

Sustainability **2010**, *2*, 1345–1360; doi:10.3390/su2051345

OPEN ACCESS

sustainability

ISSN 2071-1050

www.mdpi.com/journal/sustainability

Article

“Triple Bottom Line” as “Sustainable Corporate Performance”: A Proposition for the Future

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Received: 5 March 2010; in revised form: 21 April 2010 / Accepted: 27 April 2010 /

Published: 11 May 2010

Abstract: Based upon a review of corporate performance, corporate financial performance and corporate social performance, we propose that the concept of “triple bottom line” (TBL) as “sustainable corporate performance” (SCP) should consist of three measurement elements, namely: (i) financial, (ii) social and (iii) environmental. TBL as SCP is proposed to be derived from the interface between them. We also propose that the content of each of these measurement elements may vary across contexts and over time. Furthermore, TBL as SCR should be interpreted to be a relative concept that is dynamic and iterative. Continuous monitoring needs to be performed, adapting the content of the measurement elements to changes that evolve across contexts and over time in the marketplace and society. TBL as SCP may be seen as a function of time and context.

Keywords: triple bottom line; sustainable corporate performance; corporate social performance; financial performance

1. Introduction

The outcome of management processes, from strategic planning to implementation of the plan, underpins the measurement of corporate performance. Thus, corporate performance refers to the end result of management processes in relation to corporate goals. Daft [1] defined corporate performance as the organization's ability to attain its goals by using resources in an efficient and effective manner.

There are different perspectives on the measurement of corporate performance in strategic management literature (e.g., [2,3]). For example, Ventrakaman and Ramanujam [3] divide corporate performance into operational and financial performances. Operational performance includes: (i) market share, (ii) product quality, and (iii) marketing effectiveness. Financial performance is broken down into two subcategories: (i) market-based performance (e.g., stock price, dividend payout and earnings per share) and (ii) accounting-based performance (e.g., return on assets and return on equity).

The concept of corporate performance in accounting literatures refers normally to financial aspects such as profit, return on assets (ROA) and economic value added (EVA), using the nick name of "the bottom line". Kaplan and Norton [4] coined the extended measurement of corporate performance as balanced scorecard, where the core idea is to balance the domination of financial and non-financial aspects in corporate performance. Kaplan and Norton's extended corporate performance is in line with the measurement of corporate performance by Ventakraman and Ramanujam [3].

Simons [5,6] defines corporate performance using an approach of market mechanism by which the company actively interacts with the financial, factor and customer product markets. In the financial market, the corporate performance strives to satisfy shareholders and creditors in the form of financial indicators. In the factor market, such as suppliers and other production owners, the corporate ability to pay in time and in agreed amount are important in evaluating corporate performance. Finally, from the perspective of customer product market, corporate performance will be evaluated by parties in the market based on the ability of the corporation to deliver value to customers with affordable price which is the net effect, in turn, will be indicated in the corporate revenue.

Overall, Simons' [5,6] view of corporate performance parallels the "input-output" view of a company, suggesting that the existence of a company is due to mere contributions by stockholders/investors, suppliers, employees, customers, with the hope of return for each party through market mechanism [7]. One difference between Simons [5,6] and Donaldson *et al.* [7] is that in Simons' [5,6] work, supplier and labor are the same market (factor market), while Donaldson *et al.* [7] refer to these two parties as separated to picture the flow of input and output.

Different aspects of corporate performance have been important in strategic management and accounting research. Research has examined the construct of performance (both in corporate and managerial perspectives) and relating to other constructs such as: (i) strategy [8-11], (ii) business environment (Woodward in [12], Gul [13], Chenhal [14]), (iii) control system [9-11,15-20] and (iv) organization structure (Woodward in [12]).

Furthermore, contemporary research continues to be developed by focusing on the predictors of corporate performance as done by Langfield-Smith [21], with the findings that factors affecting corporate performance are matching the business environment, the strategy, the internal structure, and the control system. Previous studies often define corporate performance by focusing on the financial

aspects. Not only does the corporate performance imbalance the financial aspect and non-financial aspect, but the performance also does not accommodate other parties outside the market system. Therefore, the concept of corporate performance needs to be extended to consider the aspects of people (social) and planet (environment) as important parts of a company's performance. This paper focuses on an extended corporate performance labeled as "triple bottom line" as "sustainable corporate performance" (SCP) including three interlinked measurement elements, namely: (i) financial, (ii) social, and (iii) environmental. For this purpose, this paper reviews "corporate financial performance" and "corporate social performance" leading to "triple bottom line" as "sustainable corporate performance" ending with a proposition for the future. Initially, "corporate financial performance" is briefly reviewed in the next section.

2. Corporate Financial Performance

It is the management's responsibility to improve the financial performance of a company as stakeholders (e.g., investors, creditors and labors) are concerned about the corporate financial performance. Higher financial performance leads to the increase in wealth of these stakeholders. In addition, based on the slack resource theory [22,23], improving financial performance creates corporate opportunities to improve social performance.

"Corporate financial performance" (CFP) can be measured using three alternative approaches, namely: (i) market-based measure, (ii) accounting-based measure, and (iii) perceptual-based measure [24]. In the context of the market-based approach, (e.g., [25-30]), the market value of a company is derived from the stock price, all of which is used to measure CFP. This approach reflects the notion that the primary stakeholders of the company are shareholders. In the context of the accounting-based approach, it is derived from a company's competitive effectiveness and a competitive internal efficiency as well as optimal utilization of assets, for some certain measures. Measures such as net income, return on assets (ROA), and return on equity (ROE) are some examples used in this approach (e.g., [22,29,30,32]). There are different measures to represent the financial performance, all of which may be divided into three categories: (i) ROA and ROE (e.g., [22,33]); (ii) profitability in absolute terms (e.g., [34], 1998); and (iii) multiple accounting-based measures with the overall index using the score of 0–10 [35]. The last approach to measure CFP is using the perceptual method. In this approach, some subjective judgments for CFP will be provided by respondents using some perspectives—such as ROA, ROE and the financial position—relative to other companies (e.g., [36,37]).

A review of "corporate social performance" is provided in the next section.

3. Corporate Social Performance (CSP)

3.1. The Concept of CSP

The concept of corporate social performance (CSP), in which the environmental aspect is included, is synonymous with corporate social responsibility (CSR) and socially responsible behavior. They are used interchangeably in empirical research as the concept of CSP is at times subsumed under the CSR umbrella, and sometimes the reverse (e.g., [38-41]). Thus, in this paper CSP and CSR are used for the

same meaning. Generally, the terms “social” and “environment” are covered in the concept of CSP including the aspect of environment in the measurement of the concept. However, due to the importance of efforts to save our planet, there is a need to separate the performance of environment from the social performance, and to extend the concept of performance measures focusing on the three Ps: (i) profit (*i.e.*, financial), (ii) people (*i.e.*, social), and (iii) the planet (*i.e.*, the environment). So far, there have been four main models in understanding the concept of CSR: (i) Carroll [39], (ii) Wartick and Cochran [42], (iii) Wood [41], and (iv) Clarkson [43].

Carroll [39] defines CSR as the intersection at a given moment in time of three dimensions: (i) “corporate social responsibility”—principles to be apprehended at four separate levels (*i.e.*, economic, legal, ethical and discretionary); (ii) the total sum of the social problems that a firm faces (e.g., racial discrimination); and (iii) the philosophy underlying its response(s), which can range anywhere along a continuum going from the company’s anticipation of such problems to the outright denial that it bears any corporate responsibility at all.

Wartick and Cochran [42] adopted and fine-tuned the model by Carroll [39] by re-sculpting its final dimension, borrowing from the strategic management of social problems school an analytical framework enabling them to specify a dimension of “management of social issues”.

Wood [41] proposed a renewed CSP-model that soon became an omnipresent yardstick in the concept’s theoretical development (e.g., [44,45]). In line with earlier studies, Wood ([41], p. 3) defines CSP as: “a business organization’s configuration of principles of social responsibility, processes of social responsiveness, and policies, programs, and observable outcomes as they relate to the firm’s societal relationship” ([41], p. 3, 45). The second orientation was based on a more pragmatic observation of how hard it is to apprehend CSP using the preceding typologies, and suggested applying stakeholder theory as a framework to model CSP, which would then be defined as a company’s ability to manage its stakeholders in a way that is satisfactory to them (e.g., [43,45]). Igalens and Gond [45] summarized the models, and their review is shown in Table 1.

Table 1. Models of Corporate Social Performance (CSP).

Authors	Definition of CSP	CSP Dimensions
Carroll [39]	The articulation and interaction between (a) different categories of social responsibilities; (b) specific issues relating to such responsibilities; and (c) the philosophies of the answers	Definition of Corporate Social Responsibility Levels: economic, legal, ethical, discretionary Philosophy of Responsiveness Stances: responsive, defensive, accommodative, proactive Social Issues involved e.g., Consumerism; Environment; Discrimination; Product safety; Safety at work; Shareholding
Wartick and Cochran [42]	“The underlying interaction among the principles of social responsibility, the process of social responsiveness and the policies developed to address social issues” (p. 758)	Corporate Social Responsibilities Levels: economic, legal, ethical, discretionary Corporate Social Responsiveness Stances: responsive, defensive, accommodative, proactive Social Issues Management Approach: Identification; Analysis; Response

Table 1. Cont.

Authors	Definition of CSP	CSP Dimensions
Wood [41]	“A Business organization’s configuration of principles of social responsibility, processes of social responsiveness, and policies, programs, and observable outcomes as they relate to the firm’s societal relationship” (p. 693)	Principles of Corporate Social Responsibility Levels: Institutional, Organizational and Individual Processes of Corporate Social Responsiveness Includes: Environmental Assessment and Analysis; Stakeholder Managements; Issues Management Outcomes of Corporate Behavior Combines: Societal Impacts; Corporate Social Programs and Policies
Clarkson [43]	The ability to manage and satisfy the different corporate stakeholders	This model identifies specific problems for each of the main stakeholder categories it distinguishes: Employees; Owners/Shareholders; Consumers; Suppliers; State; Stakeholders; Competitors

3.2. Measurement Approaches to CSP

There are five major measurement approaches of CSP in literature [45], (i) measurements based on analysis of the contents of annual reports, (ii) pollution indices, (iii) perceptual measurements derived from questionnaire-based surveys, (iv) corporate reputation-indicators, and (v) data produced by measurement organizations.

In the first approach, CSR is measured using content of the corporate annual reports. This method to measure CSR is focused on disclosures in the annual report. In the second approach, the measurement of CSR is focused on one of the dimensions of CSR, namely the environment. This method normally is conducted by an external party. The third one, questionnaire-based surveys, aims to measure CSP as a perceptual measurement. It uses questionnaire instruments based on CSR-dimensions discussed in different CSR-models. The fourth, on corporate reputation-indicators, is an approach to measure CSR using reputation indicators as perceived by external parties of the company. The last one, based upon the data produced by measurement organizations, is a result of the perceptual measurement approach of CSP, but conducted by an external agency using multi-dimensional measures. Igalen and Gond [45] summarized the measurement approaches of CSP, and their review is shown in Table 2.

Table 2. Approaches to measure corporate social performance (CSP).

Type of Measurement	Suitability in terms of the SP-concept	Characteristics/ Problems	Mode of production
Contents of annual reports	A measurement that is more symbolic than substantive (discourse) and which contains no reference to the construct’s varying dimensions	Subjective measurement that can be easily manipulated	By the company
Pollution indicators	Measures just one of the construct’s dimensions (its environmental aspects)	An objective measurement but does not apply to all firms	By an entity that is external to the company

Table 2. Cont.

Type of Measurement	Suitability in terms of the SP-concept	Characteristics/ Problems	Mode of production
Questionnaire based surveys	Depends on what measurements have been suggested. Can be a very good fit with the concept but actors' perceptions remain a priority in such measurements	Perceptual measurement that can be manipulated depending on how it is administered	By a researcher who uses questionnaires to gather info directly from the company
Corporate Reputation indicators	Overlapped with Corporate Reputation enables a measurement of overall CSP but is still relatively ambiguous	Perceptual measurement Halo effects	By an entity that is external to the company
Data produced by "measurement entities"	Multidimensional measurement, with the extent of a theoretical model's "fit" depending on the operational modes and benchmarks that agencies are using	Depends on the agencies' operational mode. Halo effects	By an entity that is external to the company

The approach to CSP-measurement classified by Igalen and Gond [45] is not so clear, as they merely indicate the source of data (as in content of annual report and questionnaire as well as in other classifications). In the context of the approach to CSP-measurement, one will expect to have a clear idea on some approaches to measuring CSP.

To resolve the complication of the classification of the approach to CSP-measurement, four types of measurement strategy proposed by Orliztky [24] may be used: (i) disclosure, (ii) reputation rating, (iii) social audit, CSP-process and observable outcome, and (iv) managerial CSP-principle and value [24]. The disclosure approach is conducted by using a content analysis method of documented materials such as the annual reports. The objective of this approach is to find certain attributes contained in the documents that are considered to reflect the company's socially responsible behavior. This approach has been used in previous studies (e.g., [46-50]).

The reputation rating is the approach to measure CSP based on the company's perception of stakeholders using single or multi-dimensional measures of CSP. In so doing, it is assumed that the perceived items represent a reflection of the company. The previous studies using this approach include the ones by Cochran and Wood [25], Spencer and Taylor [51], McGuire *et al.* [52], Fombrun and Shanley [53], Brown and Perry [54,55], Simerly [56], Sharfman [57], Belkaoui [58] and Turban and Greening [31].

The next category of measurement strategy of CSP is using social audits, CSP-processes, and observable outcomes. This is a systematic way by third parties to assess companies' behavior of CSP, normally using multi-dimensional measures to have a ranked index of CSP. The third party may include KLD (Kinder Lydenberg Domini) and CEP (Council on Economic Priorities). This approach has been used in previous studies such as: Clen and Metcalf [59], Shane and Spicer [60], Wartick, [61], Stark [62], Brown and Perry [54], Turban and Greening [31] and Russo and Fouts [32].

The final approach to measure CSP is using managerial CSP-principles and values. In this approach, survey research is used to assess a company's activities using values and principles of CSR developed initially by Carroll [39] and extended by Aupple [63]. The values and principles of the CSR

include four dimensions: (i) economy, (ii) legal, (iii) ethics and (iv) discretionary. The previous studies adopting this approach include the ones by Ingram and Frazier [64] Aupple *et al.* [63], O’Neal *et al.* [65], and Hansen and Wemerfelt [66].

Cochran and Wood [25] contend that there are two generally accepted methods to measure CSP, namely: (i) content analysis and (ii) reputation index. Based on their argument, the last three classifications of Orlitzky *et al.* [24] fall in the reputation index method. In line with Cochran and Wood [25], Margolis *et al.* [67] use other terms for the two generally accepted methods: (i) subjective indicators and (ii) behavior indicators. Subjective indicators refer to reputation index method of Cochran and Wood [25] and the last three classifications of Orlitzky *et al.* [24], while the behavior indicators represent the content analysis method of Cochran and Wood [25] and disclosure strategy of Orlitzky *et al.* [24].

Furthermore, some measures for CSP have been also developed based on single- or multi-dimensional measures. These approaches include: (i) eight attributes of reputation (often called “fortune”-measure); (ii) five aspects focusing on key stakeholders and three pressure variables (often called “KLD”-measure); (iii) quantitative measure of environmental aspect (often called “TRI”-measure), (iv) quantitative aspect of company philanthropy (often called “corporate philanthropy”-measure); and (v) return and six social measure on customer, employee, community, environment, minority, and non US stakeholder (often called “best corporate citizen”). For some approaches it may be possible to use similar measures but, with different judgments or evaluators, the overall CSR-measurement results in different perspectives. Itkonen [68] summarizes the different perspective of corporate social responsibility and they are shown in Table 3.

Table 3. Types of corporate social performance measures.

Measure	Dimensions	Judge	Source
Fortune	Eight attributes of reputation	Financial analyst, senior executives and outside managers	Griffin and Mahon [79]
KLD	Five attributes of CSR focusing on key stakeholder relation, including topics with which companies have recently experienced external pressures	External audiences	Waddock and Grave [22]
TRI	Qualitative measure of companies’ environmental discharge to water, air and landfill, and disposal of hazardous waste	No external judge needed, companies themselves give the data	Griffin and Mahon [79]
Corporate Philanthropy	Quantitative measure of companies philanthropy, how much	No external judge needed, companies themselves give the data	Griffin and Mahon [79]
Best Corporate Citizen	Three-year average shareholder return and six social measures: company’s influence on customer, employee, community, environment, minorities, and non US stakeholders	Social investment research firm	Murphy [80]

Table 4. Dimensions of CSP.

Dimension	Strength	Concern
Community Issues	-Generous Giving -Innovating Giving -Community consultation/Engagement -Strong aboriginal Relationship	-Lack of Consultation/Engagement -Breach of Covenant -Weak aboriginal relation
Diversity Workplace	-Strong Employment Equity Program -Women on board of directors -Women in senior management -Work/family benefit -Minority/women contracting	-Lack of employment equity initiative -Employment equity Controversies
Employee relations	-Positive union relation -Exceptional benefit -Workforce management policies -Cash profit sharing -Employee ownership/Involvement	-Poor union relation -Safety problem -Workforce reduction -Inadequate benefits
Environmental Performance	-Environmental management strength -Exceptional environment planning and impact assessment -Environmentally sound resource use -Environmental impact reduction -Beneficial product and service	-Environment management concern -Inadequate environmental planning or impact assessment -Unsound resource use -Poor compliance record -Substantial emissions/discharges -Negative impact of operation -Negative impact of products
International	-Community relations -Employee relations -Environment -Sourcing practice	-Poor community relations -Poor employee relations -Poor environmental management/performance -Human rights -Burma -Sourcing practice
Product and Business Practice	-Beneficial products and services -Ethical Business Practice	-Product safety -Pornography -Marketing practices -Illegal business practices
Other	-Limited compensation -Confidential proxy voting -Ownership in companies	-Excessive compensation -Dual-class share structure -Ownership in other Companies

Mahoney and Roberts [33] study on social and environmental performances and their relation to financial and institutional ownership used the measures of social performance initially developed by Michael Jantzi Research Associate, Inc. (long-term partner of KLD). They include the following variables: (i) community issues; (ii) diversity in workplace; (iii) employee relation; (iv) environmental performance; (v) international issues; (vi) product and business practices; and (vii) other variables

concerning compensation, confidentiality, and ownership in other companies. The Mahoney and Robert's modified measures of social performance are shown in the Table 4.

The reviews of CFP and CSP provide a foundation to elaborate the grounds of the "triple bottom line" as "sustainable corporate performance" in the next section.

4. Triple Bottom Line as Sustainable Corporate Performance

The parties that are concerned with a company's performance are not only those discussed in the input-output view, but also other parties or groups in the society are of interest from a stakeholder view. Frederick, Post, and Davis [69] classify the parties or the groups into two categories: (i) primary stakeholders and (ii) secondary stakeholders. The primary stakeholders are those directly affecting and affected by the decisions made by the company. Those categories include (i) suppliers, (ii) customers, (iii) employees and (iv) investors. The secondary stakeholders are those in society affected directly and indirectly by the company's decisions. They include (i) local communities, (i) the public, (iii) business groups, (iv) media, (v) social activist groups, (vi) foreign government, and (vii) central and local governments. Consequently, the decisions made by the company should positively satisfy the two stakeholder groups. Based on this view, the CSP will be better than that based on the input-output view.

There are many components constituting the stakeholders of a company. They have their own interest and power to influence the company. In some cases, they establish coalitions to force the company to meet a certain interest. Therefore, to be regarded as a "good" company, different stakeholders may expect different performances by the company to be satisfied. Based on the stakeholder view and according to Atkinson, Waterhouse, and Wells [70] and Nickols [71], the approach that a company should use to measure the company's performance is the stakeholder approach, or often called a stakeholder-based approach to the performance measurement. The company's performance will be measured in terms of three aspects: (i) financial, (ii) environmental, and (iii) social (e.g., Gray and Milne, 2004 in [72]).

Since the concept of "Triple Bottom Line" (TBL) was coined by Elkington [73], the trends of companies considering the interest of different stakeholder groups have been increasing. The term corporate performance is extended to include not only the financial aspect, but also social and environmental ones. Thus, the extended corporate performance, often called "sustainable corporate performance" will include components of financial, social, and environmental performance measures. The inclusion of two additional aspects in the measurement and evaluation of corporate performance can be understood by the fact that the responsibility of the company is not only to generate economic welfare (*i.e.*, profit), but also to care for the society (e.g., people) and the environment (*i.e.*, the planet). These elements are often called "the three Ps" of the TBL-concept.

This view is in line with one of the approaches that defines the concept of "corporate social performance" (CSP) as efforts by a company to meet multiple responsibilities, using multi-dimensional concepts, including aspects of (i) economics, (ii) legal, (iii) ethical, and (iv) discretionary (e.g., [39,40]). The two Ps of TBL-concept (*i.e.*, people and planet) may be referred to the three aspects of Carroll's corporate social performance [39,40]. In addition, when referring to the stakeholder view, the underlying idea of the concept of TBL also makes a basis for sustainable

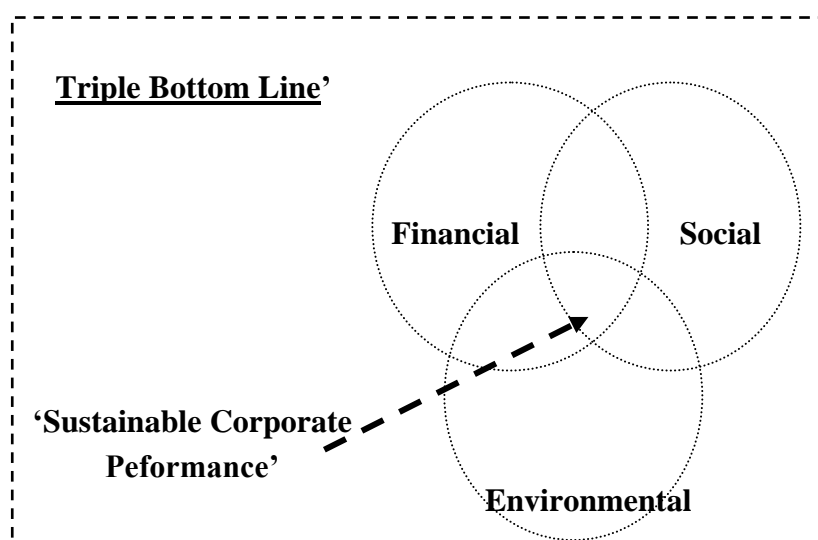
corporate performance, namely to accommodate the interest of various stakeholder groups in the society, not only one of the shareholders (e.g., [74], Henriques and Richardson in [72,75,76]).

As a performance measure, the TBL-concept in accounting basically consists of two aspects, namely financial (or economic) and social performances in which the environmental one is part of the social one. The relationship between the two aspects has been debated for the last three decades. The importance of the relationship of the two aspects in TBL as SCP is that management literature indicates that social responsibility is an important corporate duty. Given that importance of the corporate social responsibility in companies' decision-making, the relationship between corporate social performance and financial performance is an important topic to discuss [52].

5. A Proposition for the Future

Based upon the previous reviews of corporate performance, corporate financial performance and corporate social performance, we propose that the "triple bottom line"-concept (TBL) as "sustainable corporate performance" (SCP) should consist of three measurement elements, namely: (i) financial, (ii) social and (iii) environmental. In other words, TBL as SCP is derived from the interface between these three measurement elements as illustrated in Figure 1. If any of them are neglected or insufficient, the TBL as SCP will contain inherent and troublesome flaws.

Figure 1. "Triple bottom line" as "sustainable corporate performance".



We also propose that the content of each measurement element, and in extension SCP, may vary across contexts and over time. It is essential that there is congruence between the company's view (*i.e.*, internal stakeholders) and the others views (*i.e.*, external stakeholders) in terms of what should constitute the TBL as SCP.

We therefore argue that TBL as SCP should be interpreted as a relative concept that is dynamic, rather than static. In addition, it is iterative in terms of that continuous monitoring needs to be performed, adapting the content of the measurement elements to changes that evolve across contexts and over time in the marketplace and society. In fact, TBL as SCP may be seen as a function of time and context.

Subsequently, TBL as SCP requires that the complexity and variability between financial, social and environmental measurement elements are properly and conveniently synchronized. Otherwise, the outcome of TBL as SCP may be negatively affected.

The crucial question is whether TBL as SCP is possible to implement from a managerial perspective. The answer to this question is both “yes” and “no”. Our proposition may not be feasible on a broad corporate scale at the moment, but the current concerns regarding factors contributing to the climate change as indicated by the UN-report—the IPCC WGI Fourth Assessment Report [77]—provide an indication of its importance to managerial practices. The research findings from science presented in this report regarding the projected future climate change on Earth will, if appropriate counter-measures are not applied, sooner or later force the global society and its political unions/governments to impose anti-climate change agreements and regulations across private and public sectors worldwide [78]. It will not be an easy adaptation, but it may be a matter of saving the stakeholders of the planet Earth (*i.e.*, the human, animal and vegetable kingdoms) from an irreversible vicious circle and disastrous future. We argue that this UN-report should support and guide the efforts of TBL as SCP. Subsequently, taking into account the conclusions of the UN-report, concerns about the appropriateness of current managerial practices may be raised.

In consequence, TBL as SCP could be interpreted as proposing a major shift in managerial practices, from being only business-oriented and in part social oriented (as part of business environment), to also being planet-oriented. This is an orientation that hardly has been addressed before; maybe this is because of its visionary impression, or the assumption of it being unrealistic, or even the perception of a utopian approach, but surely because there has been no explicit need (or evidence) for it until now (e.g., [78]). However, keeping in mind the conclusions of the UN-report, it may be appropriate timing to link TBL and SCP together in order for them to be introduced in the corporate agendas. If so, it requires the enforcement of the global society and its political unions/governments to be placed on their agendas too.

TBL as SCP assists in re-positioning and expanding the boundaries of current managerial practices. It is about fundamental changes that will require managerial practices not to be only business-and social-oriented, but to be planet-oriented too. TBL as SCP may be interpreted as only visionary, unrealistic and/or utopian, but do we have any choice? Have we entered into a new era of the planet Earth that will affect managerial practices?

The contribution of TBL as SCP is that it principally stresses the connection between current business- and social-orientations (as part of business environment) on the one side, and the forthcoming planet-orientation on the other, which is a spectrum not previously addressed seriously from a business perspective either in practice or literature, because there has not been any obvious call for it.

Acknowledgments

The authors are very grateful to Georgios Georgakopoulos of Amsterdam University, David Crowther of De Monfort University for his suggestion on literature review and to the participants of Working Papers Forum of Faculty of Economics, Sebelas Maret University for their comments as well as to four anonymous referees for constructive comments.

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