

Tomorrow's Company Briefing on...

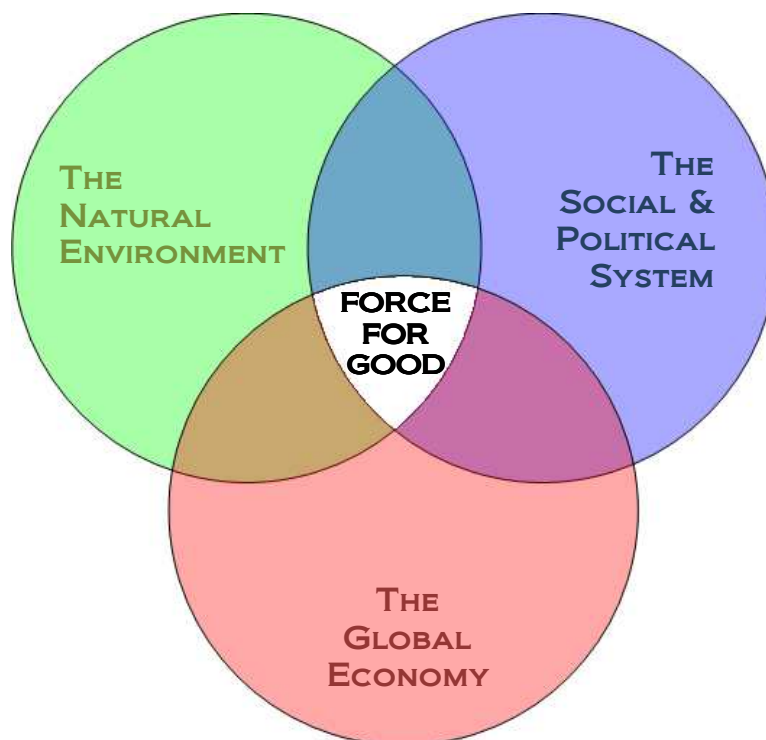
The Triple Context

March 2009

This briefing summarises the concept of the triple context - the rationale behind it, what it means, and why it is of such vital importance to the future of tomorrow's global business.

A sustainable company is one that understands that its long-term success depends upon - and therefore must contribute to - the health of the economy, the environment and society.

The Triple Context



Background

The triple context emerges from the “triple bottom line”; the expansion of the traditional reporting framework to include ecological and social performance in addition to purely financial performance. The phrase “triple bottom line” was first used by John Elkington in 1994 and was later expanded and articulated in his 1998 book ‘Cannibals with Forks: the Triple Bottom Line of 21st Century Business’. The concept demands that a company’s responsibility should be to its *stakeholders* rather than its *shareholders*, i.e. the business entity should be used as a vehicle for coordinating stakeholder interests, instead of maximizing shareholder profit.

First published in Tomorrow’s Company report “Tomorrow’s Global Talent”, the Triple Context builds on this theory to define three distinct but interdependent systems - environmental, socio-political and economical - which, whilst at the local scale are each subject to their own set of internal dynamics, continually overlap and interact with each other to create, on a global scale, an all-encompassing system resulting from the complex feedback loops existing between the sectors. The diagram, shown above, clearly illustrates the point at which the three systems intersect - a space called “force for good”. Companies and organisations that operate within this space are those which take all three sectors into equal consideration and therefore can deliver the practical and innovative solutions that are urgently required to address many of the major global problems that society faces and, in doing so, build more resistant and sustainable models.

Defining the Three Aspects of the Triple Context

i. The Global Economy

The global economy can be viewed as consisting of 3 inter-related sub systems:

- *The ‘real economy’* - producing goods and services that meet human needs
- *The ‘financial economy’* - banks, investors and intermediaries which support the ‘real economy’
- *The ‘casino economy’* - activities of those linked to the ‘financial economy’ which are removed from the production of goods and services and where prices set may have little relation to the underlying values of what is being traded.

As the current financial crisis has developed, many commentators around the world have attributed blame to the unsustainable nature of the Anglo-American casino economy. “Speculators may do no harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirlpool of speculation. When the capital development of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done.”¹

¹ John Maynard (1936) “The General Theory of Employment, Interest and Money”

ii. The Social & Political System

The social and political system is the human element; the people on the Earth and how they interact. A sustainable society operates within the limits of nature in a way that provides the greatest good for the greatest number. Significant inequality in the sharing of the planet's resources among human populations is inherently unsustainable. An unsustainable society is "the collective consequence of rational, well-intended decisions made by people living within social, political and economic systems that make it difficult or impossible to act in ways that are fully responsible to all those affected in the present and in the future".²

Within any given social context, financial and human resources are utilized to strengthen and enrich societies. Social-political sustainability is differentiated from pure social development in that it goes beyond monetary means. Social-political sustainability seeks pathways to durable social enrichment and development via a society's political processes.³

iii. The Natural Environment

The natural environment can be defined as landscapes, flora and fauna, freshwater and marine environments, geology and soils. The natural environment must be maintained for species and habitats, landscapes and geodiversity and for the benefits which we enjoy as individuals and as a society. There is a growing body of evidence relating to the benefits of access to and engagement with the natural environment - specifically in terms of individuals' health and wellbeing - and this is increasingly being recognised in public policy.

However, the natural environment is persistently under pressure from a range of threats, many of which have been evident for several decades, for example, the pressures arising from continuing economic development, such as land-take, pollution and water abstraction.⁴ Sustainable development needs to include deliberate action to protect the structure, functions and diversity of the world's natural systems, on which our species utterly depends. This requires us to conserve the processes and resources that keep the planet fit for life.⁵

² Skinnarland, K. (n.d.) "What is a sustainable society?", *Sustainable Seattle*, available online at: <http://www.sustainableseattle.org/SustCommunity>

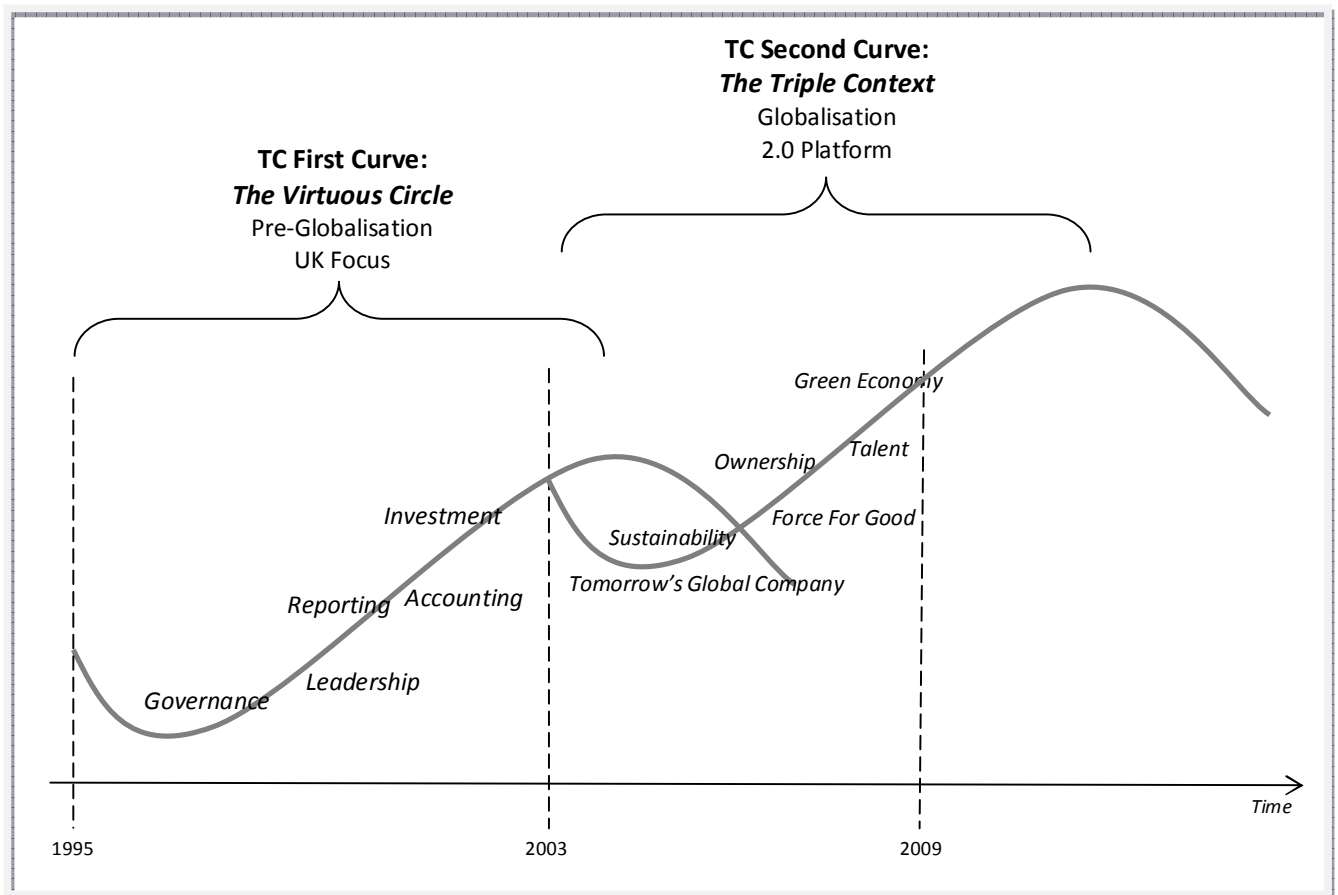
³ Kern, J. (2007) "Social-Political Sustainability: The Human Element", *Alternative Channel*, available online at: http://www.alternativechannel.tv/blog/en/comments/social_political_sustainability_the_human_element/

⁴ Natural England (2008) "The State of the Natural Environment", *Natural England*

⁵ IUCN, UNEP and WWF (1991), "Caring for the Earth: A strategy for sustainable living", *Gland, Switzerland*

The Emergence of the Triple Context as a Framing Principle for Tomorrow's Company

Tomorrow's Company believes that a sustainable company is one that understands that its long-term success depends upon - and therefore it must contribute to - the health of the economy, the environment and society. Since its conception in 1995, Tomorrow's Company has strived to build on this belief by operating as a researched think-and-do tank, championing the inclusive approach and stakeholder dialogue. The way in which Tomorrow's Company works has remained constant throughout its existence, but the specific subject and context of the work that Tomorrow's Company has achieved has changed and evolved through time. This can be visualised by viewing Tomorrow's Company's growth as two distinct phases (see below). This type of growth is in line with Charles Handy's theory of lifecycles and sigmoid curves of growth within organisations⁶.



This diagram shows how, for Tomorrow's Company, the first curve began in 1995 with the launch of the original RSA "Tomorrow's Company" report. At this time, the work of the organisation was focused on business within the UK and was largely framed by the concept of the Virtuous Circle of Governance. The major emerging themes of

⁶ Handy, C (1994), "The Age of Paradox", *Harvard Business School Press*

research during this period were governance, leadership, reporting, accounting and investing.

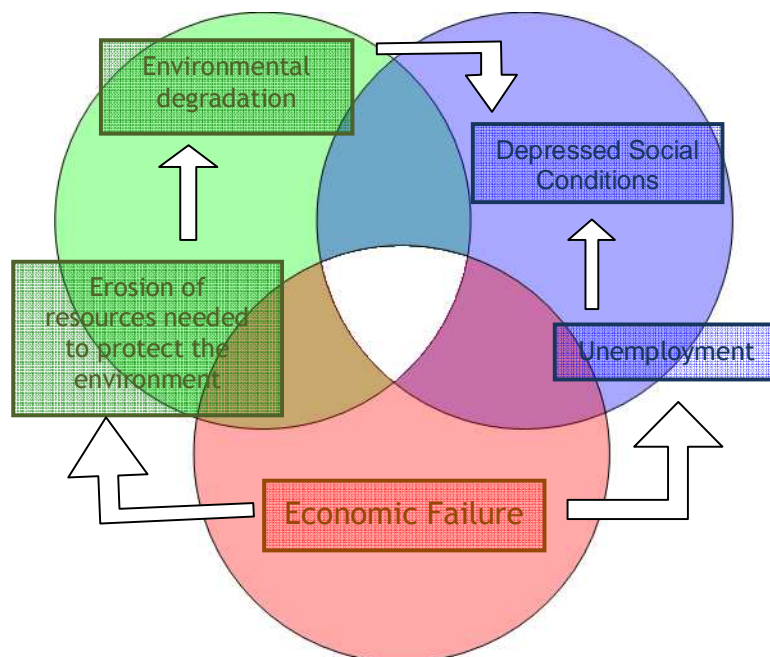
In 2003, as the body of work around these topics was steadily growing and expanding, Tomorrow's Company recognised that business was fundamentally changing and that in order to stay apace with a rapidly changing world, must redefine its boundaries. This point of transition can be identified as the undertaking of the Tomorrow's Global Company Inquiry. This signalled the change from a broadly UK based approach, to one which embraced the move towards globalisation and the need to view the work it was doing from a worldwide perspective. From the launch of this report, Tomorrow's Company continued to widen its reach, stretching out from the original themes of governance and business accountability, to the overall concept of sustainability. While all the themes that Tomorrow's Company had historically researched were still apt, it became increasingly evident that there were no longer externalities and it was at this point that the Triple Context emerged as the new concept within which Tomorrow's Company's work was framed.

Why The Triple Context Matters

The survival and success of tomorrow's global companies is bound up with the health of the three interconnected systems. They play a role in all three and they need all three to flourish.

A collapse in any of the systems triggers problems in another.

e.g. Economic Failure:



In the past, companies could keep going by understanding their markets, developing a strategy and executing it. Political, Economic, Social and Technological (PEST) factors may have been analysed but were viewed as externalities. These factors can no longer be seen as externalities. They are business-critical issues and have become more complex, more diverse and more interconnected than ever.

There is growing evidence that companies who prioritise social and environmental factors perform better financially than those who do not. For example, the Dow Jones Sustainability Index (DJSI) 2008 report states that there is a “*positive strategically significant correlation between corporate sustainability and financial performance*”, citing that a number of its indices have outperformed their comparative benchmarks in relation to total returns.

As populations boom and environmental conditions worsen, governments are increasingly taking the triple context view of the world in order to ensure that the 9 billion people predicted to inhabit the earth by 2050 can do so under conditions of equity, security and justice. The seriousness of the challenges ahead, across and within all three systems of the triple context, requires new thinking - old mindsets no longer work. Therefore, it is becoming necessary for business leaders to make the strategic changes required to move their companies towards the “force for good” space.

Further Reading

Tomorrow's Global Talent (2009)

Tomorrow's Company,

Available: http://www.forceforgood.com/Uploaded_Content/tool/112200916814825.pdf

The Triple Bottom Line (2009)

Andrew Savitz and Karl Weber

Cannibals with Forks: the Triple Bottom Line of 21st Century Business (1998)

John Elkington

The Age of Paradox (1994)

Charles Handy