

ALL FOR ONE OR ALL FOR THREE?

Paradox found within the business model's triple bottom line theory

Although business has tended to focus on maximizing profits and shareholder value, research conducted by Dr. Zhou Zhang, Professor at the Hill and Levene Schools of Business, reveals that equal importance should be given to environmental and societal concerns. When companies focus equally on profits, environment and social issues – known as the triple bottom line (3BL) – the entire organization benefits and is better positioned for uncertain economic times.

Zhang collaborated with Dr. Kent Walker from the University of Windsor and Dr. Xin Yu from the University of Queensland on how 3BL is inter-related and how managers might bring their 3BL into better alignment. Traditionally, businesses have focussed on profits with the belief that addressing environmental and social concerns are often at the expense of profit.

In conducting their research, the team used paradox theory, a relatively new approach that suggests managers should consider all three components

of 3BL simultaneously and embrace the tensions that form. If these tensions are ignored, then all three areas could be negatively impacted. Alternatively, if these tensions are addressed and applied to all 3BL, then the entire organization may benefit.

The researchers examined the 3BL of a sample of 746 firms from 2003-13 using the Kinder, Lydenberg, Domini (KLD) and Compustat databases. The KLD ratings contain environmental and social information on more than 3,000 publicly-traded American companies and Compustat contains financial and market information on active global companies throughout the world.

The information was pulled from pre, during, and post global financial crisis to review the results in different economic circumstances. The years 2007-09 were considered the crisis period (the Great Recession) with 2003-06 considered the pre-crisis period and 2010-13 the post-crisis period.

The researchers noted that doing well in one component of the 3BL does not

necessarily come at the expense of the other two. It was determined that organizations achieved higher market valuation when all three components were functioning well. In fact, there was a 35% increase in market valuation between corporations that achieved high levels on all three components compared to companies that were not. This approach also helps to mitigate economic downturns as these companies tend to maintain their value.

Although some managers may be tempted to focus on one aspect of the 3BL, especially when resources are limited, this research indicates such an approach does not adequately address the relationship that exists between these components. Savvy managers are beginning to pay more attention to environmental and societal concerns while still maintaining healthy profit margins. These managers have switched from applying limited resources to one bottom line to sharing those resources across all three leading to a much stronger organization.

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