



CIMA Global Academic Research Program

Integrated Thinking

Aligning purpose and the business model to market opportunities and sustainable performance

How the finance organization helps understand, enhance, and report strategies for long-term value creation

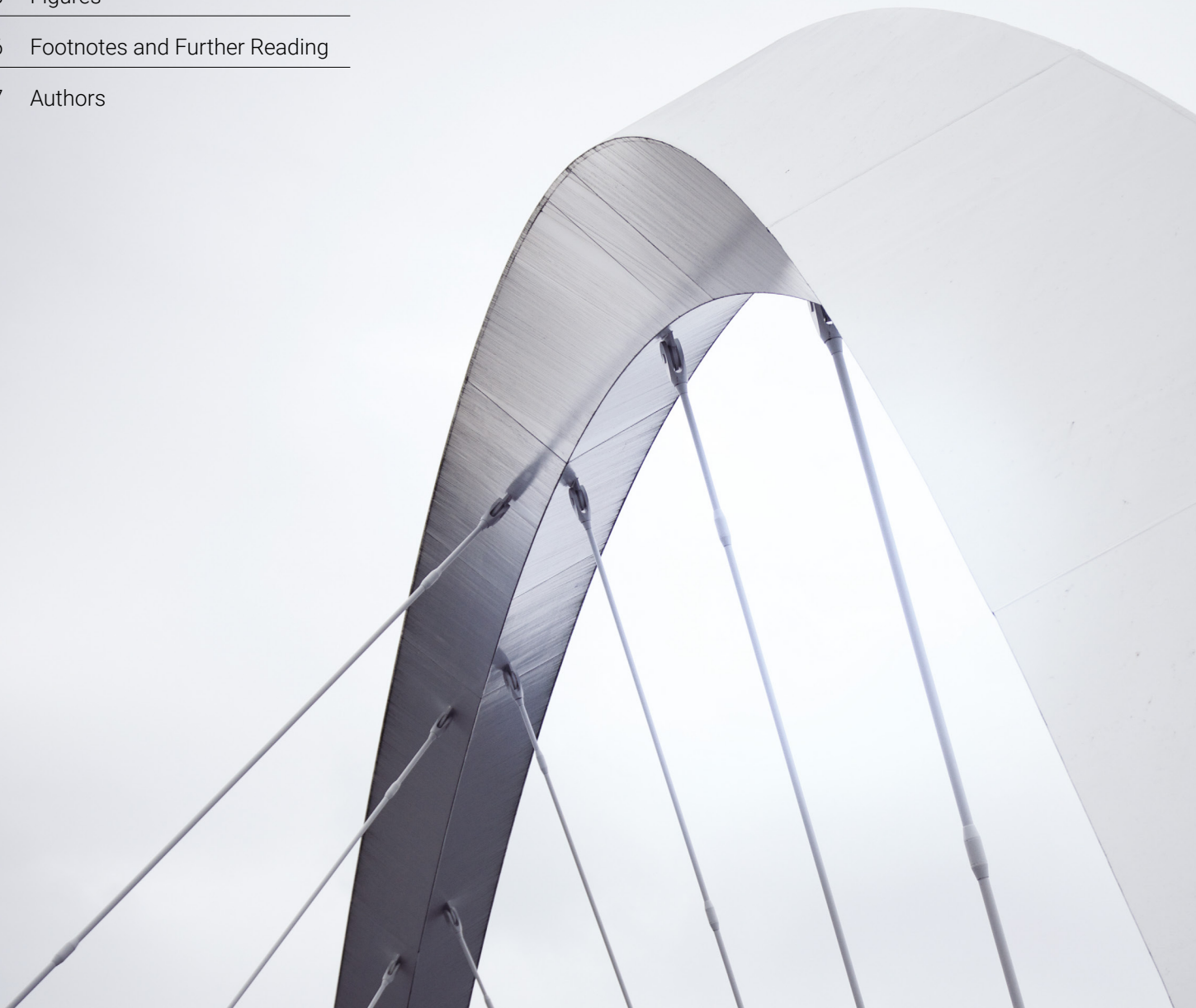


Key assumptions and findings

- Contemporary organizations operate in a complex world, characterized by a multitude of internal and external drivers, interdependencies and trade-offs that influence the process of decision making, the promises that these decisions entail, and the expectations of a variety of demanding stakeholders. Organization leaders are increasingly required to navigate through these challenges by implementing a comprehensive approach to planning, measurement, and reporting.
- Integrated Thinking is about connecting performance with purpose. It involves identifying, executing, and monitoring business decisions and strategies for long-term value creation. Integrated Thinking builds on the need to reconcile competitiveness and sustainable growth within the context of inclusive business models in order to take advantage of the opportunities and face the challenges of the market.
- Nowadays most organizations strive to balance competitiveness and sustainable growth by implementing programs and initiatives of sustainability intending to achieve specific targets in terms of governance, social, and environmental impact. But a mishmash of sustainability tactics does not guarantee the achievement of sustainable performance(s), which instead requires an integrated approach to the planning, management and reporting, that must take into consideration how the interests and the contributions of a series of heterogeneous stakeholders are linked into the models for long-term value creation.
- Within this context, management accounting offers tools and engagement platforms that are able to go beyond the mere representation of the initiatives of sustainability through a set of ad hoc targets and key performance indicators, to include processes of mediation among the different stakeholders who are involved. In this space, management accountants and finance experts in general, lead the search for sustainable performance by suggesting pragmatic solutions that are able to monitor and communicate ways in which such an inclusive business purpose may be converted into added value for a multitude of stakeholders.
- The Finance team takes the centre stage in organizations, acting as both architects and orchestrators of an integrated process of thinking, measuring and reporting that mediates among multiple concerns, facilitates conversations, and fosters the generation of innovative solutions within contexts that are characterized by multiple backgrounds and points of view.
- We have identified ten key recommendations to be considered by finance experts, management accountants, and by all other organization leaders who intend to design and manage effective processes of Integrated Thinking (and Reporting) – see Appendix A. The empirical evidence gathered in this research report has been derived from longitudinal case studies, as well as from conversations and interviews with pioneers of integrated thinking who consider it to be an inclusive approach to planning, measurement, and reporting - see Appendix B.

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Introduction

Integrated Thinking and Reporting - A call to action

Situation - Whether large or small, private or public, for-profit or non-profit, every year organizations invest a vast amount of resources, time and energy as their intertwined cycles of planning, measurement and reporting unfold recursively in practice. Designed and prepared to fulfil the expectations of external and internal stakeholders, corporate reports are positioned at the final stage of these cycles as they highlight and summarize the processes of strategic planning, operations management and performance measurement that are in place. Within this context, and in the attempt to offer an account of the ongoing search for competitiveness and sustainable growth featuring contemporary organizations, annual reports are nowadays expected to convey insightful information beyond the traditional key financial data. Arguably, these reports are increasingly considered to be worthwhile reading due to their ability to inform readers about the way in which the organization's purpose¹ and inclusive business model align with market opportunities and sustainable performance(s).

Complication - The concepts, elements and principles that characterize the way in which organizations plan, measure, and report their annual performance, as well as the relevance of corporate reporting, have all been questioned lately regarding a number of aspects, ranging from the supposed compliance-driven content they provide to the failure of offering forward-looking information about company strategy, performance, and risk. This perception has worsened in the aftermath of the recent financial crisis and corporate scandals, in which several commentators and analysts have firmly portrayed the global economic system as broken, and have viewed organizations as being one of the major causes of social, environmental, and economic problems. This has led many experts, as well as public opinion, to criticize these fundamental documents as gradually becoming less fit for the purpose and often failing to shed light on strategy execution as well as on the extensive variety of intangible and natural resources used within an organization's processes of value creation.

Question - Perhaps a metaphor would be useful to fully illustrate the heart of the matter. Take, for example, informative books such as a recipe book. On one hand, one may wonder whether anyone would ever be interested in reading a cookbook that talks about a variety of dishes without including listings of all the necessary ingredients. On the other hand, would anybody ever delve into a cookbook that simply lists the ingredients of the recipes without offering any sort of cooking instructions? Well, if the answer to these questions is "no", and the reader is interested in knowing more about the concepts, stories and practices through which a number of contemporary organizations are currently dealing with the increasing pressure to align the organization's purpose and inclusive business model with market opportunities and sustainable performance(s), then the following pages should be worth reading. Ultimately, if organizations intend to communicate their — more or less inclusive — recipe for value creation to their stakeholders, they need to understand it first and then make sure this awareness is reflected in the innovative forms of accounting and reporting for stakeholders that analysts and commentators are calling for.

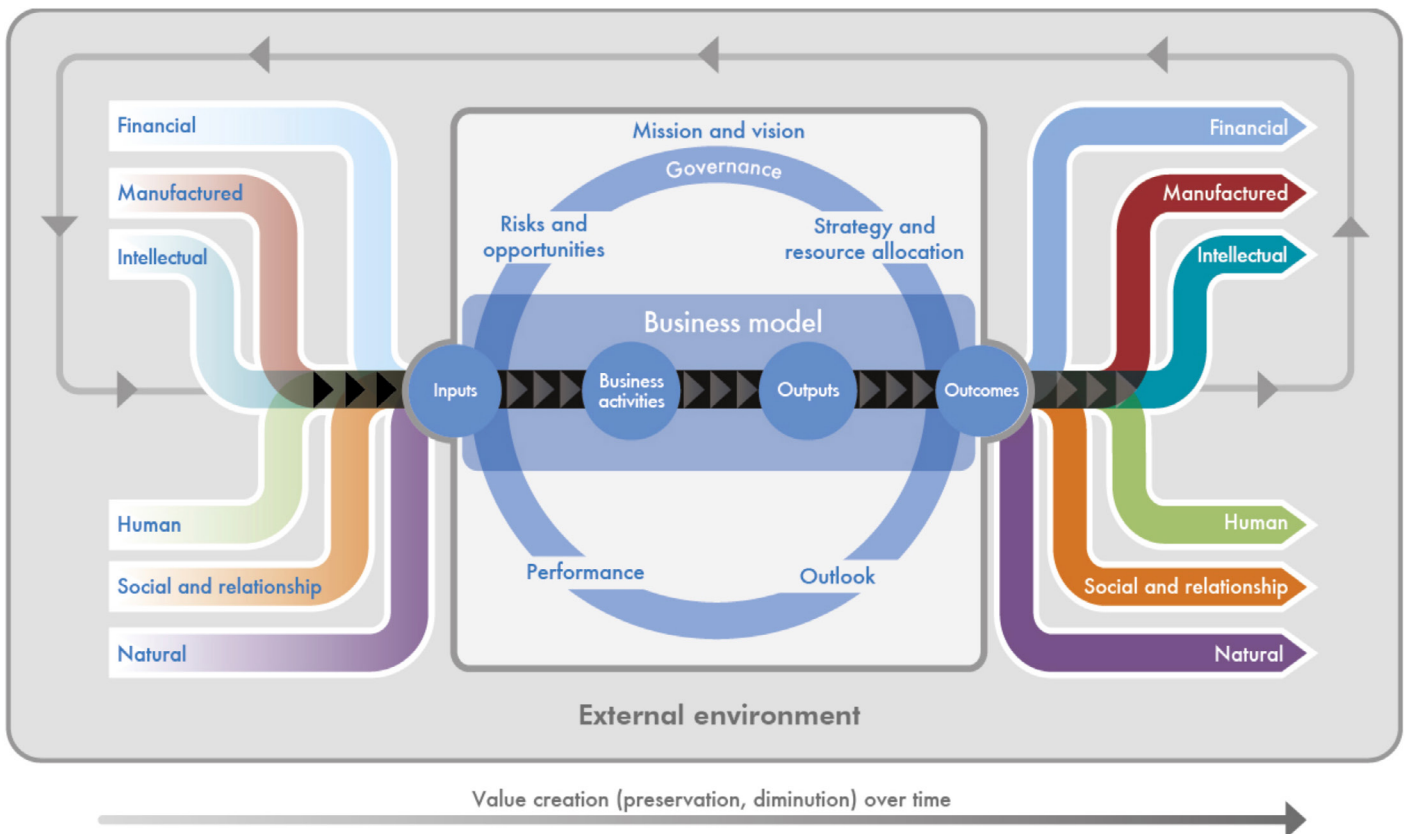
Answer - Positioned at the centre of this debate, Integrated Reporting (IR) has been portrayed by an emerging body of professional and academic literature as in the transition phase from promising concept to powerful practice. Developed and promoted by the IIRC (International Integrated Reporting Council), IR is presented by its proponents as a process founded on Integrated Thinking, which results in a periodic and concise integrated report about how an organization's strategy, governance, performance and prospects lead to the creation of sustainable value in the short, medium and long term. **Integrated Thinking** is a term that refers to **the conditions and processes that are conducive to an inclusive process of decision making, management and reporting, based on the connectivity and interdependencies between a range of factors that affect an organization's ability to create value over time.**

The Framework released by the IIRC in December 2013 suggests that the fundamental concepts of Integrated Thinking and Reporting are represented by the capitals that an organization uses and affects, as well as the process of creating value over time (See Figure 1). This value is embodied in the capitals – also referred to as resources and relationships. As illustrated in the Framework, organizations depend on six different types of capitals, which are stores of value that, in one form or another, become inputs to an organization’s business model. They are: financial, manufactured, intellectual, human, social and relationship, and natural. The Framework doesn’t require organizations to adopt the capitals, so they should be rather used as a benchmark to ensure an organization doesn’t overlook a capital that it uses or affects².

Value is created or destroyed through the capitals within a company’s business model, which represents the chosen system of inputs, business activities, outputs, and outcomes that aims to create value over the short, medium, and long term. Since these capitals and their value change over time as they are increased, decreased, or transformed through the activities and outputs of the organization, it’s also important to understand how the outputs affect outcome.

Whether the IIRC, and the Integrated Reporting movement at large, will succeed in making IR “the one” long-lasting solution addressing the rising concerns about accounting for stakeholders, (including shareholders), is hard to say. However, the stories, challenges and opportunities that characterize this innovative journey embraced by a number of organizations, as well as the key role played by the Finance organization within the processes of integrated thinking and reporting, seem to be definitely worth taking a look at.

Figure 1 – The IIRC Framework³



Research Methodology

Between 2013 and 2016 we developed longitudinal case studies regarding the adoption and development of processes of Integrated Thinking and Reporting, as well as conducting a series of interviews and producing a number of shorter cases, in order to shed light on:

1. the motivations and champions for adoption
2. the role of the Finance organization and its engagement in the process
3. the leading practices
4. the challenges for Integrated Thinking and Reporting as it connects performance and business models with purposes (and market opportunities).

Since the professional and academic literature lacks, so far at least, studies describing the way in which integrated thinking and reporting develop in practice, the first part this report hopes to fill this gap by illustrating the journey of Eni, the Italian energy giant. Given the nature of Eni's business and its impact on the environment and society on both a local and global scale, sustainability has always been a core concept for the company. This concept has influenced Eni's corporate reporting practices since the mid 1990s, when the company started to publish a social and environmental report. In 2010 Eni began its journey towards integrated reporting, involving participation in the Pilot Program launched by the IIRC. The first integrated report was published in 2012, and involved simply assembling environmental, social and financial information within two separate sections of the report, the first mainly focussed on financial reporting information and the second providing sustainability reporting information. Since the introduction of the six Capitals in its 2013 report, Eni has embarked in a remarkable journey, with its 2015 report featuring an extremely innovative connectivity performance map.

The second part of the report builds on a series of interviews and a number of shorter cases, in order to shed light on:

- the motivations and champions for adoption;
- the role of the Finance organization and its engagement in the process;
- the leading practices;
- the challenges for Integrated Thinking and Reporting as it connects performance and business models with purposes (and market opportunities).

From these organizations, we have selected the following:

- ABN AMRO
- Aegon
- Barclays Bank Africa
- DBS
- Fideuram - Intesa Sanpaolo Private Banking
- Generali
- GoldFields
- Liberty
- Monnalisa
- Sasol
- Snam
- Terna
- UniCredit

(See Appendix B at the end of the report).

Main Findings and their implications for practice

Inside Integrated Thinking – Eni's Journey

On 18 March 2016, Claudio Descalzi, the CEO of Eni (the Italian Oil & Gas giant), welcomed analysts, investors and media attending the company annual strategic planning presentation in London in the following way:

“Our industry is facing a very complex challenge: reducing costs to fulfil short term constraints while enhancing long term value. Thanks to our successful strategy of restructuring and transforming Eni into an integrated oil and gas company, we are well positioned to meet this challenge through a competitive cost structure, an efficient operating model and a flexible asset portfolio. We have started a new cycle of profitable growth and have the potential to extract more value in the future”⁴.

Descalzi then opened his presentation by highlighting some important financial and operating achievements as well as targets for the planned period (2016-2019). In particular, he suggested how hydrocarbon production was expected to grow by over 3% per year during this period. Although there had been an 18% reduction in overall upstream capital expenditures, he argued that a cumulative production growth of 13% in 2019 would be achieved. Throughout the plan, he illustrated how Eni expects new discoveries of 1.6 billion barrels of oil equivalent (BOE) at a competitive unit exploration cost of \$2.3. Finally, he recalled how in 2015 the new project average breakeven point was drastically reduced from \$45/BOE to \$27/BOE on average.

The data offered by the CEO represented a mix of achievements and promises of future performance(s). According to Sabina Ratti, the former Eni Vice President of Sustainability, financial numbers represents “the end of a yearlong movie Eni has been consistently filming year after year since the 1950s leveraging its inclusive business purpose”. She continued emphasising the importance of Integrated Thinking and Reporting to support this unfolding process of inclusiveness that began when Enrico Mattei, Eni's first chairman, pioneered a way of managing relations between international oil companies and producing countries based on long term cooperation, on the transfer of knowledge and skills, and on mutual development. In her opinion, Integrated Thinking and Reporting enables Eni to be fully aware, manage and communicate the story that is synthesized by the numbers presented.

“If you watch the last ten minutes of a movie you most likely know how the movie ends, you are aware of its final outcomes. If this is a romantic movie, you know if the two are still together or not; while, in the case of an action movie, you most likely end up discovering who the killer was. But, unfortunately, although you do get to see the final outcomes of the movie, you still miss a lot to make sense of it. You miss a full appreciation of the themes of the movie, its significant passage points, and the unique and possibly complex story that has led to this specific final outcome. When you approach most of contemporary corporate reports, the feeling is similar to the one described above: it is difficult to fully understand how a number of different, and often stand alone, financial indicators have contributed to value creation; it is difficult to appreciate the interplays featuring the business model hidden behind the numbers”⁵.

Eni's inclusive business purpose is operationalized across the whole value chain, but it is particularly seen in the core activities of exploration and production, and it is based on three main drivers:

- to be local, which means working side by side with the host countries and communities to reach mutually beneficial objectives;
- to maintain and develop in-house competences that have supported performance achievement in exploration and in reservoir management and maintenance;
- to manage and mitigate risks throughout the operation, which characterizes every aspect of Eni's business, starting from asset selection to the design and development of the projects.

With the intention of better understanding, communicating and executing its business model and the strategy identified by the board, over the last five years Eni has innovated its management and accounting systems by turning to integrated thinking and reporting. Championed by the Vice President for Sustainability, and subsequently fully embraced by the Finance organization, the adoption of this emerging practice was carried out by a workgroup comprising managers from Finance, Sustainability, External Relations, Corporate Governance, and Integrated Risk Management. Participation in the process of integrated thinking and reporting was also included as a target in the top management appraisal exercise.

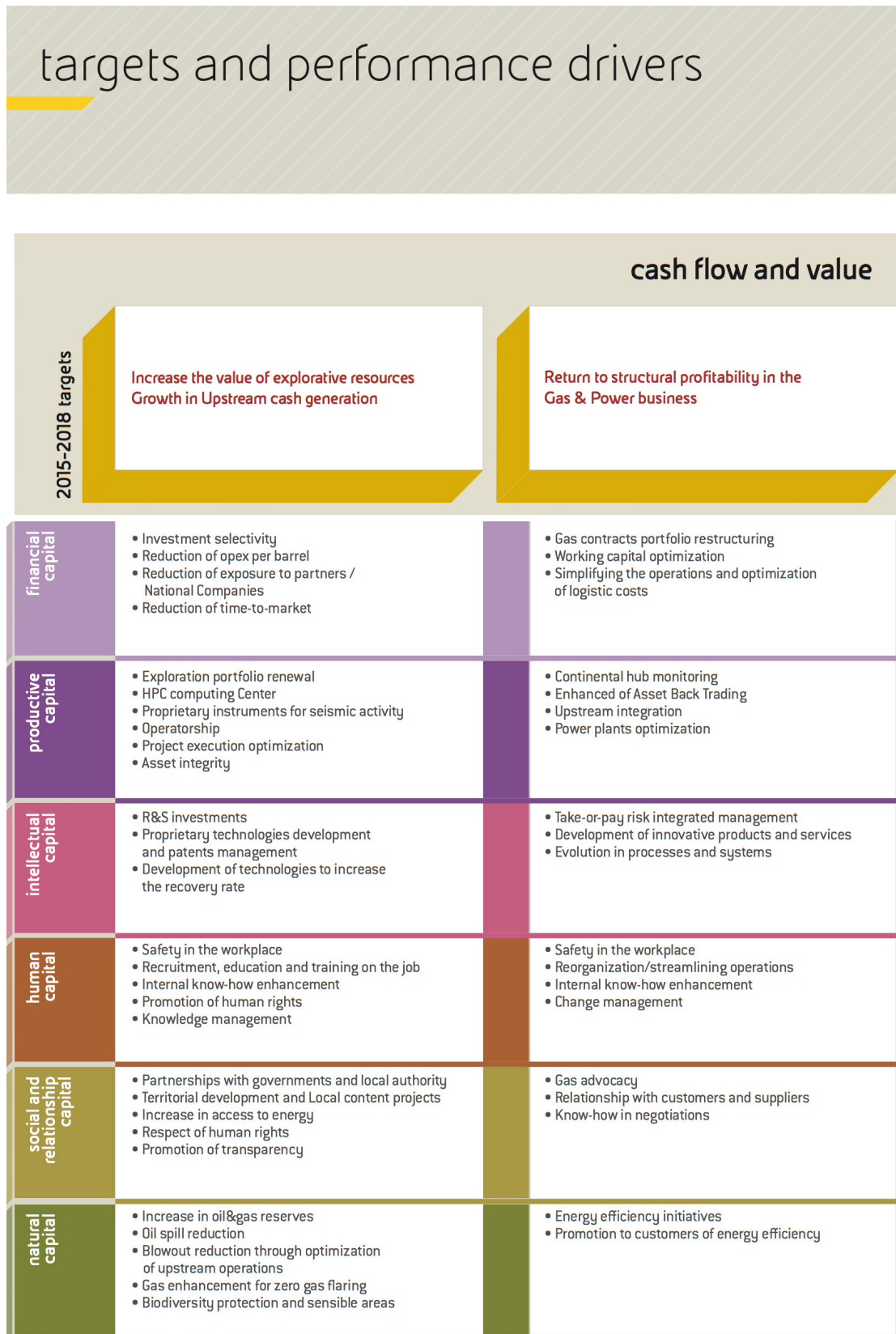
One of the first tasks of the workgroup was to clarify the difference between the actions and initiatives of sustainability, and the achievements of sustainable performance(s) early in the process. To do so, the team focused on the purpose of the business and on the multiple outcomes to be achieved, considering the various stakeholders that engage within the value chain. This led the workgroup to introduce the idea of multiple capitals within Eni. This concept was shared across the organization and featured for the first time the 2013 Integrated Report, which according to a finance manager included “an inventory of resources leveraged within Eni’s value creation process to fulfil the expectations of the shareholders, as well as of internal and external stakeholders”.

The next step required the team to fully understand the expected targets as well as the financial and operating objectives linked within the organization’s Strategic Plan. This process was complex and demanding since it required a focus on the resources used, the initiatives implemented as well as reflection on the interdependences among the various drivers at work. One of the main strategic targets in the critical upstream area was to achieve financial returns and exploration success through operational excellence and innovation.

The results achieved in the upstream area are the outcome of a strategy pursued by the company by applying the so-called Dual Exploration Model. If on the one hand, this model’s primary goal is to replace the existing reserves and, therefore, sustain organic production growth in the future through exploration, on the other hand it makes it possible to immediately exploit certain discoveries and to generate cash flow through the sale of minority interests in some assets. This support in cash flow generated without compromising the goal of organically replacing the reserves, at the same time reduces its financial exposure with regards to investments in the main projects.

This process of in-depth analysis and discovery that was implemented by the workgroup represented integrated thinking at work. In particular, it was found that Eni’s distinctive exploration strategy is based upon drivers such as a medium to long-term vision; a focus on time to market; a governance and management of exploration processes; a professional development of Eni’s workforce; an ability to protect, disseminate and renew know-how; a constant focus on the opportunities provided by technological innovation; as well as, finally, rigorous attention to HSE aspects. From a reporting point of view, this process led to cluster the use of the heterogeneous capitals by strategic objectives — as seen in the 2014 integrated report, which arguably increased its significance by shedding light on the ingredients (resources) that were classified according to the recipes (strategic targets) to which they contribute (see Figure 2).

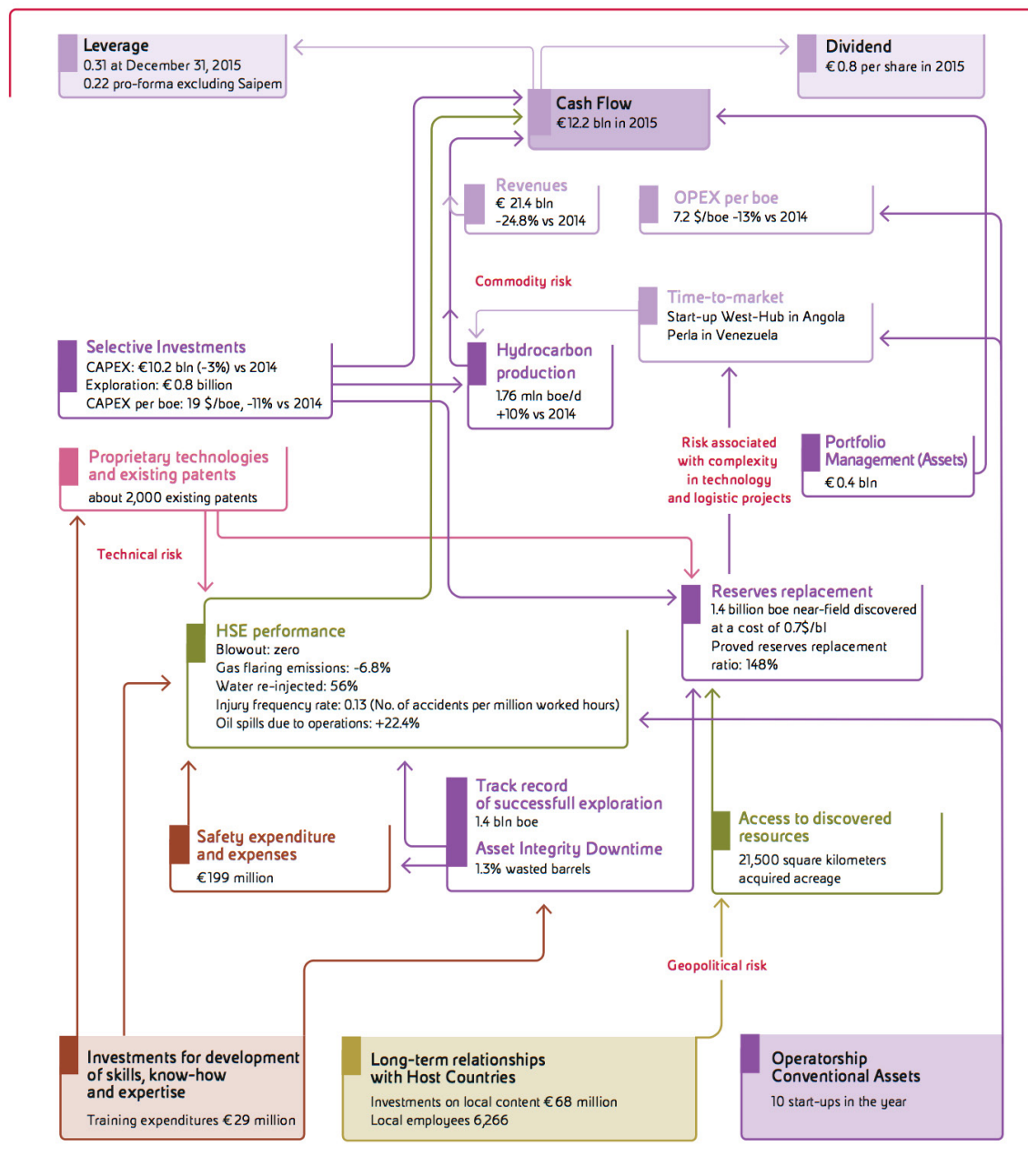
Figure 2 – Eni's targets and performance drivers⁶



Eni pushed integrated thinking further as the resources, the activities, the drivers, and the stakeholders that are material to the execution of the company's business model were re-assessed by recognising the trade-offs, interests and risks that featured in the value creation process. This process was supervised by the finance unit that took the lead in the Integrated Report preparation by focusing on the connectivity of performance(s). In this process, the CFO championed the implementation of a comprehensive system of data

collection and analysis that supported integrated thinking and reporting, as well as fostered the validation and interrogation of the performance(s) achieved. This resulted in a cause-effect map showing the connections/effects of specific actions and initiatives taken in the upstream business, and their impact on business objectives and risks (see Figure 3).

Figure 3 – Eni's connectivity of performances⁷

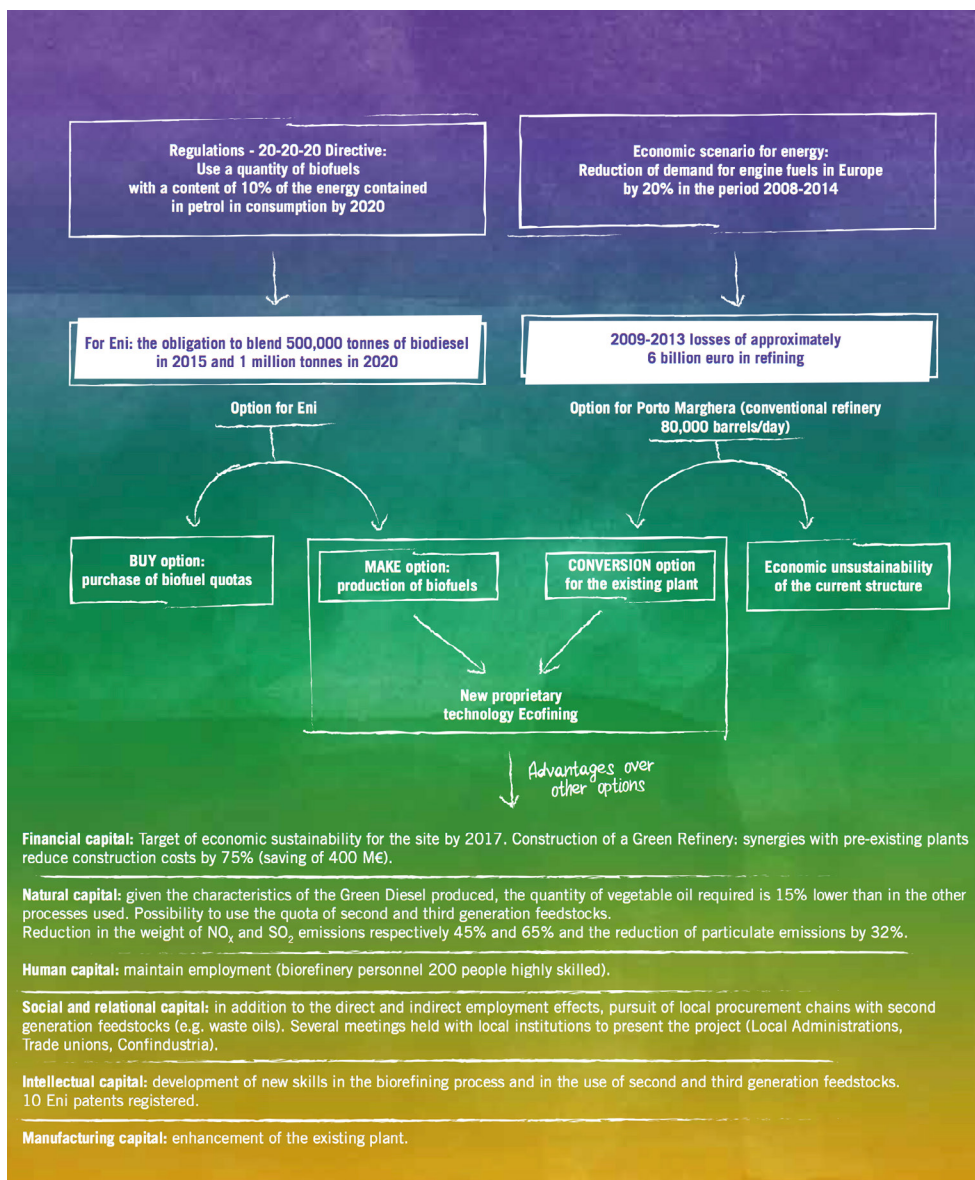


The achievements of integrated thinking, management and reporting have been subsequently shared with the board and key organization leaders to preserve sponsorship and make sure data and analysis are used for decision-making purposes. Interestingly, they have been also used to monitor processes of innovation and the creation of new market opportunities.

This is the case for the Eni refining business, which over the last few years has been undertaking a major process of change following the growth of low-cost chemical production and refining operations in Asia, the collapse of consumption and refining margins in Europe, as well as the new environmental protection and climate change legislation. In

order to address the challenges presented by the crisis, Eni has taken advantage of the results of its investment in research and has turned its attention toward reconverting older industrial sites. This resulted in the construction of the first bio-refinery in the world, which was created through the conversion of a traditional refinery by using a patent filed by Eni. This resulted in an 80% savings in investment costs compared to building a new bio-refinery and also resulted in Eni's entry into a new business sector by making, rather than buying, the minimum bio content in fuel (10% by 2020) in order to comply with the European regulations. The rationale of this decision was built, monitored and communicated through integrated thinking (see Figure 4).

Figure 4 – Eni's decision making process⁸



Integrated Thinking & Reporting in practice: key issues from the field

The pioneers in the adoption of integrated thinking and reporting highlighted some key matters that deserved to be discussed. Among these, the motivations and champions for adoption; the role of the Finance organization and its engagement in the process; the leading practices; as well as the challenges for Integrated Thinking and Reporting are briefly summarized. For a summary of these issues see Appendix B.

Motivations and champions for adoption

There are several reasons that motivate organizations to adopt integrated thinking and reporting. And to make this happen, the motivation often intertwines with the sponsorship of key champions. In some countries, such as South Africa, this is may be due to regulations. "This move was prompted in part by corporate governance trends, as captured by King Code of Corporate Governance 1-3", argues Sven Lunsche, Vice President Corporate Affairs, Gold Fields, who added "international reporting trends, as well as the demands and criticism of key stakeholders (such as NGOs, communities, governments) represented additional stimuli".

Similarly, Nola Richards, Group integrated reporting manager, Barclays Bank Africa, suggests that "rather than mere compliance, under the leadership of our Group Financial Director, we took the opportunity to redefine our report to provide a concise and connected view of the business, our strategy, the material issues we respond to, how these elements interact and importantly how we manage and measure ourselves".

In another bank, UniCredit, "integrated thinking and reporting have been happening thanks to the sponsorship of the CEO", emphasizes Gaia Ghirardi, the Head of Group Sustainability and Foundations. This has led to an in-depth understanding and innovative communication of the impact achieved by the bank strategy and initiatives (see Appendix C).

Mikkel Larsen, Managing Director, Head of Group Tax and Accounting Policy, DBS, emphasizes how integrated thinking was adopted because it captures "our vision for our relationship with customers, employees and the society at large under a simple agenda – Making Banking Joyful. This purpose is the rudder of DBS, and its integral components are formalized in our balanced scorecard, which is included in the Integrated Report as tool to effectively convey how we create and distribute long term value while considering our impact on society and the environment".

In a similar vein, Tjeerd Krumpelman, Head of Reporting & Stakeholder Management at ABN AMRO, suggests, "the main reason for the bank is that we want to make the non-financial value created visible to our stakeholders". He continued by saying how this process "helped us discover what truly matters to our stakeholders, and give us more insight into the value we create, as well as how we, as a bank, are contributing to the long-term well-being of our stakeholders through our business – and that's a wonderful thing to see".

Massimo Romano, Head of Group Integrated Reporting & CFO Hub, Generali Group, emphasizes how the "journey dates back to 2011, when the Board asked the CFO to have an insight on the newly born concept of One Report, the ancestor of the Integrated Report". He continues, adding how "the potential of this new reporting practice has been immediately clear to our eyes and thanks to the continuous top management support, we have begun our journey. Nowadays, we are focussing on integrated thinking as an approach for transforming our processes, and managing relationships with business units all over the globe".

In the case of Liberty Insurance Holdings Limited, the group's CFO was the primary driver, suggests Jeff Hubbard, CFO and Risk Oversight Executive, Group Arrangements Liberty.

According to Franco Pruzzi, Head of Financial Reporting and Administration, at Snam integrated reporting was adopted in response to "the need to satisfy in a more comprehensive and integrated way the requests from the market, authorities and public opinion for a clearer, more transparent and "linked" information that would enable stakeholders to better understand how the group creates value for the society in which it operates". Pruzzi also added that "the European Directive on nonfinancial reporting has been another important driver for adoption".

The role of the Finance organization and its engagement in the process

“The Finance organization played a key role in driving integrated reporting across DBS”, emphasizes Mikkel Larsen, who adds how “accountants provided the story line for communicating our value creation narrative to an external audience in a coherent, structured manner that connected the dots between financial and non-financial information disclosed in the annual report”.

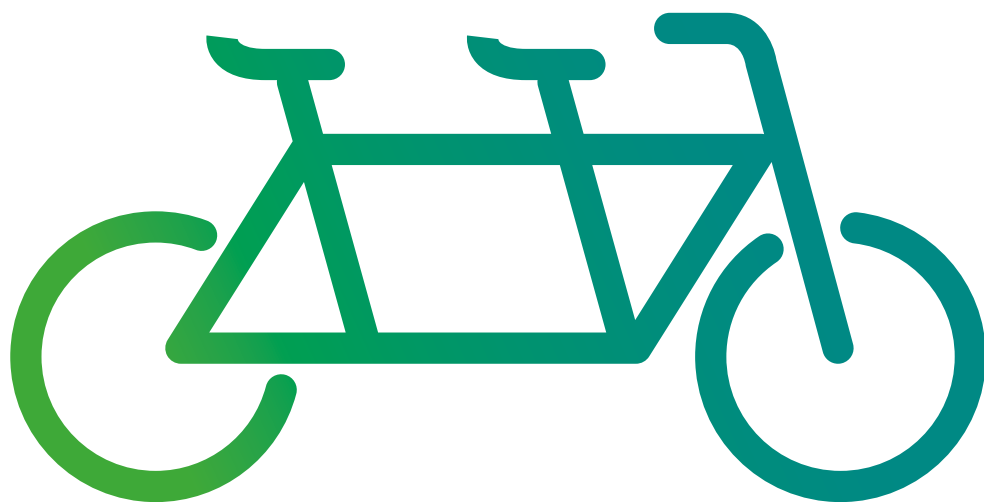
Jeff Hubbard stresses the role of the “chartered accountants in Group Finance as a team experienced in running a very detailed production and oversight process that can meet tight deadlines to produce data useful for integrated thinking and reporting within Liberty”.

Similarly, Franco Pruzzi reminds us that in Snam “from the very beginning there was great collaboration between the Finance and Sustainability functions, who through the creation of a dedicated work-group led the data collection and processing phase”.

Sara Tommasiello, CFO & CSR Manager, Monnalisa emphasizes how “the reduced size of the company favoured the engagement of the Finance team, which was responsible for collecting and commenting the data, as well as offering in-depth interpretation.”

Neil Smith, Sustainability Manager, responsible for Integrated Reporting, Aegon, acknowledges the importance of “our finance colleagues on all aspects of integrated thinking and reporting”. He continues, “new KPI’s defined as part of our strategy are co-created and discussed with finance”.

Finally, the intense cooperation between the finance organization and the sustainability function was also critical in Terna, claims Nicoletta Buonomo, Finance and Administration department manager.



The leading practices

“To be authentic”, claims Nola Richards, “Barclays Bank Africa must be consistent with what is happening in the group and we must reflect on how the business is managed. For example, we have introduced a balanced scorecard covering customers and clients, conduct, colleagues, citizenship and company that shows how we see the capitals in terms of our business model and where these are captured in our balanced scorecard” (see Figure 5 and 6).

Massimo Romano suggests how “the Internal Integrated Report represents a novel practice that describes the achievements, activities and future objectives within Generali; it complements our business model, where we use the capitals to reflect and communicate our value creation story”.

Figure 5 – Barclays’ performance summary⁹



¹ Bi-annual metrics.
² Employee opinion survey.
³ South Africa.
⁴ Botswana, Ghana, Kenya, South Africa and Zambia.
⁵ Net Promoter, Net Promoter Score and NPS are trademarks of Satmetrix Systems Inc., Bain and Co Inc. and Fred Reichheld.
^{LA} This indicator has been reviewed as part of a limited assurance engagement undertaken by PwC and EY.



Similarly, “the business model infographic, which is supplemented by a crisp narrative illustrating how Liberty creates value and how risk is managed” is presented by Jeff Hubbard as a leading reporting practice on their front. Paolo Bacciga, CFO, Fideuram - Intesa Sanpaolo Private Banking, illustrates the unique way in which the bank leveraged Integrated Thinking and Reporting: “We started from the premise that any communication is effective only

when it reaches its target in a simple way and is useful for them in a practical, tangible way. Knowing that, today our private bankers use the Integrated Annual Report proactively on a daily basis with our customers, to communicate our value creation journey in a way that everyone can understand. The Report details the connection between strategy and performance so that the reader is able to understand the results, but above all the purpose of our organization”.

Figure 6 – Barclays’ balanced Scorecard¹⁰






Our Balanced Scorecard reflects the six capitals

Our operations benefit from a number of key resources and stakeholder relationships. Through the execution of our business activities we increase, decrease or transform the six capitals as defined in the IIRC’s <IR> Framework. The impacts of some are easy to identify, quantify, manage and measure, while other impacts are complex and require an active process for considering and managing trade-offs. We actively manage our business activities to optimum effect, always mindful of our impact on the communities in which we operate, and we measure our progress through our Balanced Scorecard. The table below provides a view of the six capitals, how they are applied to our business model and how they are managed through our Balanced Scorecard.

 See our Balanced Scorecard reviews (page 27 – 41) for more information on how, through our businesses activities, we use and affect these capitals.

Financial	Human	Intellectual		Manufactured	Natural	Social and relationship
<ul style="list-style-type: none"> ○ Capital and liquidity management capabilities ○ Disciplined cost management ○ Opportunities for investment and access to capital markets and financial services ○ Credit rating strength ○ Shareholder value ○ Tax contributions 	<ul style="list-style-type: none"> ○ Employees, their skills and competencies ○ Effective leadership ○ Performance management and reward structures ○ Investment in employee learning and development ○ Company culture to help people achieve their ambitions in the right way ○ Specialised financial skills and expertise ○ Ethical standards and good conduct practices 	<ul style="list-style-type: none"> ○ Enterprise risk management framework ○ IT capabilities – applying current technologies and developing new technologies ○ Brand reputation ○ Specialised financial skills and expertise ○ Lending, investing and procurement practices 		<ul style="list-style-type: none"> ○ Branches and call centres for customer service ○ Data centres and support function premises ○ Equipment and technology resources that enable service delivery, to defend against physical attacks and cyber risk 	<ul style="list-style-type: none"> ○ Energy requirements (including electricity, gas and diesel) ○ Paper and water consumption ○ Environmental and social lending practices 	<ul style="list-style-type: none"> ○ Dialogue and interaction with all stakeholders ○ Civil society organisations and government partnerships to support wider employability initiatives ○ Managing socio-environmental risks and opportunities ○ Community investments, access to financial services and financial education ○ Employee volunteerism

The six capitals are measured through our Balanced Scorecard below:

		■		■	■	■
	■	■			■	
■	■	■		■	■	■
	■	■				
■		■		■	■	■

Within Monnalisa, conversations and processes of engagement with stakeholders led to the identification of seven strategic priorities that, since then, have characterized the process of integrated thinking as well as the key chapters of the integrated report. These priorities are to

1. maintain a strong identity
2. guarantee economic sustainability,
3. guarantee high quality standards,
4. excel in innovation,
5. promote valorisation,
6. communicate and engage in a transparent and effective way, and
7. contribute to the development of the territory in which the company operates.

As highlighted by Sara Tommasiello, “continuous engagement with stakeholders enabled us to understand what is important to them; we realized how stakeholders perceive value, opportunities and risks, and we try to plan and manage our company accordingly”.

The challenges

According to Sven Lunsche, “the biggest challenge at Gold Fields was getting the Sustainable Development data (health, environmental and community investment data) to the same standard as the financials, to support integrated thinking and reporting. Another challenge is that among middle management the concept is still not where it should be, but at a more senior level that kind of integrated thinking is starting to be firmly entrenched thanks to the inclusion of Sustainable Development based KPIs in the scorecard of all senior managers from the CEO downwards. Finally, from a content point of view the biggest challenge was to break down the barriers between financial, operational and sustainability reporting without falling into the default position of creating these reporting silos. The way this was overcome was by finding cross-cutting themes that required input from all these fields”.

“The biggest challenge we have faced in Generali was to secure the initial engagement of the other functions in thinking and reporting in an integrated way”, highlights Massimo Romano.

The main issue in Barclays Bank SA was “to redefine sustainability”, claims Nola Richards, who then added, “many still see it as social investment and being green. In financial services, the most fundamental aspect to our sustainability and thus access to financial services, access to employment opportunities and so forth, is financial risk management. Integrated risk management across credit, market, funding, operational and conduct risks ensures we deal with risks and opportunities across our Balanced Scorecard and thus the six capitals. Integrated thinking requires a mind shift and practical change to processes, systems and reporting. This is not quick and painless”.

According to Jeff Hubbard, “finding meaningful attestable indicators that support nonfinancial objectives remains a difficulty and the level of attestation independent auditors are willing to provide remains questionable. Nevertheless, the implementation of integrated thinking and reporting within Liberty has definitely improved general focus and prioritisation of areas of governance, value generation and stakeholder importance that are now measured more accurately and increasingly form part of performance KPI structures”.

Mikkel Larsen shares how “at DBS, we already embraced integrated thinking in the form of our strategic priorities, balanced scorecard and commitment to multiple stakeholder groups. We thought it was natural for us to leverage on the IIRC Framework to report externally what we were doing internally. Despite that, we faced initial challenges in obtaining buy-in and aligning internal stakeholders’ thinking towards a common reporting framework that looks at value creation from the perspective of external stakeholders. In the process, we learnt that it was important to identify and focus on matters that are most material to our value creation, and the value of communication that is concise and yet able to resonate with our multiple stakeholder groups. This has helped us form linkages, enhanced connectivity across the organization and broken down silos. In turn, closer interaction and collaboration is fostered among the various functions, promoting a sense of purpose amongst employees as we articulate our value creation journey together in an integrated manner”.

Conclusion

Whether recent critical academic and professional studies present Integrated Thinking and Reporting as a possible rational choice for facing existing challenges, a ceremonial response to the increasing pressures of markets and society, a temporary fad and fashion, this report acknowledges that this novel form of reporting has rapidly gained considerable prominence as one of the main management and accounting innovations of the recent decade. And this trend is due to continue — with several organizations adopting integrated thinking as a basis to foster internal processes of change.

Our study suggests that to make this happen effectively there is a need for internal sponsorship from a very high level: usually Board, CEO or CFO. Finance experts can play a very important role in these initiatives, as they manage processes to collect data, provide narratives, interpretation and analysis, and link with other functions. Leading practices typically centre on the link between the Balanced Scorecard and Strategy Maps, presentation of the multiple “Capitals”, and facilitation of engagement across multiple stakeholders.

The main challenges concern identifying useful, reliable indicators, reporting them consistently and gaining buy-in from internal and external stakeholders. In Appendix A we have identified ten key recommendations to be considered by finance experts, management accountants, and by all other organization leaders who intend to design and manage effective processes of Integrated Thinking (and Reporting).

Appendix A

Make Integrated Thinking happen

The empirical evidence gathered from case studies, as well as from conversations with pioneers of integrated thinking as an inclusive approach to planning, measurement and reporting, has led to the identification of ten recommendations to management accountants and to other organization leaders who intend to design and manage effective processes of integrated thinking (and reporting).

1. Secure the understanding, interest, and commitment of high profile organization leaders who are willing to champion the adoption and effective use of integrated thinking and reporting.
2. Create a cross-functional work group led by enthusiastic internal “game changers” to ensure engagement, diversity, and inclusiveness while the concept of integration is being applied to planning, measurement, and reporting.
3. Clarify the difference between performing sustainability and sustainable performance(s) early in the process, and bring the Finance organization on-board.
4. Focus on the purpose of the business and on the multiple objectives to be achieved, considering the various stakeholders that engage within the value chain.
5. Understand the financial and operating objectives as well as the expected targets that are linked into the Strategic Plan of the organization.
6. Identify the resources, the activities, the drivers, and the stakeholders that are involved in the development and execution of the Business Model.
7. Recognize the trade-offs, interests and risks that characterize the value creation process – especially across and within the capitals.
8. Design a system of appraisal and performance evaluation that is able to reward connectivity and inclusiveness.
9. Implement a comprehensive system of data collection and analysis that supports integrated thinking and reporting, as well as fosters the validation and interrogation of the performance(s) achieved.
10. Share the achievements of integrated thinking, management and reporting with the board and key organization leaders to maintain sponsorship and to ensure that data and analysis are used for decision-making purposes.

Appendix B

Summary of Issues from the Field.

Company Sector (Head Office)	Key Motivation	Role of Finance	Key leading practice	Key benefit of IR
ABN AMRO Banking (Netherlands)	Demonstrate the non-financial value created.	Supports Communications, Sustainability, and Corporate Strategy departments through the collection of data.	The Business model.	Helps discover what truly matters to the stakeholders. Gives insights into the value created.
Aegon Insurance (Netherlands)	Need to describe in an integrated way how the organization achieves its strategic objectives.	Key contribution to the definition of new Key performance indicators.	Statement of materiality.	Look at how decisions we make today affect all company's stakeholders and not just the bottom line. Proactively engage and listen to stakeholders' opinions.
Barclays Africa Banking (South Africa)	Compliance to the King Code of Corporate Governance III; to provide concise and connected view of the business.	Actively involved in the oversight of the report.	The Balanced Scorecard with links to capitals.	Provides a clearer framework to view the company's business model and operations in a more holistic way.
DBS Banking (Singapore)	To effectively convey how the company creates and distributes long term value while considering its impact on society and the environment.	Drive reporting and provide the story line linking financial and non-financial metrics.	The Balanced Scorecard and its key performance indicators.	Support the evaluation of the most material matters that affect the company's value creation process and its stakeholders.
ENI Energy (Italy)	To connect initiatives of sustainability with business and financial strategic objectives.	Initially championed by the Vice President for Sustainability, subsequently IR has been fully embraced by the Finance unit.	Capitals and KPIs clustered according to the company strategic objectives; connectivity map that links performance and risks in cause-effect relationships with financial and pre-financial capitals.	Greater awareness of how initiatives of sustainability impact on the business and financial objectives included in the strategic plan.

Appendix B (continued)

Summary of Issues from the Field.

Company Sector (Head Office)	Key Motivation	Role of Finance	Key leading practice	Key benefit of IR
Fideuram Private Banking - Intesa San Paolo (Italy)	To explain, in other words, every aspect of the business: mission, strategy, value creation, risk management, approach to sustainability and human resources.	Initially resistant to change, but continually involved in the reporting process.	The Business Model as a tool communicate the value creation journey of the company, simply by connecting strategy and performance.	We have converted an income statement expense item (the production of the report itself) into a potential income item (by making of it also a marketing tool).
Generali Insurance (Italy)	Pressure from Board to build on the One Report "readable" for all the internal and external stakeholders interested in the Generali value creation story and not just for only some financial specialists.	The CFO was in charge of developing integrated reporting.	Internal IR within each business unit links activities and objectives and communicates value creation story.	The idea to improve the integrated lab experience also in the light of the new non financial disclosure EU directive application both at head office and business units level.
Gold Fields Mining (South Africa)	Compliance to corporate governance trends, international reporting trends and the demands and criticism of stakeholders.	Corporate Affairs was tasked with presenting IR to the full Executive Committee and then, the Audit Committee of the Board, for their approval.	Strict adherence to corporate governance standards. Setting targets in terms of Integrated Annual Report rewards.	Offered a more accurate reflection of the realities of the business; greater understanding, among employees, for the need for Sustainable Development initiatives.
Liberty Insurance (South Africa)	The group's Chief Financial Officer was the primary driver. The key motivation was the adoption of the King Code of Corporate Governance.	The Chief Financial Officer was the champion of the process; the Finance function provided detailed processes and oversight to meet tight deadlines.	Dashboards and infographics to convey information in a crisp and concise manner. Various icons are used to improve connectivity effectively between the various areas of the report.	Improved general focus and prioritisation of areas of governance, value generation and stakeholder importance that are now measured more accurately and increasingly form part of performance KPI structures.

Appendix B (continued)

Summary of Issues from the Field.

Company Sector (Head Office)	Key Motivation	Role of Finance	Key leading practice	Key benefit of IR
Monnalisa Fashion (Italy)	Integration of financial and sustainability performance in the same report.	The CFO was one of the driver of the process.	Stakeholder engagement to identify 7 strategic priorities that now constitute the chapters of the report.	Sustainability had gained the same importance as finance. CSR is not optional, it is strictly part of the corporate identity of a company.
SASOL Energy (South Africa)	Compliance to the King Code of Corporate Governance III and strategic importance of social issues.	Close collaboration between Finance and Sustainability functions.	For each capital, quantitative data on the inputs, the impacts ('outcomes'), the activities taken to manage these impacts, and the nature of some of the trade-offs between the capitals are provided.	Higher transparency and accountability of information.
Snam Energy (Italy)	Provide linked information to multiple stakeholders.	Collaboration between Finance and Sustainability functions.	The core of the report is the Business model. It illustrates more clearly the links between strategic objectives and the allocation of resources.	The possibility of responding more quickly and comprehensively to stakeholders' requests and, at the same time, within the organization, greater collaboration across functions.
Terna Energy (Italy)	Communication, consolidation of investor relations and stimulus to integrated thinking.	Intense cooperation between Finance and the Sustainability function and proactive approach towards future regulatory requirements.	New processes in terms of information acquisition which defines increased involvement of individuals.	Offer a clearer picture of the different scenarios within which the Group works, connecting the different capitals.
UniCredit Banking (Italy)	Proposed by the CEO.	Support and collaboration in collecting data.	Transmission, collection and validation of data and information through a dedicated web based platform, named Sustainability Knowledge DataCenter.	Strengthened relationships with external stakeholders. Stronger cross-functional communications, more productive dialogue among employees at all levels across business activities.

Appendix C

Measuring the impact of bank initiatives: the case of UniCredit

The reporting process within banks is traditionally focused on financial issues without delving into the social, intellectual, environmental and human issues that directly or indirectly affect the long-term viability of the business. According to the IR Banking Network (2016, p.5): “One way for banks to decide what and how to report social and relationship outcomes may be to focus on the reason(s) the bank undertakes its activities and how this generates a wider impact on society”¹¹.

The UniCredit Group is one of the first European banks pioneering this approach. As a Bank, UniCredit is closely related to the lifeblood of many national economies and is responsible for improving local economic growth, which is both socially inclusive and environmentally sustainable.

The 2016 integrated report of UniCredit highlights a methodological approach that explores the shared value generated by its core business activities, citizenship initiatives and philanthropic projects. This methodology considers 97 indicators chosen from the most relevant international statistical institutions, such as BES and the Italian National Institute of Statistics, the OECD Better Life Index, and the WEF Global Competitiveness Index.

Through these indicators UniCredit assesses the most problematic issues of the seven countries in which it operates, analyzing the trends of the last ten years, their deviation from the EU averages and the top performers. This methodological approach provides a picture of UniCredit countries most relevant priorities for financial and social well-being, security, education, health, economy, environment and productivity, to name only a few. By adopting this approach, UniCredit targets the continuous interactions between the company and its operating environment in order to understand the conditions in which people live as well as how enterprises operate and, thus, formulate a clear plan for development in the long run.

Through this methodology, UniCredit aims to increase internal and external awareness of the shared value that is generated by its business activities; increase consciousness regarding the coherence between vision and initiatives; align internal communication and enhance engagement and participation; as well as support group positioning and reputation through external communication by enriching the narration of its existing activities (See Figure 7).

Furthermore, a snapshot of the key sectors in Italy that are primarily affected by UniCredit initiatives is illustrated in the report, describing Country's priorities that have been impacted by these initiatives. In particular, the integrated report focuses on sectors such as tourism, agriculture and infrastructure, which represent the backbone of Italian competitiveness, social welfare and culture. Figure 8 represents UniCredit's projects, KPISs and main impacts for the infrastructure sector in Italy.

Figure 7 — Analysis of Country priorities in UniCredit¹²

Country Priorities



Macro Dimension	Indicator	Italy	Germany	Austria	CEE ^A
Social Wellbeing	Employment rate of people 20-64 years	Medium	Low	Low	Low
	Social decay (or incivilities) rate	High	Medium	Medium	Medium
	Work satisfaction	Medium	Low	Low	Low
	Citizens who benefit from infancy services	High	Low	Medium	High
Economic Wellbeing	People suffering poor housing conditions	High	Medium	High	Medium
	Severely materially deprived people	High	Low	Low	Medium
	Index of subjective evaluation of economic distress	High	Medium	Medium	High
Education and Efficient use of talent	Country capacity to attract talent	Medium	Low	Medium	Medium
	Percentage of young people not in education, employment, or training (NEET)	High	Low	Low	High
	Percentage of people participating in formal or non-formal education	Medium	Medium	Low	Medium
Health	Healthy life expectancy at birth	Low	Medium	Medium	Medium
	Waiting lists	High	Low	Low	Medium
	Life expectancy without activity limitations at 65 years of age	High	High	Medium	Medium
Environment & Landscape	Energy from renewable sources	Low	Medium	Low	Low
	Public expenditure for recreation, culture and religion	High	High	Medium	Low
	Emissions of CO ₂ per inhabitant	Low	Medium	Low	Low
Infrastructure & Quality of services	Quality of overall infrastructure	Medium	Medium	Medium	Low
	Quality of roads	Low	Medium	Low	Low
	Internet bandwidth	Medium	Medium	High	Medium
Financial Market	Availability of financial services	Medium	Medium	Medium	Low
	Ease of access to loans	High	Low	Medium	Medium
	Venture capital availability	High	Low	High	Low
Business Sophistication	Local supplier quality	Low	Low	Medium	Low
	Extent of marketing	Medium	Low	Low	Low
	Nature of competitive advantage	Low	Low	Low	Medium
Innovation	Innovation rate of the national productive system	Medium	Medium	Low	Medium
	Research intensity	Medium	Low	Low	Medium
	Patent propensity	High	Medium	Low	Medium

Figure 8 — UniCredit initiatives, KPIs and Impacts in the infrastructure sector¹³

Backbone upgrade – enhancing infrastructure efficiency



Infrastructure represents the backbone of national competitiveness and social welfare. According to the World Economic Forum, over the past 10 years in Southern Europe, Italy has shown the highest growth in quality of infrastructure, thanks to heavy investments and increased market competition.^A UniCredit proactively contributes to the quality of Italian infrastructure by building long-term relationships and collaborative partnerships with other banks and institutions. In particular, we are investing in 28 projects and initiatives in a wide variety of areas – from healthcare, to transportation, to water services – financing 21 percent of overall debt and covering 9 percent of the total cost.

Projects	Expected effects on territories ^B	Priorities impacted
> Health		
<ul style="list-style-type: none"> • 14 hospitals 	<ul style="list-style-type: none"> • 15 provinces served • around 13 million potential beneficiaries^C • more than 9,000 beds provided 	<ul style="list-style-type: none"> • waiting lists • quality of overall infrastructure
> Motorways		
<ul style="list-style-type: none"> • 4 motorways 	<ul style="list-style-type: none"> • 520 km of motorways constructed and redeveloped (around 9 percent of total motorways in Italy)^D • average traffic flow of 380 million vehicles per km every month (5 percent of total Italian traffic flow per month)^D 	<ul style="list-style-type: none"> • quality of road infrastructure • traffic accidents
<ul style="list-style-type: none"> • 1 project to redevelop 103 tunnels for the network of state highways in Lombardy (Strade Statali, SS) 	<ul style="list-style-type: none"> • 138 km of SS tunnels, representing 96 percent all SS tunnels in Lombardy 	
> Logistics		
<ul style="list-style-type: none"> • 1 new parking lot in Rho Fiera (the largest Trade Fair Center in Italy per m², the seventh-most revenues in the EU; it averages 5 million visitors per year) 	<ul style="list-style-type: none"> • 10,000 new parking spaces in Rho Fiera 	<ul style="list-style-type: none"> • quality of overall infrastructure • local supplier quality and quantity
<ul style="list-style-type: none"> • 2 new office buildings, for Bologna municipality and Emilia Romagna region 	<ul style="list-style-type: none"> • over 20 municipal offices centralized • 1,000 employees transferred to new Bologna Municipality building • 3 regional departments consolidated • 600 employees transferred to new building for Emilia Romagna region 	
<ul style="list-style-type: none"> • redevelopment of the Mercato Trionfale in Rome 	<ul style="list-style-type: none"> • over 265 commercial spaces • 390 refurbished parking spaces 	
> Water		
<ul style="list-style-type: none"> • redevelopment of 3 water service networks 	<ul style="list-style-type: none"> • 11 provinces served • around 200 municipalities served • roughly 2 million beneficiaries^E 	<ul style="list-style-type: none"> • quality of overall infrastructure
> Metro		
<ul style="list-style-type: none"> • 2 metro lines (M5 & M4) in Milan 	<ul style="list-style-type: none"> • over 6 km and 10 stations added to M5 line • 236 percent increase in M5 line passengers between April and October 2015 • 2 percent CO₂ emission reduction (forecast) • reduction of roughly 30 million cars on city roads (forecast) 	<ul style="list-style-type: none"> • emission of CO₂ per inhabitant • quality of overall infrastructure

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Footnotes

1. On the concept of purpose see <https://hbr.org/2016/10/the-type-of-purpose-that-makes-companies-more-profitable>
2. <http://integratedreporting.org/wp-content/uploads/2013/12/13-12-08-THE-INTERNATIONAL-IR-FRAMEWORK-2-1.pdf>.
3. The IIRC Framework
4. Press release - see <http://eni.iwebcasting.it/2016-2019-strategy/assets/files/pressrelease-en.pdf>
5. See <http://integratedreporting.org/news/its-about-the-whole-movie-not-just-how-it-ends/>.
6. ENI Integrated Annual Report 2014 p. 18
7. ENI Integrated Annual Report 2015 p. 20
8. Eni for Sustainable development 2014 progress p. 82
9. Eni for Barclays Africa Group Limited 2015 Integrated Report p. 2
10. Barclays Africa Group Limited 2015 Integrated Report p. 8
11. See <http://integratedreporting.org/wp-content/uploads/2016/03/SR-Capital-and-Outcomes-IR-Banking-Network.pdf>
12. UniCredit Integrated Report 2016 p. 70
13. UniCredit Integrated Report 2016 p. 75

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