- **Completeness**
- **Relevance**
- **Sustainability Context**
- **Accuracy**
- **Neutrality**
- **Comparability**
- **Clarity**
- **Timeliness**



# The GRI's description of the three dimensions

- **“The social dimension of sustainability concerns an organisation’s impacts on the social systems within which it operates. Social performance can be gauged through an analysis of the organisation’s impacts on stakeholders at the local, national, and global levels. In some cases, social indicators influence the organisation’s intangible assets, such as its human capital and reputation.**



# The GRI's description of the three dimensions

- **The economic dimension of sustainability concerns an organisation's impacts on the economic circumstances of its stakeholders and on economic systems at the local, national and global levels. Economic impacts can be divided into: direct impacts; and indirect impacts. These impacts can be positive or negative. Broadly speaking economic performance encompasses all aspects of the organisation's economic interactions, including the traditional measures used in financial accounting, as well as intangible assets that do not systematically appear in financial statements.**



# The GRI's description of the three dimensions

- **The environmental dimension of sustainability concerns an organisation's impacts on living and non-living natural systems, including ecosystems, land, air and water. The environmental dimension of sustainability has achieved the highest level of consensus among the three dimensions of sustainability reporting”**
- **Source: [Http://www.globalreporting.org/guidelines](http://www.globalreporting.org/guidelines)**



## **Environmental Performance Indicators**

**Environmental policies applied to core business lines.**

**Environmental risk screening processes; Direct and indirect energy use.**

**Environmental risk assessment threshold**

**Client compliance monitoring processes.**

**Training of staff for competency re environmental risks assessment.**

**Audit of environmental risks systems and procedures.**

**Interactions with business stakeholders on environmental risks.**

**Number and percent of clients engaged on environmental issues.**

**Percentage of bank assets subjected to environmental screening**

**Monetary value of env'tal products and serv. in core business lines.**

**Use of materials; Water use; Use of waste products**

## **Economic Performance Indicators**

**Monetary flow indicators- net sales, broken down by geographic markets, by products, by market share by country where this is 25% or more.**

**Cost of all goods, materials & services purchased Total payroll & benefits by country or region.**

**Suppliers breakdown by organisation and country**

**Distributions to providers of capital broken down by interest on debts and borrowings, and dividends to all classes of shares.**



## **Social Performance Indicators**

**CSR Management- quality of engagement with CSR e.g policy, management system, audits, management of sensitive issues, stakeholder dialogue.**

**Internal social performance- relationship with staff: turnover, job creation, employee satisfaction, female-male salary ratio, relationship with staff's family.**

**Performance towards society, communities and countries in which business operates. Economic value added to the society.**

**Suppliers' social performance towards their staff and society and performance of the FI toward those suppliers. (HP and its China suppliers)**



# Who is doing it and why ?

- **Global 100 Most Sustainable Corporations**
- **most recent ranking for 2005, the Top 100 companies come from developed countries**
- **65% of companies in the survey are European companies, compared with 17% from the US, 10% from Japan and 5% from Canada.**
- **The country that was most represented in this Top 100 ranking is the UK with 30% of all companies in the ranking**



# Who is doing it and why ?

- **KPMG's International Survey of Corporate Sustainability Reporting 2005** inform that **52 percent of the Global Fortune Top 250 companies and 41 percent of the top 100 companies across 16 countries issued separate environmental, social or sustainability reports in 2005, compared with 45 percent and 28 percent respectively in 2002.**



# Who is doing it and Why ?

- **The pressures and incentives for these companies to report.**
- **In the UK there are numerous NGOs- AccountAbility- and a Ministry for CSR.**
- **The ACCA awards for Environmental Reports**
- **University Centers dedicated to the research of CSR and triple bottom line**
- **means that the issue is constantly before business leaders and the public.**



# In our region

- **Little or no incentive or impetus for corporations to actively and seriously pursue a program CSR and to provide triple bottom line reports.**
- **None of the 22 Caribbean companies who responded to my survey on CSR perceptions and practices prepare a TBL report.**
- **Only 3 indicated that they had knowledge of the TBL report- 14%.**
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# In our region

- **My CSR research on the region suggests that the absence of a sustained and meaningful discourse on corporate environmental and social impacts or even on corporate governance is partly responsible for this low level of awareness of CSR and TBL.**



# Corporate Reputation

- **“In a 2002 Ipsos-Reid survey, 83 per cent of Canadians thought corporate executives were somewhat or very likely to lie when making statements to the news media.**
- **A still higher proportion, 91 per cent, believed the same of politicians.**
- **In early 2003 only 21 per cent of Canadians thought chief executive officers (CEOs) were trustworthy or extremely trustworthy.”**



# Corporate Reputation

- **Since then there has been little improvement.**
- **A 2005 Canadian survey**
  - **only 16 per cent of respondents thought CEOs and chief financial officers (CFOs) were credible sources of information about their companies.**
  - **The public has also lost confidence in [the] traditional sources of information and verification**
  - **This must be addressed to strengthen public trust in organizations**  
**([http://www.conferenceboard.ca/GCSR/rebuild\\_trust.htm](http://www.conferenceboard.ca/GCSR/rebuild_trust.htm))**





# Credibility of the Triple Bottom Line Report

- **Still emerging**
- **Lags a little behind the guidelines for CSR reporting**
- **What is available:**
  - **“In accordance with GRI guidelines “**
  - **AccountAbility AA1000**
  - **International Auditing and Assurance Standards Board's (IAASB) International Standard on Assurance Engagements, or ISAE 3000**



# CSME & The TBL Report

- **Caribbean companies need to embrace CSR and TBL reporting**
- **They represent proven ways to become more transparent**
- **To provide the range of information that should go a long way toward building investor confidence to invest away from home.**



# Conclusion

## Is there a best measure?

- **Dopuch in 1962 opined that it was not necessary for accounting to be based on any assumption that business behaviour was only profit oriented.**
- **Instead he suggested that there was a need for an accounting that changes with the times and the environment.**



# Conclusion

## Is there a best measure?

- **The concern about the excesses of corporate leaders, failures resulting from poor governance, social and environmental impacts of corporate activities suggest the bottom line alone cannot inform stakeholders on the performance of a corporation on these important issues.**



# Conclusion

- **Like snakes in Barbados and the effect it is having on the psyche of the people, so it would be if the unfamiliar experience of the failure of large significant corporations in our nations was to occur- *looking behind every bush for a snake***



# Conclusion

- **Accounting academics and accountants in practice were instrumental in moving the CSR agenda to where it is the UK, the top reporting country.**



# Conclusion

- **As Caribbean accountants be inspired by this information to take the lead in this very important matter that can have a significant influence on the success of business activities in our CSME.**



# No “Snakes”

- **Be the gate keepers.**
- **Keep the corporate “snakes” out of our region!**

■ **THANK YOU**