

# LEADING PRACTICES IN *Integrated Reporting*

Management accountants will guide their companies on the journey to value creation.

**By Cristiano Busco, Mark L. Frigo, Paolo Quattrone, and Angelo Riccaboni**

Integrated Reporting (IR) is making the leap from promising concept to powerful practice. Released at the end of 2013 by the International Integrated Reporting Council (IIRC), a global coalition of regulators, investors, companies, standards setters, the accounting profession, and nongovernmental organizations (NGOs), the IR Framework has been robustly tested and piloted in 25 countries. As we described in the article “Redefining Corporate Accountability through Integrated Reporting” (*Strategic Finance*, August 2013) and in our book *Integrated Reporting: Concepts and Cases that Redefine Corporate Accountability* (Springer, 2013), the Framework was co-created with business and investors and provides an “open” platform for IR to move toward the mainstream. To shed light on the way in which IR is currently being adopted and reflect on the possible opportunities ahead for management accountants and finance professionals, we will explore some leading examples of integrated reporting at Lawson, Inc.; Eni; and SAP.

## In Search of Competitiveness and Sustainable Growth

Competitiveness and sustainable growth are fundamental goals that contemporary organizations and societies are urged to achieve in the short, medium, and long term. The recent financial crisis and the growing disparities across societies have led many analysts and observers to describe the global economic system as busted and to lump business and finance among potential causes of social, environmental, and economic problems. Can businesses and societies succeed in striking a balance between the need for competitiveness and sustainable growth? How can value be defined, managed, and measured over time? From what and for whom do businesses create or destroy value?

These issues recently have fueled the macroeconomic and political debate across the globe with a significant demand for a move beyond Gross Domestic Product (GDP) measures. Some people maintain that GDP ignores social costs, environmental impacts, and income inequality. Therefore, the world needs a better understanding of what sustainable well-being means, how to measure it, and how to achieve it. This movement is gaining momentum in public opinion and is well aligned with the call for civil society and business organizations to cooperate globally to achieve the United Nations Sustainable Development Goals: a set of objectives, which are to be released in 2015, for fighting poverty, promoting sustainable development, and improving global well-being.

A paradigm shift is required if businesses intend to contribute toward a more sustainable society. This change calls for the introduction of an innovative perspective of integrated management that's able to combine multiple dimensions of analysis and sustain—in practice—the ongoing search for competitiveness.

The combination of Integrated Thinking and Integrated Reporting seems to offer a pragmatic solution to the existing concerns and outstanding needs. Integrated Thinking marks a change in the way in which companies envisage, design, and run their business. In parallel, IR provides an opportunity to understand and question the business holistically: looking beyond the financial representation to include an overview of strategies, operations, risks and opportunities, future outlook, governance, and more. The need for such an innovative and integrated vista seems to offer an interesting opportunity to management accountants and finance professionals, who are called on to leverage their existing skills and acquire new ones as the adoption of Integrated Thinking and Inte-

grated Reporting continues over time. Next, before focusing on some of the leading practices in IR, we offer a snapshot of the IR Framework released by the IIRC (see [www.theiirc.org](http://www.theiirc.org) for more).

## The IIRC Integrated Reporting Framework

Integrated Reporting results in a periodic, concise integrated report about how an organization's strategy, governance, performance, and prospects—in the context of its external environment—lead to the creation of value in the short, medium, and long term (visit [www.theiirc.org/international-ir-framework](http://www.theiirc.org/international-ir-framework)). Although providers of financial capital are the primary intended users, an integrated report should be designed to benefit all stakeholders—including employees, customers, suppliers, business partners, local communities, regulators, and policy makers—interested in an organization's ability to create value over time. The key objective of IR is to enhance accountability and stewardship with respect to the broad base of tangible and intangible capitals and promote understanding of their interdependencies.

In December 2013, the IIRC released the first version of its IR Framework to be used as guidance for voluntary adoption of IR. This Framework is currently inspiring a large number of companies across the globe (Microsoft, PepsiCo, Southwest Airlines, Unilever, Danone, Eni, Coca-Cola, Volvo, BASF, HSBC, Natura, SAP, and Repsol, to name a few) as they pioneer the adoption of IR across different industries and regions (see p. 25 for the current list of pilot companies). The IR Framework was designed to offer a balance between flexibility and prescription. It provides the fundamental concepts, guiding principles, and content elements that should be featured in an integrated report. Ultimately, the IR Framework represents an “open space” to be filled in a meaningful and reliable way to communicate the unique value-creation story of the company.

### Representing Value Creation as Capitals Engages with the Company Business Model

The fundamental concepts of IR are represented by the capitals that an organization uses and affects, as well as the process of creating value over time. That value is embodied in the capitals—sometimes also referred to as resources and relationships. (The IR Framework refers to “capitals” instead of “capital,” so we continue that use here.) The assessment of an organization's ability to create value depends on an understanding of the connec-

## Companies that Have Piloted the IR Framework

### BASIC MATERIALS

AkzoNobel NV, Netherlands  
AngloGold Ashanti, South Africa  
BASF SE, Germany  
Cliffs Natural Resources,  
United States of America  
Gold Fields, South Africa  
MASISA SA, Chile  
Solvay, Belgium  
Teck Resources, Canada

### CONSUMER GOODS

The Clorox Company,  
United States of America  
The Coca-Cola Company,  
United States of America  
Danone, France  
Industria de Diseño Textil SA  
(Inditex), Spain  
Marks and Spencer Group plc,  
United Kingdom  
Natura, Brazil  
Sainsbury's, United Kingdom  
Showa Denki Co. Ltd., Japan  
Unilever, United Kingdom  
BRF S.A, Brazil  
PepsiCo, United States of America

### CONSUMER SERVICES

Edelman, United States of America  
Meliá Hotels International, Spain  
New Zealand Post, New Zealand  
Slater & Gordon Lawyers, Australia

### FINANCIALS

Achmea (formerly Eureka),  
Netherlands  
AEGON NV, Netherlands  
Association of Chartered Certified  
Accountants, United Kingdom  
bankmecu Limited, Australia  
BBVA, Spain  
BNDES, Brazil  
The Chartered Institute of  
Management Accountants,  
United Kingdom  
CNDCEC, Italy  
The Crown Estate, United Kingdom  
DBS Bank, Singapore  
Deloitte LLP, United Kingdom  
Deloitte Netherlands, Netherlands  
Deutsche Bank, Germany  
Deutsche Börse Group, Germany

Ernst & Young Nederland LLP,  
Netherlands  
Ernst & Young ShinNihon LLC,  
Japan  
Generali Group, Italy  
Grant Thornton UK LLP,  
United Kingdom  
Grupo Segurador Banco Do Brasil E  
Mapfre, Brazil  
HSBC Holdings plc, United Kingdom  
Itaú Unibanco, Brazil  
Jones Lang LaSalle,  
United States of America  
KPMG International, Switzerland  
National Australia Bank Limited,  
Australia  
PricewaterhouseCoopers Advisory,  
Italy  
PriceWaterhouseCoopers N.V.,  
Netherlands  
Prudential Financial, Inc.,  
United States of America  
Stockland, Australia  
Strate, South Africa  
Uralsib, Russian Federation  
Vancity, Canada  
CPA Australia, Australia  
Garanti Bank, Turkey  
FMO, Netherlands  
Singapore Accountancy  
Commission, Singapore

### HEALTH CARE

NHS London, United Kingdom  
Novo Nordisk, Denmark  
Takeda Pharmaceutical Company  
Limited, Japan  
Sanofi, France

### INDUSTRIALS

AB Volvo – Volvo Group, Sweden  
Atlantia SpA, Italy  
BAM Group, Netherlands  
CCR SA, Brazil  
Diesel & Motor Engineering PLC,  
Sri Lanka  
Flughafen München GmbH,  
Germany  
Freund Corporation, Japan  
Interserve Plc, United Kingdom  
Kirloskar Brothers Limited, India  
NV Luchthaven Schiphol,  
Netherlands

Port Metro Vancouver, Canada  
Randstad Holding NV, Netherlands  
Tata Steel, India  
Transnet, South Africa  
Via Gutenberg, Brazil  
Votorantim Industrial, Brazil  
Cimsa, Turkey  
Bulleh Shah, Pakistan  
Coega Development Corporation,  
South Africa  
Fibria Celulose, Brazil

### OIL & GAS

eni SpA, Italy  
NIAEP, Russian Federation  
Petrobras SA, Brazil  
Repsol SA, Spain  
ROSATOM, Russian Federation  
Rosneft, Russian Federation  
Sasol, South Africa  
SNAM SpA, Italy

### TECHNOLOGY

ARM Holdings plc, United Kingdom  
Indra, Spain  
Microsoft Corporation,  
United States of America  
SAP, Germany

### TELECOMMUNICATIONS

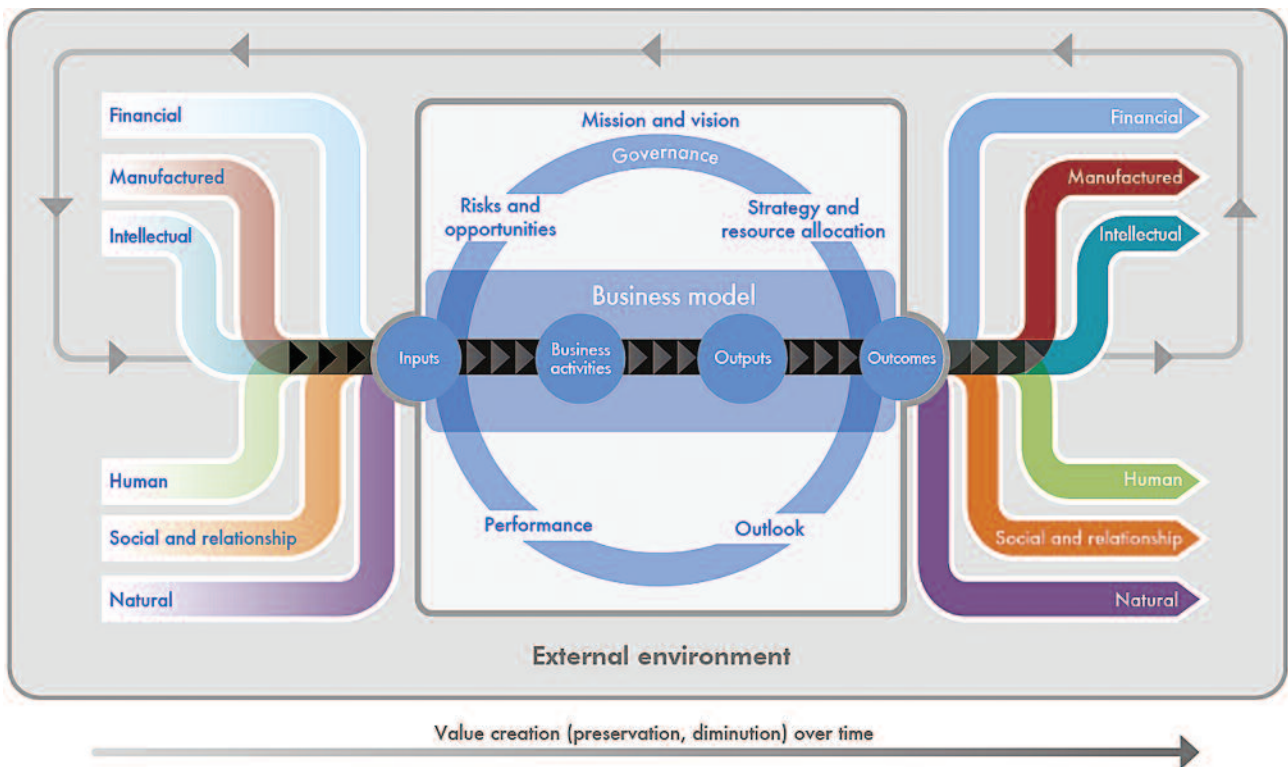
SK Telecom, South Korea  
Telefónica SA, Spain  
Vivendi, France

### UTILITIES

AES Brazil, Brazil  
CLP Holdings Limited, China  
CPFL Energia, Brazil  
ENAGAS SA, Spain  
EnBW Energie Baden-Württemberg  
AG, Germany  
Enel SpA, Italy  
Eskom Holdings SOC Limited,  
South Africa  
Terna SpA, Italy

**Figure 1: The Value-Creation Process**

(Source: IIRC IR Framework, 2013, p. 13)



tivity between a wide range of internal and external factors in its business model. (See Figure 1 for an overview of the value-creation process as presented in the IIRC IR Framework.)

As illustrated in the IR 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 IR Framework doesn't require organizations to adopt them, so they should be used as a benchmark to ensure an organization doesn't overlook a capital that it uses or affects.

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 *outcomes*, which represent the ultimate results of the outputs (see Figure 1).

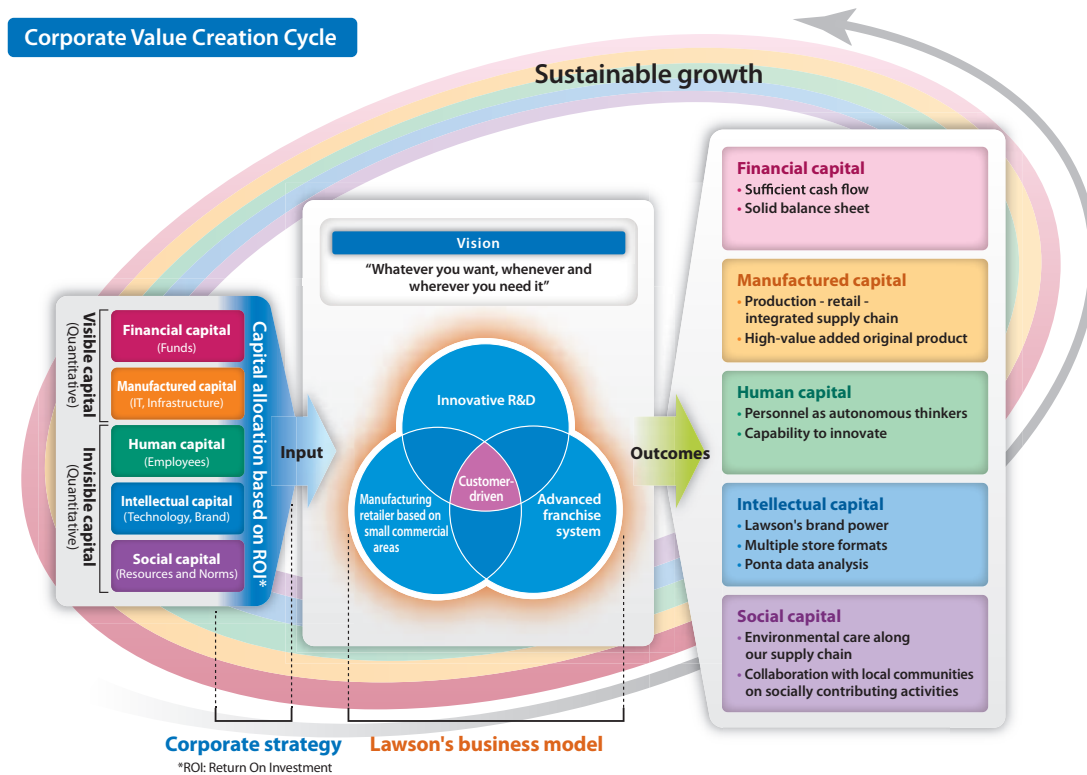
### The Ingredients of IR: Content Elements and Guiding Principles

An integrated report is built around seven elements that define its content and communicate the organization's unique value-creation story: organizational overview and external environment, governance, risks and opportunities, strategy and resource allocation, business model, performance, and future outlook (see Figure 1). By linking content across these elements, an integrated report illustrates the value-creation story from a basic description of the business model through the external factors affecting the business, including management's strategy for dealing with them and developing the business. This provides a foundation from which to discuss the performance, prospects, and governance of the business in a way that focuses on its most important aspects.

Because the intention is to offer an appropriate balance between flexibility and prescription, the IR Framework is principles based rather than rules based. The idea is to recognize the wide variation in individual circumstances of different organizations yet enable a sufficient degree of comparability across organizations to meet the relevant information needs. For this reason, the IR Framework

**Figure 2: Lawson, Inc. Capitals and Business Model**

(Source: Lawson, Inc., “Integrated Report 2013,” p. 3).



doesn't focus on rules for measurement, disclosure of individual matters, or even on the identification of specific key performance indicators (KPIs). Rather, the Framework is driven by Integrated Thinking, which will lead to integrated decision making and execution toward the creation of value. The rationale of this approach is to stimulate the active consideration by organizations of the relationships between their various operating and functional units and the kinds of capital that they use and have an effect on. Through the Integrated Thinking promoted by the IR Framework, business organizations are stimulated to focus on the connectivity and interdependencies among a range of factors that have a material effect on their ability to create value over time.

Next, to illustrate and discuss some of the key features of Integrated Reporting, we'll draw on leading examples from Lawson, Inc.; Eni; and SAP.

## Lawson, Inc.: Connecting Business and Society

Lawson, Inc. is a convenience-store franchise chain based in Japan. The store originated in the United States in Cuyahoga Falls, Ohio, but today it's a Japanese company and is the second-largest convenience-store chain in the

country behind 7-Eleven. In 2013, Lawson, Inc. produced its first integrated report that combines its previous Annual Report and Corporate Citizenship Report to incorporate financial and nonfinancial information in one volume. Lawson's "Integrated Report 2013" ([http://lawson.jp/en/ir/library/pdf/annual\\_report/ar\\_2013\\_e.pdf](http://lawson.jp/en/ir/library/pdf/annual_report/ar_2013_e.pdf)) opens by identifying the key stakeholders of the company. Among them are local communities, which Lawson places at the center of the corporate philosophy, business model, and action plan. The one-page message from the CEO further emphasizes this by highlighting how the company strives to create value and to respond to the dynamically diversified needs of the local communities while existing in harmony with society.

From the start, the report illustrates how the company's business model is tied to possible solutions to the social and environmental challenges of the local communities. For example, *key challenges* in the local communities include issues arising from changes in society, such as gender balance, an aging population, few jobs for young people, escalation of national medical costs, and increase in lifestyle-related diseases. Global environmental changes include power shortages, climate change, increasing waste, and long-term depletion of natural resources. Both



the local and global issues are connected to the multiple actions that Lawson, Inc. has implemented as part of its mission to realize a sustainable business growth in harmony with society and the environment. The response to these challenges characterizes the company's business model and approach to value creation (see Figure 2).

Figure 2 represents Lawson, Inc.'s "Corporate Value Creation Cycle." This representation, which mirrors the IIRC Framework in Figure 1, builds on the capitals as inputs and outcomes of the cycle. Both "visible" and "invisible" capitals are included. According to Lawson, Inc., "Visible capital is goods and money depicted in financial statements. Invisible capital is what is not shown, such as human capital." The "Integrated Report 2013" offers a powerful view of the company's business model and capitals.

Eni, the Italian energy giant, has moved one step further by identifying the stocks of capitals, how they have been used within the company's business model, and their impact on the company and its stakeholders. Eni's innovative approach is presented next.

## Eni: Mediating across Capitals and Stakeholders

Eni is the sixth-largest integrated energy company in the world by market value, is active in 90 countries, and has approximately 78,000 employees. Its net sales from operations are €27 billion. The company boasts a strong position in the oil-and-gas value chain from the hydrocarbon exploration phase to product marketing. In 2010, after having issued a series of environmental and then sustainability reports, Eni realized that, although the numbers were allowing a true and fair review of the company's performance, operations, and management, they weren't necessarily relevant to the stakeholders or able to hint at the sustainability of the business. Also not relevant per se was the simple act of reporting data. What was missing was a broader process of analysis and communication that was able to put performance in context and to represent the strategic leverages the company was using to build and maintain its ability to produce value in the long term. For this reason, Eni began the process of integration in corporate reporting.

At Eni, sustainability isn't a specific area of activity.







Instead, it represents a business approach and is a lever to support long-term value creation while managing political, operational, and financial risks. This approach has been embedded in the company's culture since its foundation when Enrico Mattei, Eni's first chairman, pioneered a way to become more competitive by 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. Eni adopts Integrated Thinking that starts from planning and integrated risk management. Business opportunities are defined by taking into account the multiple capitals that could be leveraged by the operations, and risks are evaluated considering all possible impacts that could be generated.

Within this context, Eni's "Annual Report 2013" is an integrated report that innovates in terms of contents by highlighting the different capitals, resources, and relationships that are part of the company's value-creation process. The main capitals Eni uses (financial, manufacture, intellectual, natural, human, social and relationship) are classified in line with the indications offered in the IIRC Framework (see Figure 3). They represent the stocks and their value, which is increased or transformed through Eni's activities. Each capital is associated with the main actions that will create value for the company and all stakeholders.

For example, for the natural capital, stocks include oil and gas reserves, water, biodiversity and ecosystems, air, and soil (see Figure 3). Eni's main actions related to this capital include investments in new businesses, such as bio-refinery and green chemistry; investment in technological and process upgrades; and remediation activities. Among the results for Eni are growth of hydrocarbon reserves, reduction in operational expenses, mitigation of operational risk, license to operate, and stakeholders' recognition. Regarding the impact on external stakeholders, the report highlights the reduction of gas flares, reduction of oil spills and blowout, preservation of biodiversity, containment of water consumption, and energy efficiency.

From the upstream operations to marketing activities, Eni's "Annual Report 2013" ([www.eni.com/en\\_IT/attachments/publications/reports/reports-2013/Annual-Report-2013.pdf](http://www.eni.com/en_IT/attachments/publications/reports/reports-2013/Annual-Report-2013.pdf)) attempts to make the connections that exist between integrated activities and business strategies

**Figure 3: Eni's Main Capitals**  
(Source: Eni "Annual Report 2013," p. 5)

stock of capital	Eni's main actions	value creation for Eni	value creation for Eni's stakeholders
<ul style="list-style-type: none"> <li>Financial structure</li> <li>Liquidity reserves</li> </ul>	<ul style="list-style-type: none"> <li>Cash flow from operations</li> <li>Bank loans</li> <li>Bonds</li> <li>Maintaining strategic liquidity</li> <li>Hedging</li> <li>Dividends</li> <li>Buyback</li> <li>Working capital optimization</li> </ul>	<ul style="list-style-type: none"> <li>Going concern</li> <li>Lower cost of capital</li> <li>Reduction of working capital</li> <li>Leverage optimization</li> <li>M&amp;A opportunities</li> <li>Mitigation of market volatility</li> <li>Credit worthiness</li> </ul>	<ul style="list-style-type: none"> <li>Yields</li> <li>Share price appreciation</li> <li>Social and economical growth</li> <li>Satellite activities</li> </ul> <p><b>financial capital</b> </p>
<ul style="list-style-type: none"> <li>Onshore and offshore plants</li> <li>Pipelines and storage plants</li> <li>Liquefaction plants</li> <li>Refineries</li> <li>Distribution networks</li> <li>Power plants</li> <li>Chemical plants</li> <li>Buildings and other equipment</li> </ul>	<ul style="list-style-type: none"> <li>Technological upgrade</li> <li>Process upgrade</li> <li>Investment in new businesses (bio-refinery, Green chemistry, car sharing)</li> <li>Maintenance and development activities</li> <li>Increase environment Certifications (ISO 14001, ISO 50001, EMAS, etc.)</li> </ul>	<ul style="list-style-type: none"> <li>Returns</li> <li>Enlarging asset portfolio</li> <li>Increase assets value</li> <li>Reduction of operational risk</li> <li>Energy and operational efficiency</li> <li>Reputation</li> </ul>	<ul style="list-style-type: none"> <li>Availability of energy sources and green products</li> <li>Employment</li> <li>Satellite activities</li> <li>Reduction of direct GHG emissions and responsible use of resources</li> </ul> <p><b>manufacture capital</b> </p>
<ul style="list-style-type: none"> <li>Technologies and intellectual property</li> <li>Corporate internal procedures</li> <li>Corporate governance system</li> <li>Integrated risk management</li> <li>Management and control systems</li> <li>Knowledge management</li> <li>ICT (Green Data Center)</li> </ul>	<ul style="list-style-type: none"> <li>Research and development expenditures</li> <li>Partnership with centres of excellence</li> <li>Development of proprietary technologies and patents</li> <li>Application of procedures and systems</li> <li>Audit</li> </ul>	<ul style="list-style-type: none"> <li>Competitive advantage</li> <li>Risk mitigation</li> <li>Transparency</li> <li>Performance</li> <li>Licence to operate</li> <li>Stakeholders' acceptability</li> </ul>	<ul style="list-style-type: none"> <li>Reduction of environmental and social impacts</li> <li>Transfer of best available technologies and know-how to host Countries</li> <li>Contributing to the fight against corruption</li> <li>Green products</li> </ul> <p><b>intellectual capital</b> </p>
<ul style="list-style-type: none"> <li>Health and safety of people</li> <li>Know-how and skills</li> <li>Experience</li> <li>Engagement</li> <li>Diversity (gender, seniority, geographical)</li> <li>Eni's thinking</li> </ul>	<ul style="list-style-type: none"> <li>Safety at work</li> <li>Recruiting, education and training on the job</li> <li>Promotion of human rights</li> <li>Eni's people engagement</li> <li>Knowledge management</li> <li>Welfare</li> <li>Leveraging on diversity</li> <li>Enhancing individual talents and remuneration in accordance to a merit system</li> </ul>	<ul style="list-style-type: none"> <li>Performance</li> <li>Efficiency</li> <li>Competitiveness</li> <li>Innovation</li> <li>Risk mitigation</li> <li>Reputation</li> <li>Talent attraction</li> </ul>	<ul style="list-style-type: none"> <li>Create employment and preserve jobs</li> <li>Wellness of Eni's people and local communities</li> <li>Increase and transfer know-how</li> </ul> <p><b>human capital</b> </p>
<ul style="list-style-type: none"> <li>Relationship with stakeholders (institutions, governments, communities, associations, customers, suppliers, industrial partners, NGO, universities, trade unions)</li> <li>Eni's brand</li> </ul>	<ul style="list-style-type: none"> <li>Stakeholders' Engagement</li> <li>MoU with Governments and local authorities</li> <li>Projects for local development and Local content</li> <li>Strategic partnerships</li> <li>Involvement in international panel discussion</li> <li>Development of programmes on research and training</li> <li>Partnerships with trade unions</li> <li>Quality of services rendered</li> <li>Brand management</li> </ul>	<ul style="list-style-type: none"> <li>Operational &amp; social licence</li> <li>Reduction of Time to market</li> <li>Country risk reduction</li> <li>Market share</li> <li>Alignment to international best practices</li> <li>Reputation</li> <li>Competitive advantage</li> <li>Suppliers reliability</li> <li>Customers retention</li> </ul>	<ul style="list-style-type: none"> <li>Local socio-economical development</li> <li>Customers and suppliers satisfaction</li> <li>Share of expertise with territories and communities</li> <li>Satisfaction and incentive of people</li> <li>Promoting respect for workers' rights</li> </ul> <p><b>social and relationship capital</b> </p>
<ul style="list-style-type: none"> <li>Oil and gas reserves</li> <li>Water</li> <li>Biodiversity and ecosystems</li> <li>Air</li> <li>Soil</li> </ul>	<ul style="list-style-type: none"> <li>Exploration, production, transporting, refining and distributing hydrocarbons</li> <li>Investment in new businesses (bio-refinery, Green Chemistry, car sharing)</li> <li>Investment in technological and process upgrade</li> <li>Remediation activities</li> </ul>	<ul style="list-style-type: none"> <li>Hydrocarbon reserves growth</li> <li>Opex reduction</li> <li>Mitigation of operational risk (asset integrity)</li> <li>Reputation</li> <li>Licence to operate</li> <li>Stakeholders' recognition</li> </ul>	<ul style="list-style-type: none"> <li>Reduction of gas flared</li> <li>Reduction of oil spills and blowout</li> <li>Preservation of biodiversity</li> <li>Green products</li> <li>Containment of water consumption (reinjection and water reuse)</li> <li>Energy efficiency</li> </ul> <p><b>natural capital</b> </p>

## Figure 4: Eni's Performance across Capitals

(Source: Eni "Annual Report 2013," pp. 6-7)



more evident. In particular, the report identifies a certain number of KPIs that capture the financial performance and sustainability performance as well as the results of the use of different forms of capitals (see Figure 4).

Eni's goal is to continue refining its Integrated Thinking and Integrated Reporting by capturing and highlighting the connections among the multiple capitals. This should lead to a better understanding of the impact of the heterogeneous sustainability drivers on the business objectives and financial results. This is something that is featured in the SAP integrated report.

### SAP: Connecting the Dots

SAP is a German multinational software corporation that produces enterprise resource planning (ERP) applications to manage operations and customer relations. This year, for the second time, SAP has published an integrated report by linking contents from its traditional Annual Report and Sustainability Report into one cohesive document ([www.sapintegratedreport.com/2013/en](http://www.sapintegratedreport.com/2013/en)). One of the key attributes of the SAP "Integrated Report 2013" is the attention drawn to the connections between financial and nonfinancial performance of the business. The purpose of the report is to illustrate the features of SAP integrated strategy by offering a holistic picture of all possible impacts. Notably, SAP's four global corporate goals

(objectives) reflect this balanced view: Two focus on the company financial performance (revenue and margin) and two on nonfinancial performance (customer loyalty and employee engagement).

The inclusion of a wider set of economic, social, and environmental measures is essential, but it isn't sufficient. Exploring the interdependencies is often the key. Actions taken in one area affect another area, and these connections hold the potential for the company to increase value creation by responding more effectively to the business landscape of today and tomorrow. For these reasons, the SAP "Integrated Report 2013" explores the cause-and-effect relationships

between the financial and nonfinancial indicators. In doing so, IR represents a platform for connecting the dots across the company's business model and offers a space to explore the company's ability to create value over time.

In particular, the report presents a map of the specific activities SAP has undertaken to first change employee behavior, subsequently impact company performance, and finally influence financial results. Describing such a chain is part of a strategy that should lead to assessing the consequences of nonfinancial performance in financial terms. To create and validate these chains of cause and effect, SAP turned to internal and external stakeholders. It started with those inside SAP, meeting in small groups that examined the cascade of impacts from activities related to each of the nonfinancial indicators. Next it engaged external stakeholders, including academics, financial investors, and peers, to evaluate the key findings.

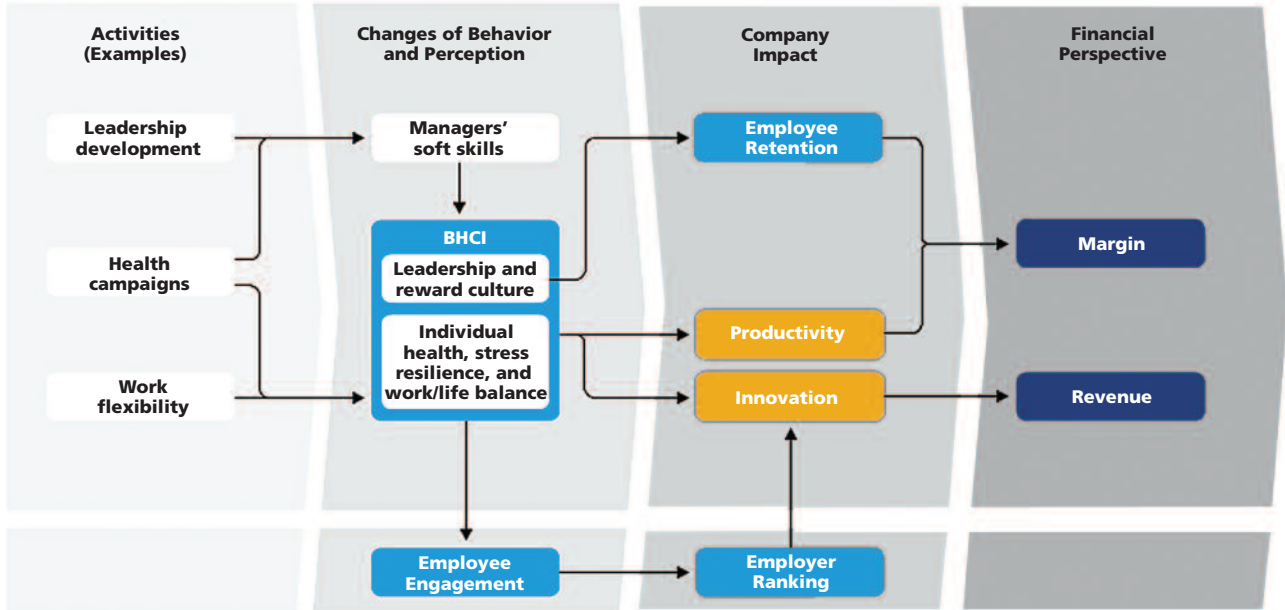
SAP's goal is to estimate the impact of the nonfinancial drivers of the business on corporate objectives and financial results. Understanding integrated cause-and-effect chains within the process of value creation that characterizes the SAP business model helps the company manage processes and activities in a more effective way and, most importantly, build awareness of the heterogeneous capitals, resources, and relation-



**Figure 5: Integrated Cause-and-Effect Value Chain for the BHCI at SAP**

(Source: SAP “Integrated Report 2013”)

**EMPLOYEES**

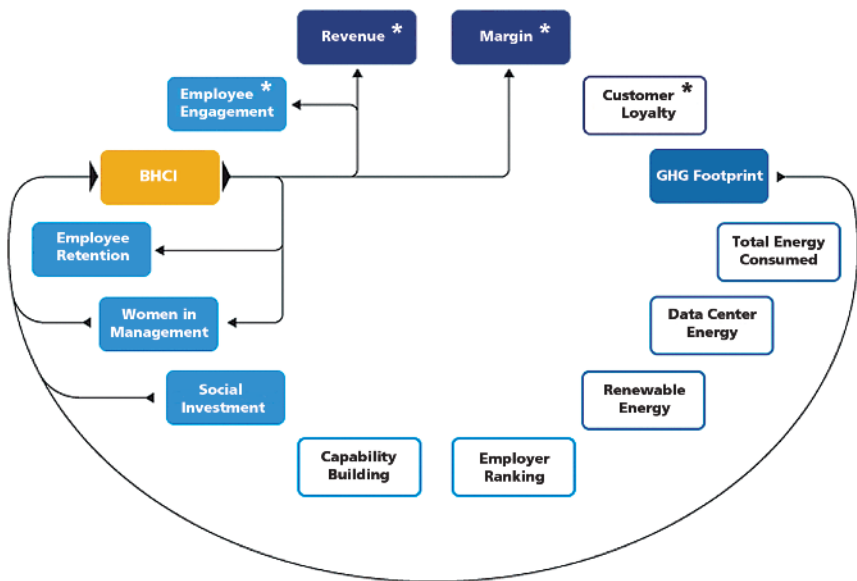


ships used and affected. Although this attempt is still in progress, the search for connectivity and quantification is already providing tangible results. Earlier in 2014, while seeking to design calculations with deeper cause-and-effect links behind them, SAP introduced two new non-financial performance indicators related to innovation and productivity.

The example presented in Figure 5 refers to the SAP Business Health Culture Index (BHCI). This index assesses the health of SAP employees and the health of the SAP organizational culture, which the company says are interrelated. The chain in Figure 5 starts with activities that support health at SAP, from flexible work arrangements to leadership development to global health and innovation awareness weeks. Each of these strengthens SAP organizational culture and helps employees manage stress, achieve work/life balance, feel empowered in their roles, and perform at their best. Moving from left to right, the diagram shows the impact of these activities. Flexibility, for example, enhances stress resilience and work/life balance, which leads to greater

**Figure 6: Strategy and Business Model—Integrated Performance Analysis for the BHCI**

(see [www.sapintegratedreport.com/2013/index.php?id=354&L=1](http://www.sapintegratedreport.com/2013/index.php?id=354&L=1))



employee engagement. Supported by specific analysis, the report suggests that a company culture with engaged employees enhances SAP employer ranking, helping the company attract top talent, which spurs innovation and ultimately boosts revenues. In parallel, leadership development leads to a stronger work culture, which increases productivity as well as employee retention, resulting in a higher operating margin.

The “Integrated Report 2013” offers readers and users the opportunity to learn about and question SAP works in progress with Integrated Reporting. By visiting [www.sapintegratedreport.com/2013/index.php?id=354&L=1](http://www.sapintegratedreport.com/2013/index.php?id=354&L=1), you can learn about SAP key performance indicators and see the connections among them. The report offers readers the opportunity to explore the chains that enable intangibles to become tangible. When you click on one of the boxes, arrows appear and point to other boxes that are their connections (see Figure 6 regarding the Business Health Culture Index). This way, users have the potential to learn and challenge the assumptions underpinning the links among the KPIs and corporate objectives (boxes with an asterisk in Figure 6 are corporate objectives). Significantly, the website calls for participation: “What do we know about the relations between our financial and nonfinancial indicators? Challenging ourselves to go beyond our assumptions, we looked into the connections and came up with the illustration below. We know that we do not have all the answers yet, so we invite your feedback as we continue to work on improving our performance.”

## Opportunities for Management Accountants within IR

The journey of Integrated Thinking and Integrated Reporting starts at the core of any organization: its business model. Resources, activities, output, and outcomes represent the foundation of any business. Strategy formulation, action planning, governance, and risk management put the company’s model for value creation in motion. As seen from the examples of Lawson, Inc.; Eni; and SAP, the need to master the connections across the multiple drivers of the value chain puts management accountants at the forefront of value creation. No one knows the business model better than management accountants because they have a holistic and unique perspective of a company’s strengths and weaknesses. For these reasons, they will find themselves at the heart of the drive to Integrated Reporting, leveraging their Integrated Thinking. Accountants and controllers need to be prepared for that drive—they need to be ready and equipped to take advantage of the opportunities to lead that will definitely flourish in this space.

Once more, Integrated Reporting is making the leap from promising concept to powerful practice throughout the world. Add on Integrated Thinking, and management accountants have the opportunity to lead these new practices, acting as designers and leaders of a space where

companies are continuously searching for a pragmatic balance between competitiveness and sustainable growth in practice. They can be designers because Integrated Thinking and Integrated Reporting represent an open platform that requires imagining and understanding the business model rather than rigid compliance with standards. They can also act as leaders because this process needs direction since it requires mediating the connections and trade-offs between the different drivers of value creation. These opportunities are available, and it’s up to management accountants and finance professionals to take advantage of them. **SF**

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