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Integrated Reporting: A holistic and comprehensive way to address organizations' impacts on the society.

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ACADEMIC YEAR 2017-2018

Introduction

Over the last hundred years, financial reporting has undergone substantial changes and still today it is challenged on whether it provides an accurate portrait on the present and future performance of a firm. In the last two decades, in particular, sustainability reporting looks at a different set of corporate impacts. The new approaches to capture a company impact on the society as a whole, have developed along parallel tracks.

If one believes that the purpose of the firm is exclusively to promote the interests of shareholders, then the path toward integration of sustainability and social impacts measures in a company's report might be simply to select a handful of measurements from the sustainability field that can be shown to be directly useful to enhancing shareholder value.

On the other hand, if corporate value and prosperity are broader concepts in which shareholders play an important role—but not an exclusive one—the purpose of integrated reporting would be to demonstrate the necessary interdependence of stakeholders.

Since we believe that a company ultimate goal is to create a sustainable value, that is not only economic but also social and moral, throughout the cooperation with multiple stakeholder, then the integration of such sustainability and social impact measures in the company's report appear as a normal development in how we measure its performance.

Considerable development has characterized in the last 20 years the academic literature on accounting and accountability systems for the combined management and reporting of financial and non-financial performance. Academics and practitioners have analyzed the interaction between managements' strategic propositions, organizational control systems and performance measurement and reporting systems.

In tandem with the growth in stand-alone social and environmental reporting practices, initiatives to develop voluntary reporting standards to guide organizations in initiating and implementing these reporting practices developed. The Institute of Social and Ethical Accountability (commonly known as AccountAbility) and the Global Reporting Initiative (commonly known by the acronym GRI) were among the membership organizations that developed the most enduring and widely adopted reporting and assurance standards for social and environmental reporting. As is the case with financial reporting standards, one of the aims of such standardization in social and environmental reporting was to enhance the credibility and comparability of reports that have been compiled in compliance with the standards.

In 2004, the Prince's Accounting for Sustainability Project was formed. One of its aims was to address this disconnect for many readers of sustainability reports. Over the following years it developed guidance for what it referred to as "connected reporting" where organizations were expected to draw report readers' attention to the main connections between those social, environmental and economic actions and outcomes that were material for the reporting organization.

In 2010, the GRI and the Prince's Accounting for Sustainability Project jointly formed the IIRC (International Integrated Reporting Council) to develop integrated reporting (IR) at a global level. At the outset, one of the main distinguishing features of integrated reporting was its aim to provide a concise report (in a relatively few pages) that would indicate an organization's most material social, environmental and economic actions, outcomes, risks and opportunities in a manner that reflected the integrated nature of these factors for the organization.

The concept of IR is a reaction to the challenge companies face to create value and the related demands of users of corporate reports to receive decision useful information on the companies' potential for future value creation. It can be regarded as a logical combination of two strands in corporate reporting that have developed over the last decades.
The IIRC's mission is to change the condition where financial and non-financial information are accounted for in isolation from each other towards integrated thinking which is embedded within mainstream management and accounting practice enabling integrated reporting to become the corporate reporting norm.[1] For the IIRC, the main purpose of integrated reporting is to provide a broader and more connected account of organizational performance than is provided by traditional financial and/or sustainability reporting. According to the IIRC, integrated reporting promotes the access, use and the degree of dependency of the reporting organization on a variety of social, environmental and economic resources; its relationship with capital (understood as consisting of financial, manufactured, intellectual, human, social and relationship, and natural capitals, i.e. including externalities); and the organization's impact upon these different forms of capital.

IR is described by the IIRC as bringing together…

"…information about an organization's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates. It provides a clear and concise representation of how an organization demonstrates stewardship and how it creates and sustains value."[2]

The intention is to develop a new global reporting framework that simplifies company reporting, but also improves the effectiveness of reporting in the context of a changed world order. Advocates suggest that the Global Financial Crisis, the need for greater transparency, problems of resource scarcity, and environmental issues all present new risks that must be addressed by managers in how they create value. In contrast to sustainability reporting, IR is oriented toward the future and seeks to capture interconnections between the financial and non-financial drivers of performance. IR represents, at face value, a fundamental shift in how managers think about strategy and value creation, and also what and how they communicate with stakeholders.
The fundamental concept that dives the IR is that value is not generated by or within an organization alone but is influenced by the external environment (including economic conditions, technological change, societal issues and environmental challenges), which provides the context within which the organization operates; created through relationships with others; and, finally, dependent on the availability, affordability, quality and management of various resources. For these reasons, IR aims to provide insights about the external environment that affects an organization, the resources and relationships used and affected by the organization (which in the IR framework are referred to as the capitals), as well as about the way in which the organization interacts with the external environment and the capitals to create value over the short, medium and long term.

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.

[1] IIRC (2013c), IIRC Pilot Programme Yearbook 2013. Business and Investors Explore the Sustainability Perspective of Integrated Reporting, International Integrated Reporting Council, available at: www.theiirc.org/wp-content/uploads/2013/12/IIRC-PP-Yearbook- 2013_PDF4_PAGES.pdf (accessed 5 April 2014).
[2] IIRC, (2011) Towards Integrated Reporting, Communicating Value in the 21th Century, pp.2.

The assessment of an organization’s ability to create value depends on an understanding of the connectivity between a wide range of internal and external factors in its business model.
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. 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.
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. 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 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.

Examples of integrated annual report can be found going through the annual report of companies such as ENI, SAP, Unilever, British American Tobacco and AXA.
Eni is an example of corporation that has embraced the integrated reporting as a tool to address the impact of its business and operations on the society. In its integrated annual report Eni discloses its business model, that in accordance with the “International Framework” is the system through which an organization transforms inputs, through its business activities, into outputs and outcomes in order to fulfill the organization’s mission and create sustainable value in the short, medium and long-term.
Eni’s Integrated Annual report provides details about the company distinctive assets, analyzed on the basis of financial, operational, environmental, technological, human, social and relational dimensions, in order to identify the related quantitative parameters (KPIs). These KPIs allow a continuous monitoring of the target achievement and the identification of the intervention areas by pursuing the strategic guidelines that allow, in an increasingly complex scenario, to optimize and anticipate the value creation.

SAP's Integrated Report 2017 takes into consideration the recommendations from the International Integrated Reporting Framework. The financial reporting presented in the SAP Integrated Report includes SAP's Consolidated Financial Statements and SAP's Combined Management Report. Following the company's integrated reporting approach, the Combined Management Report also provides non-financial information. This non-financial information relates to topics derived from SAP's materiality assessment including innovation, impact on society, human capital, business conduct, human and digital rights, and climate and energy.
Further attention in the report is 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.

The Unilever Sustainable Living Plan (USLP), is at the heart of the company strategy for achieving business growth and since its launch in 2010 it has provided a blueprint for achieving the company's vision to grow its business whilst reducing the environmental footprint and increasing its positive social impact. Unilever's disclosure of its Sustainable Living Plan presents its vision and strategic priorities around several capitals, including social/relationship, natural, and human capital.

The governance section of the British American Tobacco's annual report lists the activities undertaken by the Board during the year under each of the company's strategic priorities. This outlines the ways in which the Board has influenced and monitored the strategic direction of the company, thus demonstrating how the company's governance structure supports its ability to create value. This is consistent with the "Governance" content element of the IR Framework, since this particular section of BAT's annual report describe how the organization's governance structure supports its ability to create value in the short, medium and long term.

AXA concisely links its material issues to the company's risks and opportunities in a two-page spread in their 2016 Integrated Report. The material risks are initially plotted according to their level of importance and the relevance of the risk/opportunity to both AXA respondents and external stakeholders. This also shows compliance with the <IR> Framework which discusses stakeholders' role in providing insights into risk management.

IR embodies a transformation function a sort of "two-way" street where the company must be open to the feedback it is getting from its counterparties and willing to engage with them. With such an approach IR can address what a lot of people described as a re-imagine capitalism, a concept that has precise characteristics:

- greater attention to the negative externalities produced by a company and its efforts to mitigate them;
- greater attention to the interests and expectations of other stakeholders, especially for very large companies, since society increasingly looks to them and not just governments to contribute to sustainable development;
- striking the proper balance between meeting the expectations of shareholders and other stakeholders;
- institutional investors factoring in a company's sustainability performance in investment decisions;
- a longer-term outlook on the part of both companies and investors.

As with any transformation journey, organizations should expect challenges when implementing an IR project. Some found challenges within their organization itself, and other challenges are brought on by the external context within which the organization operates.
Organizational culture has a major influence on the development of an IR project. To succeed, IR must adapt to the existing culture of the company while allowing some comparison with competitors in order to be comparable to its peers (notably to meet investors' expectations). The road to universal adoption of integrated reporting is a long one, and it has still many challenges ahead. Nonetheless the benefits that the implementation of the IR brings can actually clear the road to a re-imagine capitalism and re-position the role of corporation on today's society.

Chapter 1

In this chapter we present how financial reporting has undergone substantial changes in the last hundred years and how sustainability in corporate reporting has characterized the last decades of academic literature. Among other frameworks Integrated Reporting (IR) has been the most innovative and recent one. The IR framework is presented an analyzed, emphasizing its principle-based approach, its fundamental concepts and its potential role in today's society.

1.1 Purpose of a firm

Over the last hundred years, financial reporting has undergone substantial changes and still today it is challenged on whether it provides an accurate portrait on the present and future performance of a firm. In the last two decades, in particular, sustainability reporting looks at a different set of corporate impacts. The new approaches to capture a company impact on the society as a whole, have developed along parallel tracks.

If one believes that the purpose of the firm is exclusively to promote the interests of shareholders, then the path toward integration of sustainability and social impacts measures in a company's report might be simply to select a handful of measurements from the sustainability field that can be shown to be directly useful to enhancing shareholder value.
On the other hand, if corporate value and prosperity are broader concepts in which shareholders play an important role—but not an exclusive one—the purpose of integrated reporting would be to demonstrate the necessary interdependence of stakeholders.[3] Since we believe that a company ultimate goal is to create a sustainable value, that is not only economic but also social and moral, throughout the cooperation with multiple stakeholder, then the integration of such sustainability and social impact measures in the company's report appear as a normal development in how we measure its performance.
Furthermore, globalization and interconnectivity mean the world's finances, people and knowledge are inextricably linked, as evidenced by the global financial crisis. In the wake of the crisis, the desire to promote financial stability and sustainable development by better linking investment decisions, corporate behavior and reporting has become a global need.

1.2 Sustainability in corporate reporting

Considerable development has characterized in the last 20 years the academic literature on accounting and accountability systems for the combined management and reporting of financial and non-financial performance. Academics and practitioners have analyzed the interaction between managements' strategic propositions, organizational control systems and performance measurement and reporting systems.[4] Among several proposals advanced by scholars within the accounting, management and governance domains[5], three frameworks that have emerged are:

[3] Eccles R., Cheng B., and Saltzman D. (2010), "The Landscape of Integrated Reporting Reflections and Next Steps", Harvard Business School, Cap 1, pp. 2-3.
[4] Parker, L.D. (2012), "Qualitative management accounting research: assessing deliverables and relevance", Critical Perspectives on Accounting, Vol. 23 No. 1, pp. 54-70.
[5] Nixon, B. and Burns, J. (2012), "The paradox of strategic management accounting", Management Accounting Research, Vol. 23 No. 4, pp. 229-244.

1. the Triple Bottom Line
2. Sustainability Reporting
3. Integrated Reporting

The Triple Bottom Line, that is a form of external reporting, became popular towards the end of 1990s.[6] It provided a new language to express the sustainability concept to an audience more accustomed to external disclosure of the economic bottom line.[7] The Triple Bottom Line suggested the need to also disclose information regarding environmental and social matters.[8]

Recently, there has been a tendency to refer to social and environmental disclosures as sustainability disclosures. The meaning of the term sustainability is contested, and critics claim that the term "sustainability disclosure" itself has little to do with sustainability and is much more about an attempt by business to connect with the concept of sustainability in a symbolic way, whilst continuing with business as usual.[9] The Triple Bottom Line has been similarly criticized.[10] While drawing on multiple strands, the early development of integrated reporting policies and practices appears to have largely been informed and driven by considerations linked to social and environmental reporting. Until the latter part of the twentieth century much social and environmental reporting took place via the medium of corporate annual reports. Although these reports were predominantly financial in orientation, some organizations used parts of their annual reports to disclose selected information about their social and environmental impacts and their policies towards managing the interactions between the organization, the society in which it operated, and the natural environment.[11]

Research indicates that these social and environmental disclosures within annual reports appear to have been largely motivated by organizational or managerial desires to meet the perceived information requirements of the stakeholders who held the most economic power in relation to a reporting organization.[12]

As social and environmental reporting became more widely practiced, and as the amount of social and environmental information reported by many organizations expanded, increasingly organizations began to separate out social and environmental disclosures, using media other than the annual report to disclose much of this information. For many of these organizations, the annual report became primarily focused on communicating information of core relevance to their financial stakeholders.[13] Information considered to be primarily of relevance to other stakeholders was

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[6] Elkington, J. (2004), "Enter the triple bottom line", in Henriques, A. and Richardson, J. (Eds), The Triple Bottom Line, Does it All add Up? Assessing the Sustainability of Business and CSR, Earthscan, London, pp. 1-16.

[7] Adams, C., Frost, G. and Webber, W. (2004), "Triple bottom line: a review of the literature", in Henriques, A. and Richardson, J. (Eds), The Triple Bottom Line, Does it All add Up? Assessing the Sustainability of Business and CSR, Earthscan, London, pp. 17-25.

[8] Elkington, J. (1998), Cannibals With Forks: The Triple Bottom Line of 21st Century Business, New Society Publishers, Gabriola Island and Stony Creek, CT.

[9] Milne, M.J., Tregidga, H. and Walton, S. (2009), "Words not actions! The ideological role of sustainable development reporting", Accounting, Auditing & Accountability Journal, Vol. 22 No. 8, pp. 1211-1257.

[10] Brown, D., Dillard, J. and Marshall, S. (2009), "Triple bottom line: a business metaphor for a social construct", in Dillard, J., Dujon, V. and King, M.C. (Eds), Understanding the Social Dimension of Sustainability, Routledge, London, pp. 211-232.

[11] Unerman, J. (2000), "Reflections on quantification in corporate social reporting content analysis", Accounting, Auditing & Accountability Journal, Vol. 13 No. 5, pp. 667-680.

[12] Neu, D., Warsame, H. and Pedwell, K. (1998), "Managing public impressions: environmental disclosures in annual reports", Accounting, Organizations and Society, Vol. 23 No. 3, pp. 265-282.

[13] de Villiers, C. and van Staden, C.J. (2011), "Where firms choose to disclose voluntary environmental information", Journal of Accounting and Public Policy, Vol. 30 No. 6, pp. 504-525.

published (often in increasing volume and complexity) in stand-alone social and environmental reports and/or other interactive media (such as sustainability web sites).

Sustainability in corporate reporting has been enhanced by the introduction of the groundbreaking EU Directive on the disclosure of non-financial and diversity information (Directive 2014/95/EU) that has set a clear course towards greater business transparency and accountability on social and environmental issues. By regulating non-financial and diversity disclosure requirements across Europe, Directive 2014/95/EU represents an important step towards standardizing reporting and formalizing transparency requirements. Achieving this standardization across thousands of organizations simultaneously, presents a significant challenge. In order to be effective, the Directive 2014/95/EU has had to account for the varying business practices across the EU Member States. As a result, the Directive allows state specific requirements to ensure its implementation across the varying national practices and account for existing national requirements for non-financial disclosures.

In tandem with the growth in stand-alone social and environmental reporting practices, initiatives to develop voluntary reporting standards to guide organizations in initiating and implementing these reporting practices developed. The Institute of Social and Ethical Accountability (commonly known as AccountAbility) and the Global Reporting Initiative (commonly known by the acronym GRI) were among the membership organizations that developed the most enduring and widely adopted reporting and assurance standards for social and environmental reporting.[14] As is the case with financial reporting standards, one of the aims of such standardization in social and environmental reporting was to enhance the credibility and comparability of reports that have been compiled in compliance with the standards.
In practice, however, as the GRI guidelines became more complex and covered a broader range of social, environmental and governance issues, sustainability reports compiled in accordance with the GRI standards also became more complex and lengthy. Although such reports might have contained a wealth of information about a reporting organization's social, environmental and economic impacts, practices and policies, because of the level of detail in the report it was often difficult for readers of a GRI compliant report to systematically link information across different policies, practices and impacts. Such linking is considered important because actions or impacts in one area will often lead to other impacts in other areas.[15] The more information there is in a report about individual social, environmental and economic impacts, policies and practices, the greater is the likelihood of information overload for readers of the report.[16] With greater information overload, the more difficult it is for all but the most determined and informed readers of a sustainability report to appreciate the linkages between different social, environmental and economic impacts.

In 2004, the Prince's Accounting for Sustainability Project was formed. One of its aims was to address this disconnect for many readers of sustainability reports. Over the following years it developed guidance for what it referred to as "connected reporting" where organizations were expected to draw report readers' attention to the main connections between those social,

[14] Buhr, N., Gray, R. and Milne, M.J. (2014), "Histories, rationales, voluntary standards and future prospects for sustainability reporting: CSR, GRI, IIRC and beyond", in Bebbington, J., Unerman, J. and O'Dwyer, B. (Eds), Sustainability Accounting and Accountability, 2nd ed., Routledge, London, pp. 51-71.
[15] Hopwood, A.G., Unerman, J. and Fries, J. (Eds) (2010), Accounting for Sustainability. Practical Insights, Earthscan, London.
[16] Fries, J., McCulloch, K. and Webster, W. (2010), "The prince's accounting for sustainability project: creating 21st-century decision making and reporting system to respond to 21stcentury challenges and opportunities", in Hopwood, A.G., Unerman, J. and Fries, J. (Eds), Accounting for Sustainability. Practical Insights, Earthscan, London, pp. 29-46.

environmental and economic actions and outcomes that were material for the reporting organization.[17] In the following years, several reporting organizations and regulatory bodies responded to the challenge of providing a more holistic picture within sustainability reports of interacting material social, environmental and economic actions and impacts.
In 2010, the GRI and the Prince's Accounting for Sustainability Project jointly formed the IIRC (International Integrated Reporting Council) to develop integrated reporting (IR) at a global level. At the outset, one of the main distinguishing features of integrated reporting was its aim to provide a concise report (in a relatively few pages) that would indicate an organization's most material social, environmental and economic actions, outcomes, risks and opportunities in a manner that reflected the integrated nature of these factors for the organization.[18]

The concept of IR is a reaction to the challenge companies face to create value and the related demands of users of corporate reports to receive decision useful information on the companies' potential for future value creation. It can be regarded as a logical combination of two strands in corporate reporting that have developed over the last decades.[19] On the one hand investors require more relevant information from companies that allows them to appraise the future economic development of the companies, and thus their corporate value. On the other hand, the ability and willingness of a company's management to deal with stakeholder expectations regarding its social responsibility require the incorporation of the sustainability concept into corporate strategies, decisions and actions, and is perceived to have a growing impact on the future success of the company.[20]

1.3 International Integrated Reporting Council (IIRC)

The IIRC was formed in 2010 under the auspices of the GRI and the Prince of Wales' Accounting for Sustainability Project. The IIRC itself comprises "a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs".[21] Since 2010 the IIRC has been working on the development of an IR Framework, with the aim of completion by the end of 2013. The Consultation Draft Framework (CD) was published in April 2013 and received 359 consultation letters from all over the world. It is evident that the IIRC's Framework will have a strong impact on the future global development of IR, as the IIRC is the most likely developer of IR at this stage.

The initial intention of the IIRC was to use electronic forms of reporting to allow users of integrated reports to drill down to more detailed reports and other information on those elements reported in the integrated report in which they were most interested.
Subsequent developments in the IIRC's thinking on integrated reporting shifted the emphasis from an organization's integrated report being a high-level overview, towards the integrated report replacing other forms of corporate reporting:

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[17] Hopwood, A.G., Unerman, J. and Fries, J. (Eds) (2010), Accounting for Sustainability. Practical Insights, Earthscan, London.
[18] IIRC. (Ed.) (2012), Prototype of the International /IRS Framework, IIRC.
[19] Axel Haller Chris van Staden , (2014),"The value added statement – an appropriate instrument for Integrated Reporting", Accounting, Auditing & Accountability Journal, Vol. 27 Iss 7 pp. 1190 – 1216.
[20] Porter, M. and Kramer, M.R. (2011), "Creating shared value", Harvard Business Review, Vol. 89 Nos 1/2, pp. 63-77.
[21] IIRC (2013b), Consultation Draft Framework, IIRC, London, available at: www.theIIRC.org

"The main output of Integrated Reporting is an Integrated Report: a single report that the IIRC anticipates will become an organization's primary report, replacing rather than adding to existing requirements [...] [bringing] together the different strands of reporting into a coherent, integrated whole."[22]

However, this ambition posed a substantive challenge to the guiding principle of providing a concise integrated picture of an organization's main actions, impacts, risks and opportunities. The IIRC's definition of integrated reports subsequently developed to:

"An integrated report is a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term. […] an integrated report may be prepared in response to existing compliance requirements […] If the report is required to include specified information beyond that required by this Framework, the report can still be considered an integrated report."[23]

The IIRC therefore appear to have recognized that existing corporate reporting rules require fuller and more comprehensive financial disclosure requirements than would be possible if a relatively short integrated report were to replace (and broaden) existing financial reporting requirements.

The IIRC's mission is to change the condition where financial and non-financial information are accounted for in isolation from each other towards integrated thinking which is embedded within mainstream management and accounting practice enabling integrated reporting to become the corporate reporting norm.[24] For the IIRC, the main purpose of integrated reporting is to provide a broader and more connected account of organizational performance than is provided by traditional financial and/or sustainability reporting. According to the IIRC, integrated reporting promotes the access, use and the degree of dependency of the reporting organization on a variety of social, environmental and economic resources; its relationship with capital (understood as consisting of financial, manufactured, intellectual, human, social and relationship, and natural capitals, i.e. including externalities); and the organization's impact upon these different forms of capital.

1.4 The path towards Integrated Reporting (IR)

Integrated Reporting (IR) sits within a long line of innovations to organizational reporting that firms have voluntarily adopted, to varying degrees, since the 1960s. As discussed in the above sections

[22] IIRC (2011), Towards Integrated Reporting. Communicating Value in the 21st Century, IIRC, International Integrated Reporting Committee, New York, NY, available at: http:// theiirc.org/wp-content/uploads/2011/09/IR-Discussion-Paper-2011_spreads.pdf (accessed 14 April 2013).

[23] IIRC (2013d), The International /IRS Framework, International Integrated Reporting Council, available at: www.theiirc.org/wp-content/uploads/2013/12/13-12-08-THE-INTERNATIONALIR- FRAMEWORK-2-1.pdf (accessed 23 February 2014).

[24] IIRC (2013c), IIRC Pilot Programme Yearbook 2013. Business and Investors Explore the Sustainability Perspective of Integrated Reporting, International Integrated Reporting Council, available at: www.theiirc.org/wp-content/uploads/2013/12/IIRC-PP-Yearbook- 2013_PDF4_PAGES.pdf (accessed 5 April 2014).

proposals have included value-added statements[25], social accounting[26], environmental reporting[27], human resource accounting[28], Triple Bottom Line reporting[29], and sustainability reporting[30]. Specific details about these, and arguments for why they should be adopted, have circulated within both the academic and practitioner literature, and examples of their practice can be found amongst prominent firms.[31]

The landmark publication, The Corporate Report, published by the UK Accounting Standards Steering Committee (1975), questioned the narrow shareholder and stewardship perspective taken at that time by accountants and directors in reporting the performance of companies. The Corporate Report emphasized the need for a 'user' perspective rather than the 'shareholder' or financial 'stewardship' perspective that emerged as the traditional agency model for limited companies. This was originally highlighted by Smith (1776), on the basis that the operation of a limited company entails a separation of ownership and control:

"The directors of such [joint-stock] companies, however, being the managers rather of other people's money than of their own, it cannot well be expected, that they should watch over it with the same anxious vigilance with which the partners in a private co-partnery frequently watch over their own."[32]

The Corporate Report, however, implied as early as the 1970s that the board of directors should act as the 'agents' of and be accountable to a wider range of principals than shareholders, who were traditionally the main focus under the narrower 'stewardship' perspective as envisaged under the agency perspective considered by Adam Smith. The Corporate Report therefore recommended a wider view of accountability where lenders, employees, customers, suppliers, the local community and even the general public were recognized as having legitimate rights to published information.

Some authors[33] argued that there is a range of positions that companies, or, more specifically, their directors, can take to accountability and more specifically to CSR. These move from a 'pristine capitalist' view, which regards the company as only having a responsibility to maximize shareholder wealth, to 'deep ecologists', which assert that the company has no intrinsic ownership rights over any resources and that it should operate sustainably and be future-oriented. They explained that the degree of CSR and the type of reporting that supports this depends mainly on the agency perspective that the business (specifically its directors) takes towards its responsibilities and obligations. They suggested that corporate reports needed to adopt a wider position on

[25] Meek, G.K. and Gray, S.J. (1988), "The value added statement: an innovation for US companies", Business Horizons, Vol. 31 No. 3, pp. 73-81.

[26] Diekes, M. and Preston, L. (1977), Corporate social accou ting reporting for the physical environment: a critical review and implementation proposal", Accounting, Organizations
and Society, Vol. 2 No. 1, pp. 3-22.

[27] Ullman, A. (1976), "The corporate environmental accounting system: a management tool for fighting environmental degradation", Accounting, Organizations and Society, Vol. 1 No. 1, pp. 71-79.

[28] Maunders, K. (1984), Employment Reporting: An Investigation of User Needs, Measurement and Reporting Issues and Practice, ICAEW, London.

[29] Elkington, J. (Ed.) (1997), Cannibals With Forks: The Triple Bottom Line of 21st Century Business, Earthscan, London.

[30] GRI (2000), Sustainability Reporting Guidelines on Economic, Environmental and Social Performance, Author, Geneva.

[31] Gray, R., Owen, D. and Adams, C. (1996), Accounting and Accountability: Changes and Challenges in Corporate Social and Environmental Reporting, Prentice Hall, London.

[32] Smith 1776/1937, p. 700

[33] Gray, R., Owen, D. and Adams, C. (1996) Accounting and Accountability (Hemel Hempstead: Prentice Hall International).

responsibility and accountability and move away from one based on a narrow fiduciary perspective, where the scope of the reporting function would be limited to the preparation of financial reports, relating mainly to the recognition and measurement of shareholder income and wealth. Such a view suggests that 'separation of ownership and control', where the view of agency is broader, needs to be re-phrased. Under a broader agency position it may be more relevant to consider the separation of 'stakeholder claims' and 'corporate responsibility for resources and their potential economic, social and environmental impacts'.

Mostly, voluntary reporting is assumed to be a rational, deliberate activity undertaken by purposeful managers with a strategic outcome in mind. Early on, these outcomes were considered to be strategic legitimacy [34, 35] disclosing additional information assists firms to demonstrate the appropriateness of their behavior, alter perceptions of their activities, or change social expectations about what is appropriate for them to do.[36]

As reporting has spread over the past 20-30 years additional strategic outcomes have emerged. These include market (improving competitive position, inclusion in ethical/values-based share registers), political (reducing political pressure, warding off regulation), accountability (demonstrating the company is "playing its part" in sustainability) and social (reducing stakeholder pressure) motivations and outcomes.[37]

Many managers report even though they struggle to articulate any benefits of doing so[38], and others persist with reporting despite benefits not being realize.[39] Further, many firms that would apparently benefit from reporting do not report[40] and many have never considered it.[41] Reporting is thus not necessarily tied to strategic outcomes or organizational characteristics.

In this context, institutional theorists offer an alternative explanation for voluntary reporting.[42] For them, voluntary reporting is less about individual organizational circumstances and strategic motivations, and more about how social actors collectively generate new expectations of organizations, the need for managers to meet those social expectations, and peer pressure to follow what others are doing.[43] At the heart of institutional theory is the "field".[44] Fields are sometimes

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[34] Brown, N. and Deegan, C. (1999), "The public disclosure of environmental performance information: a dual test of media agenda setting theory and legitimacy theory", Accounting and Business Research, Vol. 37 No. 1, pp. 21-41.

[35] Patten, D. (1992), "Intra-industry environmental disclosures in response to the Alaskan oil spill: a note on legitimacy theory", Accounting, Organizations and Society, Vol. 17 No. 5, pp. 471-475.

[36] Dowling, J. and Pfeffer, J. (1975), "Organisational legitimacy: social values and organisational behaviour", Pacific Sociological Review, Vol. 18 No. 1, pp. 122-136.

[37] Solomon, A. and Lewis, L. (2002), "Incentives and disincentives for corporate environmental disclosure", Business Strategy & the Environment, Vol. 11 No. 2, pp. 154-169.

[38] Arvidsson, S. (2010), "Communication of corporate social responsibility: a study of the views of management teams in large companies", Journal of Business Ethics, Vol. 96 No. 3, pp. 339-354.

[39] Qian, W., Burritt, R. and Monroe, G. (2011), "Environmental management accounting in local government: a case of waste management", Accounting, Auditing & Accountability Journal, Vol. 24 No. 1, pp. 93-128.

[40] Martin, A.D. and Hadley, D.J. (2008), "Corporate environmental non-reporting – a UK FTSE 350 perspective", Business Strategy & the Environment, Vol. 17 No. 4, pp. 245-259.

[41] Stubbs, W., Higgins, C. and Milne, M. (2013), "Why do companies not produce sustainability reports?", Business, Strategy & the Environment, Vol. 22 No. 7, pp. 456-470.

[42] Higgins, C. and Larrinaga, C. (2014), "Sustainability reporting: Insights from institutional theory", in Unerman, J. Bebbington, J. and O'Dwyer B. (Eds), 2nd ed., Sustainability Accounting and Accountability, Routledge, London, pp. 273-285.

[43] Marquis, C., Glynn, M. and Davis, G. (2007), "Community isomorphism and corporate social action", Academy of Management Review, Vol. 32 No. 3, pp. 925-945.

[44] DiMaggio, P. and Powell, W. (1983), "The iron cage revisited: institutional isomorphism and collective rationality in organizational fields", American Sociological Review, Vol. 48 No. 2, pp. 147-160.

treated as synonymous with "industry" because they are comprised of business organizations, regulators, interest groups, trade associations, and professional bodies that "partake" of a common meaning system. Fields also include social influencers (e.g. universities, media, non-governmental organizations) and others that interact regularly (e.g. think tanks, consultancies, unions) and ultimately, they operate at multiple levels.

Within fields, different types of institutional pressures encourage conformance. Thus, institutional pressures can be regulatory (there is risk of punishment for non-compliance), normative (it is the "right thing to do") or cognitive (alternatives are not considered because something is seen as "normal").[45] Institutional pressures create different types of responses by firms. The basic point is that organizational activities are not necessarily rational and deliberately conceived by managers or shaped entirely by individual organizational circumstances, they come about to meet expectations or to do what other credible firms are doing. Managers may not even be aware that their actions, and the rationale for undertaking them, are institutionally shaped.[46]

IR is essentially about establishing a new global reporting framework to harmonies disparate reporting requirements in a way that also increases the effectiveness of what firms report. As such, there is an overt institutionalization agenda underway by the IIRC.[47] The IIRC's structure includes a stakeholder-based Council and Board, working groups, a pilot program of reporting companies, and "ambassadors".

IR is essentially about the "integration" of six capitals (financial, manufactured, intellectual, human, social and relationship, and natural) which capture the factors managers should incorporate in to strategy to ensure their long-term viability.[48] This is evident in the description of IR as forward looking, focused on connections between financial and non-financial activities that underpin company value-creation, and geared towards explaining the value creation logic underpinning the company's strategy.[49]

IR is described by the IIRC as bringing together…

"…information about an organization's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates. It provides a clear and concise representation of how an organization demonstrates stewardship and how it creates and sustains value."[50]

The intention is to develop a new global reporting framework that simplifies company reporting, but also improves the effectiveness of reporting in the context of a changed world order. Advocates suggest that the Global Financial Crisis, the need for greater transparency, problems of resource scarcity, and environmental issues all present new risks that must be addressed by managers in how they create value. In contrast to sustainability reporting, IR is oriented toward the future and seeks to capture interconnections between the financial and non-financial drivers of performance. IR

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[45] Scott, R. (1995), Institutions and Organizations, Sage, Thousand Oaks, CA.

[46] Milne, M. and Patten, D.M. (2002), "Securing organizational legitimacy: an experimental decision case examining the impact of environmental disclosures", Accounting, Auditing & Accountability Journal, Vol. 15 No. 3, pp. 372-405.

[47] Rowbottom, N. and Locke, J. (2013), "The emergence of integrated reporting", Asia Pacific Interdiscipoinary Research in Accounting Conference, Kobe.

[48] International Integrated Reporting Committee (2013a), Capitals: A Background Paper, IIRC.

[49] Phillips, D., Watson, L. and Willis, M. (2011), "Benefits of comprehensive integrated reporting", Financial Executive, Vol. 27 No. 2, pp. 26-30.

[50] IIRC, (2011) Towards Integrated Reporting, Communicating Value in the 21th Century, pp.2.

represents, at face value, a fundamental shift in how managers think about strategy and value creation, and also what and how they communicate with stakeholders.

On the 16 April 2013, the IIRC released a Consultation Draft (CD) of the first Integrated Reporting Framework. According to the CD an integrated report is a concise communication about how an organization's strategy, governance, performance, and prospects, in the context of its external environment, lead to the creation of value over the short, medium, and long term.
The key objective of IR is to enhance accountability and stewardship with respect to the broad base of six kinds of "capitals" (financial, manufactured, intellectual, human, social and relationship, and natural), and promote understanding of their interdependencies. In doing this, IR is designed to support integrated thinking, decision making, and actions that focus on sustainable value creation for stakeholders.

1.5 Fundamental Concepts of IR

The fundamental concept that drives the IR is that value is not generated by or within an organization alone but is influenced by the external environment (including economic conditions, technological change, societal issues and environmental challenges), which provides the context within which the organization operates; created through relationships with others; and, finally, dependent on the availability, affordability, quality and management of various resources. For these reasons, IR aims to provide insights about the external environment that affects an organization, the resources and relationships used and affected by the organization (which in the IR framework are referred to as the capitals), as well as about the way in which the organization interacts with the external environment and the capitals to create value over the short, medium and long term.

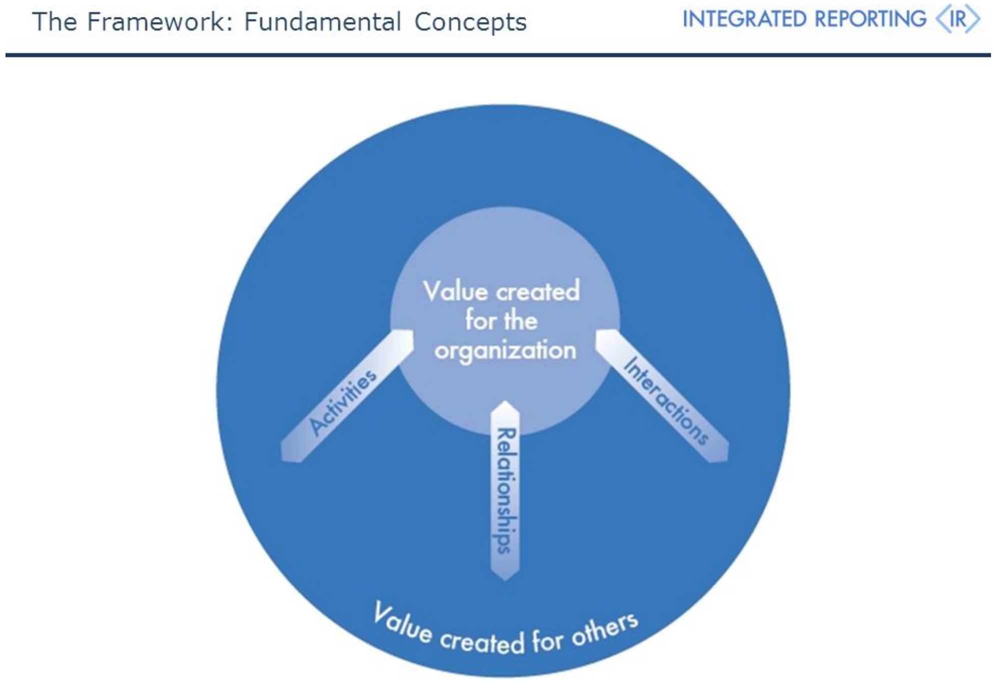
The overall purpose of the IR is to communicate and illustrate a broader understanding of the organizational performance compared to traditional reporting by describing, and measuring, where practicable, the material elements of value creation, the different type of capitals employed and affected, and the intertwined relationships between them. The fundamental concepts of IR are represented by the creation of value over time, the capitals that an organization uses and affects, and the organization's business model.

1.5.1 Value Creation for the organization and for others

The value, that an organization creates throughout its activities, is manifested in increases and decreases of the capitals. This value has two interrelated factors, the value created for the organization itself, which enables financial returns, and the value created for others. Lenders are generally interested in the value an organization creates for itself, while the interest in value created for others is relevant only when it can affect, in some ways, the ability of the organization to generate value for itself.
Nonetheless the value an organization creates for itself is deeply linked with the value it creates for others, Figure 1.5.1 illustrates how this happens through a wide range of activities, interactions and relationships. These kinds of connections include the relationship with customers, the suppliers' willingness to trade with the organization, the conditions that business partners agree to undertake and the company reputation.
Whenever these interactions are key for the organization to create value for itself then they are included in the integrated report. This means taking into account the cost or other effects on capitals

that are not owned by the organization. The CD refers to these costs and effects as externalities that ultimately can increase or decrease the value created for the organization.

Figure 1.5.1



Source: The International IR Framework

1.5.2 The Capitals

As illustrated by the CD, organizations depend on different types of capitals, which are stores of value that, in one form or another, become inputs to an organization's business model. The six capitals identified within the IR Framework developed by the IIRC are: financial, manufactured, intellectual, human, social and relationship, and natural. However, it is important to note that the IR Framework does not require organizations to strictly adopt the six categories listed above. Rather, irrespectively of how an organization categorizes capitals for its own purposes, the types identified above are to be used as a benchmark to ensure the organization does not overlook a capital that it uses or affects.

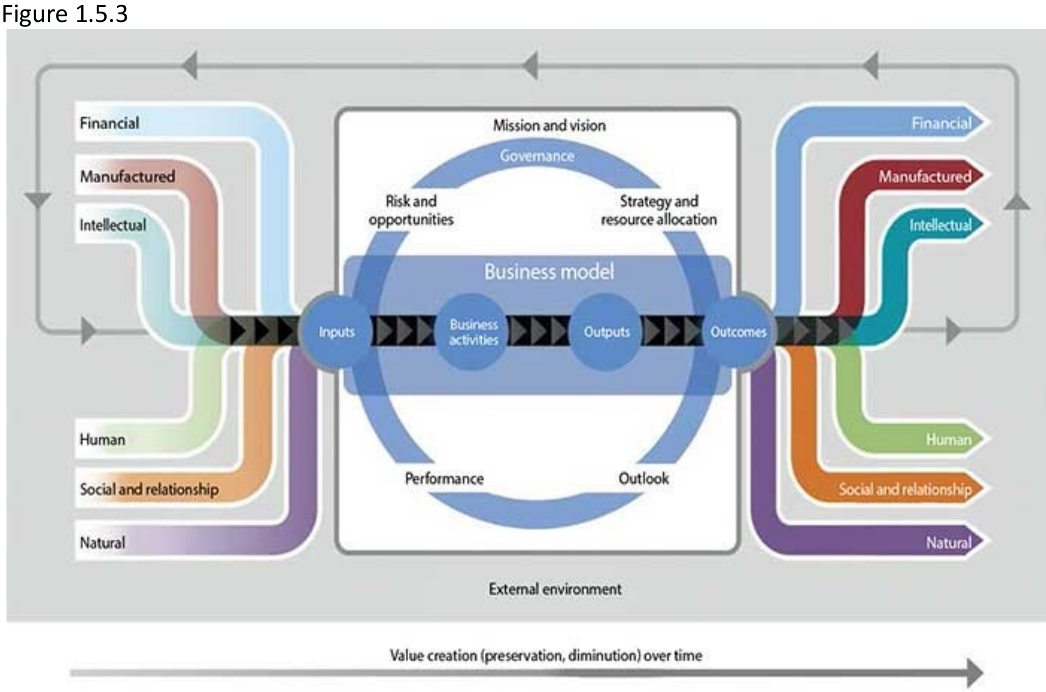
- **Financial Capital**- It is referred to the pool of funds that is available to an organization for use in its production processes or that is obtained through financing (debt, equity, grants).
- **Manufactured Capital**- It is referred to the manufactured physical objects that are available to an organization for use in the production of good and services (buildings, equipment, infrastructures)
- **Intellectual Capital**- It is a non-tangible form of capital like intellectual proprieties, copyrights and organizational capitals like knowledge, systems and procedures.
- **Human Capital**- It is referred to people competencies, capabilities and experience.
- **Social and Relationship Capital**- It is referred to the institutions and the relationship within and between communities and networks. Capital of this kind may include: shared norms, values and behaviors; key stakeholders relationship; intangibles associated with the company's brands and reputation.

- **Natural Capital**- It is referred to all renewable and non-renewable environmental resources that provide support to the past, current and future prosperity of an organization. According to the CD it includes: air, water, land, minerals, biodiversity and eco-system health.

1.5.3 Value Creation Process

Figure 1.5.3 provides a visual representation of the value creation process as assess on the CD.

Figure 1.5.3



Source: The International IR Framework

According to this value creation map the core of an organization is its business model, that is the vehicle through which an organization creates value. An organization's ability to create value in the short, medium, and long term depends on an understanding of the connectivity between its business model and a wide range of internal and external factors.
The business model which draws on capitals as inputs converts them, through the business activities, in outputs. These outputs together with the business activities, that include the planning, design and manufacture of products, lead to outcomes in terms of effects on the capitals.
The external environment, including economic conditions, technological change, social issues and environmental challenges, sets the context within which the organization operates. The mission and vision encompass the whole organization, identifying its purpose and intention in clear, concise terms. Those charged with governance are responsible for creating an appropriate structure to support the organization ability to create value.
The constant monitoring, in the context of the company mission and values, of the external environment identifies the relevant risks and opportunities for an organization, that are mitigated and managed though the organization's strategy, that identify the resource allocation plans to achieve the company objectives.
To operate efficiently the organization needs information about its performance, which include the setting up of monitoring system to facilitate the decision-making process. Nonetheless the value-creation system is not static, focus on the organization outlook and regular review of each components leads to a constant and dynamic improvement of the whole system.

1.5.4 Content Elements

An integrated report is built around seven elements that define its content and communicate the organization's unique value-creation story. According to the CD these elements are:

1. **Organizational overview and external environment:**
   What does the organization do, and what are the circumstances under which it operates?
2. **Governance:**
   How does the organization's governance structure support its ability to create value in the short, medium, and long term?
3. **Opportunities and risks:**
   What are the specific opportunities and risks that affect the organization's ability to create value over the short, medium, and long term, and how is the organization dealing with them?
4. **Strategy and resource allocation:**
   Where does the organization want to go, and how does it intend to get there?
5. **Business model:**
   What is the organization's business model, and to what extent is it resilient?
6. **Performance:**
   To what extent has the organization achieved its strategic objectives, and what are its outcomes in terms of effects on the capitals?
7. **Future outlook:**
   What challenges and uncertainties are the organization likely to encounter in pursuing its strategy, and what are the potential implications for its business model and its future performance?

The seven points which form the content elements are fundamentally linked to each other, but yet they are not intended to serve as a standard structure for an integrated report with information about them appearing in a set sequence or as isolated, standalone sections. Rather, information in an integrated report is presented in a way that makes the connections between the Content Elements apparent. The fact that these content elements are stated in the form of question testify how much the individual circumstances of an organization are taken into account in the integrated reporting.
In the next section we will analyze each one of the guideline principle.

As presented in the CD and underlined here by the first guideline *Organizational Overview and External Environment*, a company IR should address what the company does and in which kind of ecosystem it is operating. This kind of perspective includes the organization's culture, ethics and values; the ownership and operating structure of the company; which are the principal activities of the corporation and in which markets it is operating; the competitive landscape and the market position of the company, considering also factors that features new competitors, substitute products, the bargaining power of costumers and also the intensity of the competition. Furthermore, this kind of information, according to this principle, should be supported by quantitative analysis such as the revenues and number of country in which the company is operating.
For what concern the factors that can affect the external environment, like legal, commercial and social factors, the IR should address them as well, since such externalities can affect the organization's ability to create value in the short, medium or long term.

The second principle is about *Governance*. In general term the logic in reporting the company governance is that it can affect the ability of the company to generate value. The CD provides good insights on this matter. In fact, a firm ability to generate value, in a sustainable way is linked, directly and indirectly, to:

- The company leadership structure which includes the diversity and the skills of those charged with governance and where or not some kind of regulatory requirements can influence the design of the governance structure.
- How culture, ethics and values affect capitals
- How the remuneration and incentives are linked to the value creation process
- How the actions of those charged with governance has affected the company strategy and approach to risk

As for *Opportunities and Risks* an integrated report should identify the key risks and opportunities that are specific to an organization and that could affect its ability to create value in the short, medium and long term. This kind of assessment includes the specific source of these risks and opportunities, that can be internal or external to the corporation; the likelihood that these risks and opportunities could affect the organization; and how the organization is going to mitigate or manage these risks and opportunities.

Strategic and resource allocation. An IR shall clarify where the organization wants to go and how it is planning to go there. In order to address this guideline, the IR should identify: the organization's short, medium and long-term objectives; the strategies that are in place and the ones it intends to implement; the resource allocation plan; the measurement system it is going to use to measure the outcomes. This can include describing the link between an organization's strategy and its resource allocation (how it relates with the business model), and what differentiates the organization to give its competitive advantage and enable it to create value, example can be the role of innovation and how the organization develop the intellectual capital.

Business Model. As described before an organization business model is the system through which an organization transforms inputs, through its business activities, into outputs and outcomes in order to fulfill the organization mission and create sustainable value in the short, medium and long-term. An integrated report therefore should describe the business model including the key inputs, business activities , outputs and outcomes; as well as it shall include the features that can enhance the effectiveness of the organization business model like the identification of the key elements of the business model, the identification of key stakeholders and other dependencies and factor that can alter the external environment, and a clear connection with the information covered by other Content Elements.

Performance. An IR shall include and describe the extent to which the organization has achieved its objectives and how its outcomes has affected the capitals. So, an IR shall include qualitative and quantitative information about its performance such as: quantitative indicators in respect to targets; how the organization has responded to key stakeholders' legitimate needs and interests; the link between past and current performance, as well as the organization's outlook. An IR, due to its holistic approach should also display KPIs t combine financial measures with other components (e.g. the ratio of greenhouse gas emission to sales).

Future Outlook. As for future outlook the IR should highlights anticipated changes over time and provide information that picture the potential effects on the organization activities. This Content

Element aims to ensure the organization's stated expectations, aspirations and intentions are grounded in reality. For what concern the potential future implications the IR shall include discussion on the external environment, and risks and opportunities, with an analysis of how these could affect the achievement of strategic objectives and the availability, quality and affordability of capitals the organization uses or affects. These kinds of disclosures about an organization's outlook in an integrated report are made taking into account the legal or regulatory requirements to which the organization is subject.

1.5.5 The Guiding Principles of Integrated Reporting

The IR Framework is principles based rather than being founded on a more rigid, rules-based approach, because its intention is to offer an appropriate balance between flexibility and prescription. IR Framework doesn't focus on rules for measurement, disclosure of individual matters, or even the identification of specific key performance indicators. Rather, the Framework is driven by integrated thinking, which, as illustrated in the CD, should lead to integrated decision making and execution toward the creation of value. The purpose 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, 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.
The Guiding principles identified by the IR Framework are the following:

- **Strategic focus and future orientation:** An integrated report should provide insight into the organization's strategy, and how it relates to the organization's ability to create value in the short, medium and long term, and to its use of and effects on the capitals.
- **Connectivity of information:** An integrated report should show a holistic picture of the combination, interrelatedness and dependencies between the factors that affect the organization's ability to create value over time.
- **Stakeholder relationships:** An integrated report should provide insight into the nature and quality of the organization's relationships with its key stakeholders, including how and to what extent the organization understands, takes into account and responds to their legitimate needs and interests.
- **Materiality:** An integrated report should disclose information about matters that substantively affect the organization's ability to create value over the short, medium and long term.
- **Conciseness:** An integrated report should be concise.
- **Reliability and completeness:** An integrated report should include all material matters, both positive and negative, in a balanced way and without material error.
- **Consistency and comparability:** The information in an integrated report should be presented: (a) on a basis that is consistent over time; and (b) in a way that enables comparison with other organizations to the extent it is material to the organization's own ability to create value over time.

Strategic and Future orientation. Applying this guideline principle is not limited to the content elements Strategic and Resource Allocation, and Future Outlook. It drives the selection and inclusion of other contents like the opportunities, risks and dependencies flowing from the organization's

market position and business model; the relationship between past and future performance; the balance among short, medium and long-term interests and perspectives. Adopting a strategic focus and future orientation includes clearly articulating how the continued availability, quality and affordability of significant capitals contribute to the organization's ability to achieve its strategic objectives in the future and create value.
Additionally, although the CD acknowledges that future-oriented information is by nature more uncertain and, therefore, less precise than historical information, it suggested that uncertainty is not a reason in itself to exclude such information, provide that the nature and extent of that uncertainty is accounted for.

The principle *Connectivity of Information* is crucial to ensuring that an IR focuses on the broad picture of the organization's unique value creation story. The more that integrated thinking is embedded into an organization's activities, the more naturally will the connectivity of information flow into management reporting, analysis and decision-making, and subsequently into the integrated report.
The portray of the broad picture an organization's will indeed support the intended report users' understanding of the different factors that affect the future of the organization and how they interact; it will help to break down established silos in accessing, measuring, managing and disclosing information, and to extend the focus of reporting beyond the traditional focus primarily on financial and historical matters; and it will facilitate the intended report users' ability to drill down and interlink information in other documents.
Such a connection of information includes for example the connection between the content elements and the systemic interaction of the organization's activity; the trade-offs between the capitals, and how changes in their availability, quality and affordability affect the ability of the organization to create value.
The connectivity of information and the overall usefulness of an integrated report is enhanced when it is logically structured, well presented, written in clear, understandable and language, and includes effective navigation devices, such as clearly delineated (but linked) sections and cross-referencing. In this context, information and communication technology can be used to improve the ability to search, access, combine, connect, customize, re-use or analyze information.

The *Stakeholder Relationship* principle reflects the importance of relationships with key stakeholders because value is not created by or within an organization alone but is created through relationships with others. Engagement with stakeholders enables the organization to understand what matters and what is important to them, and the interaction with them shall assist the organizations to understand how stakeholders perceive value; identify future trends that may not yet have come to general attention but which are rising in significance; identify material matters, including opportunities and risks; develop and evaluate strategy; manage risks; as well as, implement activities, including strategic and accountable responses to material matters.
An integrated report enhances transparency and accountability, which are essential in building trust and resilience, by disclosing how key stakeholders' legitimate needs and interests are understood, taken into account and responded to through decisions, actions and performance, as well as ongoing communication.

Materiality. A matter (an event, issue, opportunity) is material if, in the view of senior management and those charged with governance, it is of such relevance and importance (both in terms of nature and magnitude) that it could substantively influence the assessments of the primary intended report users with regard to the organization's ability to create value. According to the CD to assess whether

a matter is material the organization has to consider whether the matter substantively affects, or has the potential to substantively affect, the organization's strategy, its business model, or one or more of the capitals the organization uses or affects in the short, medium or long term.
The IR framework focuses on the materiality determination process suggesting and how it applies to both positive and negative matters (e.g., opportunities and risks, and favorable and unfavorable results or prospects for the future), and to financial and other information. The key steps of this process, as identified by the IR framework are as follow:

1. Identification of relevant matters (matters are those that have, or may have, an effect on the organization's ability to create value, matters related to value creation that are discussed at meetings of those charged with governance are considered relevant).
2. Evaluation of the importance of relevant matters (To be included in an integrated report, a matter also needs to be sufficiently important in terms of its known or potential effect on value creation. This involves evaluating the magnitude of the matter's effect and, if it is uncertain whether the matter will occur, its likelihood of occurrence).
3. Prioritization of the matters (matters are prioritized based on their magnitude. This helps to focus on the most important matters when determining how they are reported).
4. Determination the information to disclose.

Conciseness. An integrated report shall include sufficient context to understand the organization's strategy, governance, performance and prospects without being burdened with less relevant information. The organization therefore shall seek a balance in its integrate report between conciseness and the other Guiding Principles, in particular completeness and comparability.

Reliability and Completeness of information is arguably one of the most important principles for IR. Reliability, in particular, is enhanced by mechanisms such as strong internal reporting systems, appropriate stakeholder engagement, and independent, external assurance. As for the IR framework those charged with governance have ultimate responsibility for how the organization's strategy, governance, performance and prospects lead to value creation over time. They are responsible for ensuring that there is effective leadership and decision-making regarding the preparation and presentation of an integrated report, including the identification and oversight of the employees actively involved in the process. For what concern Completeness, a complete integrated report includes all material information, both positive and negative. To help ensure that all material information has been identified, consideration is given to what organizations in the same industry are reporting on because certain matters within an industry are likely to be material to all organizations in that industry. Completeness includes considering the extent of information disclosed and its level of specificity or preciseness. This might involve considering potential concerns regarding cost/benefit, competitive advantage and future oriented information.

Consistency and comparability. although the specific information released through an integrated report will necessarily vary from one organization to another, they should be presented on a basis that is consistent over time and in a way that enables comparison with other organizations. In particular reporting policies are followed consistently from one period to the next unless a change is needed to improve the quality of information reported.

1.6 The role of Integrated reported in today's society

Contemporary societies face daunting challenges relating to climate change, biodiversity loss, resource depletion, globalization and social justice. There is mounting recognition that fundamental changes in socio-technical systems, including accounting, are required if such issues are to be addressed. Accounting and business professionals are increasingly expected to report on social and environmental impacts to which they previously paid little attention. Sustainability issues are complex, involve intractable uncertainties, are deeply contested, and the decision stakes are high.[51]

Academics and civil society groups are divided about whether or how integrated reporting might advance sustainability goals. For some, integrated reporting is a "potent tool" to mainstream sustainability in companies and capital markets for others it perpetuates the myth that a standardized narrative will somehow satisfy accounting's public interest responsibilities. For others, the International Integrated Reporting Council's (IIRC's) proposals are "a masterpiece of obfuscation and avoidance of any recognition of the prior 40 years of research and experimentation" that, if they take over from the Global Reporting Initiative (GRI), threaten to push us "even further away from any plausible possibility that sustainability might be seriously embraced by any element of business and politics".[52,53]

Authors has highlighted that at least since the 1960s, groups such as business, labor, environmentalists, academics and policymakers have often agreed in principle that social and environmental reporting is a "good idea," but disagreed on its overall purposes and operationalization.[54,55]

An enduring concern for social and critical accounting academics has been the privileging of business and capital markets perspectives in mainstream accounting and in initiatives aimed at institutionalizing social and environmental reporting.[56,57]

Science and technology studies commentators suggest that in evaluating the empowerment potential of specific appraisal designs, close attention is paid to the contributions they make to broadening out and opening up sustainability assessments. Breadth "refers to the depth, extent and scope" of the reflections that appraisal fosters "over the full character of dynamic systems and diverse knowledges of them." Openness refers to the degree to which "the plural and conditional nature of appraisal outputs" are conveyed to "wider processes of governance," offering "an array of options for policies, institutions, commitments and decisions."[58] Issues of breadth concern the

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[51] Ravetz, J.R. (2006), "Post-normal science and the complexity of transitions towards sustainability", Ecological Complexity, Vol. 3 No. 4, pp. 275-284.

[52] Gray, R. (2002), "The social accounting project and Accounting Organizations and Society: privileging engagement, imaginings, new accountings and pragmatism over critique?", Accounting, Organizations and Society, Vol. 27 No. 7, pp. 687-708.

[53] Milne, M.J. and Gray, R. (2013), "W(h)ither ecology? The triple bottom line, the Global Reporting Initiative, and corporate sustainability reporting", Journal of Business Ethics, Vol. 118 No. 1, pp. 13-29.

[54] Brown, J. and Fraser, M. (2006), "Approaches and perspectives in social and environmental accounting: an overview of the conceptual landscape", Business Strategy and the Environment, Vol. 15 No. 2, pp. 103-117.

[55] Fraser, M. (2012), " 'Fleshing out' an engagement with a social accounting technology", Accounting, Auditing & Accountability Journal, Vol. 25 No. 3, pp. 508-534.

[56] Cooper, D.J. and Sherer, M.J. (1984), "The value of corporate accounting reports: arguments for a political economy of accounting", Accounting, Organizations and Society, Vol. 9 Nos 3/4, pp. 207-232.

[57] Malsch, B. (2013), "Politicizing the expertise of the accounting industry in the realm of corporate social responsibility", Accounting, Organizations and Society, Vol. 38 No. 2, pp. 149-168.

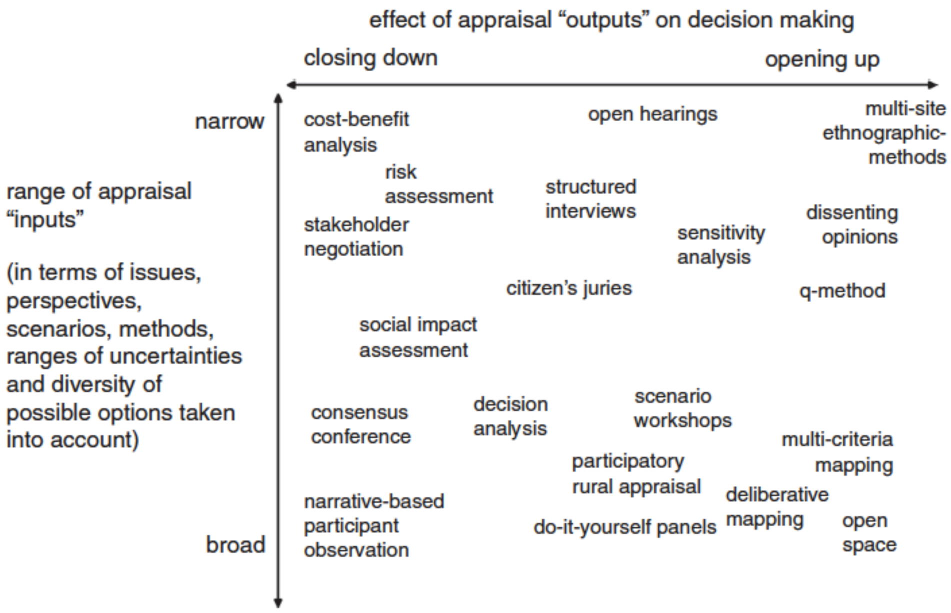
[58] Leach, M., Scoones, I. and Stirling, A. (2010), Dynamic Sustainabilities: Technology, Environment, Social Justice, Earthscan, London.

range of inputs in appraisal exercises: the topics addressed, impacts considered, methods used, knowledges recognized, options compared, uncertainties identified, and values explored.
The inclusion of particular inputs in a given appraisal exercise depends heavily on framing processes. In mainstream accounting, as an example, the focus on shareholder wealth maximization has traditionally led to a range of social and environmental issues being labelled as "externalities" that lie outside accounting's purview.
Issues of openness concern the way appraisal outputs are understood and represented to wider audiences; how they contribute to opening up or closing down decision making, institutional commitments, participatory processes and public debate.

Opening up is not simply about generating more indicators but designing social and environmental reporting that engages plural understandings of business-society-environmental relations and organizational performance. The aim is to enable people to articulate, debate and reflect on their conflicting views; recognizing that conflict and encounters with those holding divergent perspectives can be an important catalyst for social change.
Opening up approaches are more fully reflexive in that they emphasize the way appraisals and commitments "condition, represent and recondition one another recursively"59 so that appraisal helps demonstrate in commensurabilities, discloses new possibilities and rarely closes issues down definitively.

A visual representation of these appraisal methods of "broadening out/narrowing in" and "opening up/closing down" are summarized in the following picture (Figure 1.6).

Figure 1.6



Source: Leach *et al*. (2010, p. 106)

Starting with "broadening out" axis, academics observe that conventional forms of cost-benefit analysis and stakeholder engagement are narrow both in terms of inputs (e.g. a limited range of costs or benefits quantified in monetary terms using neo-classical economic methods) and close

[59] Smith, A. and Stirling, A. (2007), "Moving outside or inside? Objectification and reflexivity in the governance of socio-technical systems", Journal of Environmental Policy & Planning, Vol. 9 Nos 3-4, pp. 351-373.

down the scope for wider deliberation by filtering all inputs through a unitary perspective. Analytic tools can have relatively broad inputs, but close down through construction of composite indexes that declare the "best performer" rather than provide multi-dimensional representations.

In terms of "opening up" possibilities, there is scope for augmenting methods such as cost-benefit analysis through sensitivity analysis to show how different values, judgments or contexts can generate very different results. Practices such as reporting sustainability assessments from different perspectives or highlighting dissenting opinions can also help to produce richer outputs for broader debate.

Methods that assist in both broadening out and opening up arguably offer the most potential for empowering appraisals and engagements. Methods such as multi-criteria mapping, for example, explicitly incorporate a broad range of "options, perspectives, criteria, scenarios and uncertainties" and systematically illustrate how "different framing assumptions yield a different picture of the right course of action" rather than pointing to a single "'optimal', 'most reasonable' or 'most legitimate' course of action".

Compared to conventional accounting, integrated reporting is asserted to provide broader explanations of performance making "visible all the relevant capitals on which performance (past, present and future) depends," providing "a meaningful presentation of the organization's prospects for long-term resilience and success" and facilitating "the informational needs of, and assessments by, investors and other stakeholders". The stated purpose of looking beyond the financial reporting entity "is to identify risks, opportunities and outcomes that materially affect the organization's ability to create value" for itself and thus "financial returns to the providers of financial capital".[60]
Integrated reports provide a more holistic view of business than conventional financial reports by explicitly acknowledging interconnections between financial, environmental and social dimensions of corporate performance. As such, they may promote "cultural change" within organizations by highlighting that business operates within a broader context of, inter alia, changing stakeholder demands, macro-economic conditions and natural resource constraints. Integrated reporting encourages company boards and managements to think strategically about how such issues impact their businesses, and the risks and opportunities they present.[61] It may, for example, encourage corporates to take a more commercial approach to their social investments.[62]

Participants in the IIRC's pilot program are reporting benefits such as: building connections across business units, improved understanding of how organizations create value, increasing senior management's focus and awareness, better articulation of strategy and business models, and creating value for stakeholders.[63]

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[60] International Integrated Reporting Council (2011), Towards Integrated Reporting: Communicating Value in the 21st Century, IIRC, New York, NY.
International Integrated Reporting Council (2012a), Understanding Transformation: Building the Business Case for Integrated Reporting, IIRC.
International Integrated Reporting Council (2012b), Towards Integrated Reporting: Communicating Value in the 21st Century – Summary of Responses to the September 2011 Discussion Paper and Next Steps, IIRC.
[61] Eccles, R.G. and Krzus, M.P. (2010), One Report: Integrated Reporting for a Sustainable Strategy, John Wiley & Sons, Hoboken, NJ.
[62] Eccles, R.G. and Krzus, M.P. (2010), One Report: Integrated Reporting for a Sustainable Strategy, John Wiley & Sons, Hoboken, NJ.
[63] International Integrated Reporting Council (2013a), Business Leaders:What You Need to Know, IIRC.. International Integrated Reporting Council (2013b), The International /IRS Framework, IIRC.

PricewaterhouseCoopers advise that “if done well, integrated reporting can secure capital and credit, help win the war for talent, and build strong business relationships”[64] and that “moving towards a more integrated reporting approach can give [companies] a competitive edge and help build trust”.[65]

For these arguments and for the greater holistic view, integrated reporting appears to be, as of today, the most innovative and structured tool that organization can use to disclose and tell the narrative of their business and how it is creating value for the wider stakeholders’ interest. Nonetheless the high interconnectivity that bound together today’s organization, people and interests, it makes increasingly sense to corporations to understand and measure the impact they are having on the society.

At the end of the day IR can be the tool, with its open and broaden approach, that can picture how organizations are impacting the society.

In this chapter we have presented the integrated reporting putting a lot of emphasis on its fundamental concepts, and how they serve together to address in a holistic and comprehensive way the role and impact of a corporation on the society. Furthermore, the role of Integrated reported in today’s society has been highlighted by underling how t is asserted to provide broader explanations of performance making “visible all the relevant capitals on which performance (past, present and future) depends,” providing “a meaningful presentation of the organization’s prospects for long-term resilience and success” and facilitating “the informational needs of, and assessments by, investors and other stakeholders”.

Further insights on the potential transformation function that IR can absolves for the company and the society are discussed in the next chapter.

[64] (www.pwc.com/gx/en/corporate-reporting/ integrated reporting/publications/integrated-reporting.jhtml)

[65] (www.pwc.com/gx/en/corporate-reporting/integrated-reporting/index.jhtml).

Chapter 2

In this chapter the emphasis is on the transformation function that IR can absolve, and in this way to the role that IR can play as a driver of organizational. We recognize that alongside to the benefits of IR, its implementation presents challenges, to which we present related potential solutions.
We conclude the chapter with the notion that IR is a tool not only to business organization, but for every organization, whether it is for-profit or non-profit.

2.1 The transformation function of the IR

In addition to content, audience, and practice, each type of corporate reporting can be understood in terms of the function it fulfills. Some authors have argued that corporate reporting has two functions: information and transformation.
The information function refers to corporate reporting's duty to provide counterparties to the corporation the information they need to make an informed decision on whether to transact with the company and, if so, on what terms. In a corporate reporting context, these counterparties include providers of capital, both equity and debt, as well as vendors, customers, employees, and regulators who are interested in assuring that this information is accurate and provided on a timely basis.
The information function is "one-way" in that the company provides the information and the counterparty makes its decision, but with no intent to affect the behavior of the company.
In contrast, the transformation function involves feedback from the counterparty with the intent of changing the company.
While the information function assumes no feedback from counterparties, the transformation function relaxes this assumption, allowing for engagement and activism from the counterparties. The counterparties receive and evaluate the information. Where they see opportunities to influence corporate behavior to their benefit, and potentially to the benefit of the corporation, they actively try to bring about change. This engagement, activism, and change process enables a company to transform.
The transformation function is a "two-way" street: the company must be open to the feedback it is getting from its counterparties and willing to engage with them. Information is an end in and of itself in the information function; it is a necessary, but not sufficient, condition for the transformation function. While this two-way street is conceptually independent of the information's content, the types of corporate reporting are broadly distinctive in their intended function. The primary application of financial reporting is to provide investors with information to make investment decisions. In providing financial information, the company is not looking for feedback, perhaps other than to verify that it has met the expectations of its investors. It is not seeking input from its investors on how the company can be managed better to improve its financial results. For the most part, investors do not see this as their role. In investor briefings and conference calls, they ask questions—sometimes leading questions—but do not give advice. Some investors may use financial information to attempt transformation, as an activist investor who takes a large position in the company and then looks to make changes, by putting its own representatives on the board and pressuring the company in other ways, does.
Current practices in financial reporting in the context of earnings guidance and quarterly conference calls that focus almost solely on financial performance reinforces capitalism as we know it today. The obsession of today's capitalism with short-term fluctuations in stock price can be traced to a historical, although by no means inevitable, focus on short term investors. Companies take decisions

behind corporate castle walls and report on their performance outcomes to satisfy the information function of corporate reporting, and the main feedback the company receives is whether its stock price goes up or down. Sell-side analysts' quarterly and annual earnings estimates and relative indifference to ESG (environmental, social ang government) issues reinforce today's capitalism.

Integrated reporting's primary interest is transformation, albeit from a somewhat different starting place. Sustainability reporting is an "outside-in" approach to transformation.
Civil society puts pressure on the company to disclose information that it uses to enact an engagement process that leads to transformation. Integrated reporting is more of an "inside-out" approach: advocates for integrated reporting argue that companies should, in the beginning, practice it for their own good.
Integrated reporting is argued to be a way of fostering "integrated thinking" so that the company operates in a holistic way, taking account of material ESG issues across the six capitals (financial, manufactured, natural, intellectual, human, and social and relationship) that affect financial performance. It will lead to a better managed company that is more able to create value over the short, medium, and long term, and in doing so, provide the information necessary for its investors to take a longer-term view and to attract more who do. It is a kind of "reverse activism" in which the company is influencing its investor base rather than the other way around.

2.2 IR: A way to re-imagine Capitalism

Many people are seeking to re-imagine capitalism. All such concepts have certain characteristics in common:

1. greater attention to the negative externalities produced by a company and its efforts to mitigate them;
2. greater attention to the interests and expectations of other stakeholders, especially for very large companies, since society increasingly looks to them and not just governments to contribute to sustainable development;
3. striking the proper balance between meeting the expectations of shareholders and other stakeholders;
4. institutional investors factoring in a company's sustainability performance in investment decisions;
5. a longer-term outlook on the part of both companies and investors.

Integrated reporting supports all of these characteristics.
In terms of (1), the "Value Creation Process" emphasizes that companies use the six capitals as inputs into their business model and have outcomes that impact these capitals. These outcomes are both positive and negative. The <IR> Framework further notes that the company should explain "the interdependencies and trade-offs between the capitals, and how changes in their availability, quality and affordability affect the ability of the organization to create value".[66] While the <IR> Framework does not specify how the uses and outcomes of these capitals should be measured, it makes clear that the company should take all of them into account.

[66] The International <IR> Framework, 2013, pp. 17

Addressing (2), the <IR> Framework lists “stakeholder relationships” as one of its seven Guiding Principles: “An integrated report should provide insight into the nature and quality of the organization’s relationships with its key stakeholders, including how and to what extent the organization understands, takes into account and responds to their legitimate needs and interests”.[67] Stakeholder engagement is essential for understanding stakeholders’ interests and expectations. Striking the proper balance between stakeholders and shareholders, and amongst stakeholders themselves, requires recognizing that tradeoffs often exist due to interdependencies across choices. With proper engagement and a full and transparent explanation for why the company made the choices it did, stakeholders will accept the legitimacy of the decision even if they do not agree with it.

Addressing (3), balancing the many and often competing interests of shareholders and a broad range of stakeholders, is the Guiding Principle of “connectivity of information”: “An integrated report should show a holistic picture of the combination, interrelatedness and dependencies between the factors that affect the organization’s ability to create value over time”.[68] What distinguishes an integrated report from a “combined report” is that the former shows the relationships, positive and negative, over specific time frames, between financial and nonfinancial performance. A combined report simply provides financial and nonfinancial information in a single document. Also, key to (3) is the Guiding Principle of “materiality”: “An integrated report should disclose information about matters that substantively affect the organization’s ability to create value over the short, medium and long term”.

The shorter the timeframe under consideration, the greater the tradeoffs between different types of performance and the interests of shareholders and other stakeholders are. Addressing (5) with longer-term thinking, companies can make the investments necessary to improve both financial and nonfinancial performance, but they need patient investors in order to do. Companies routinely complain about their obligation to operate under short-term earnings pressure from their investors, while simultaneously reinforcing this attitude by providing guidance on quarterly earnings targets. Investors complain that companies do not provide them with sufficient information to be comfortable taking long-term positions, while eagerly anticipating the next earnings call.
The Guiding Principle of “strategic focus and future orientation” is relevant here: “An integrated report should provide insight into the organization’s strategy, and how it relates to the organization’s ability to create value in the short, medium and long term and to its use of and effects on the capitals” including “how the organization balances short, medium and long-term interests”.

While conceptually integrated reporting appears to be the right type of corporate reporting for a re-imagined capitalism, it can only play this role if it is practiced by virtually all companies. At the least, all large, publicly listed ones must practice it. Making this a reality is no simple feat. As noted, the only country to require integrated reporting is South Africa, and the rigor with which this is enforced falls far below what is required for financial reporting. One explanation for this relative lassitude is the lack of a consensus on frameworks and nonfinancial measurement standards. Another is the understandable unwillingness of regulators to specify standards at this early stage of the development of this new type of corporate reporting. Even if South Africa and other countries were to mandate integrated reporting as prescriptively as financial reporting is mandated, there would be the additional challenge of reconciling the reporting model across countries.

[67] The International <IR> Framework, 2013, pp. 17
[68] The International <IR> Framework, 2013, pp. 34

It was not that long ago that each country had its own version of (Generally Accepted Accounting Principles) GAAP. Two major ones now dominate: the more rules-based U.S. GAAP under FASB, and the more principles-based International Financial Reporting Standards under the IASB. The "convergence" initiative to create one global set of accounting standards has been a long, difficult, and as of yet an unfinished process.

2.3 IR as a driver to organizational change

Integrated Reporting holds the potential to function as a vital driver of organizational change towards Responsible Competitiveness.[69] Responsible Competitiveness is the enterprise-wide approach to managing environmental, social, economic and governance issues. The Responsible Competitiveness approach builds sustainable competitive performance through measurable, transparent, and accountable commitments to employ renewable resources and to improve the well-being of workers, communities, and ecosystems.

Integrated Reporting will clearly communicate the alignment of sustainable development considerations with core enterprise-wide strategy. Investors in turn will begin to distinguish companies that possess a deep understanding of material risks and opportunities and will steer capital toward these more accountable organizations thus creating a virtuous cycle accelerating sustainability in business. This is at least one vision of the power of Integrated Reporting to drive change that embeds Responsible Competitiveness. Currently, however, companies face a paradox. Company leaders (be they senior executives, directors of corporate responsibility, or energized employees) cannot utilize Integrated Reporting to drive the organizational change processes to embrace a Responsibly Competitive approach, until the enterprise advances an organizational change agenda to embrace Integrated Reporting.

The organizational change needed for a successful entry into Integrated Reporting requires new commitments and related systems along four areas: Vision, Leadership, Management and Knowledge.

Integrated Reporting requires its own integrated strategy—a corporate vision and goals that reflect environmental, social and governance-related (ESG) risks and opportunities while emphasizing financial, environmental and social sustainability—and integrated systems—structures that enable the real-time flow of information and resources as needed across organizational silos. Successful Integrated Reporting will require these things, but few organizations have them.

2.3.1 Vision

A well-conceived and well-articulated vision, the "future state" that sits atop a company's strategic agenda, drives and directs an organization's energy. A vision is determined by aspiration, and aspiration is often limited by what we know to be possible.

Companies have a hard time understanding the value any type of non-financial reporting. Ask senior executives why they produce Corporate Responsibility (CR) reports, and if one gets beyond the PR spin, it typically comes down to some combination of four reasons:

- To comply. Often this means consenting to comply with the court of public opinion and/or influential stakeholder expectations, exemplified by voluntary standards such as the UN Global Compact.

[69] Please visit www.accountability.org for background on Responsible Competitiveness. Responsible Competitiveness™ is a trade mark registered to AccountAbility Strategies, no. 2521826

- To keep up with the peers. A well-known driver of organizational change is the effort to keep up with what peers and competitors are doing.
- To facilitate investor confidence. This is a less common but growing reason. Socially responsible investors rarely possess sufficient stakes to move share price. But they do represent an influential channel to communicate CR commitments to key stakeholders. One does see emerging examples of larger investors asking to review CR reports (and calling for Integrated Reports).
- To advance the enterprise-wide adoption of Responsible Competitiveness. This is the least common reason. However, time and again one sees the following cycle: a company decides to produce a CR report more or less to GRI standards. It forms a cross-functional committee to support the process and data collection. The group becomes a champion for deeper, enterprise-wide commitments to CR. Senior Executives tentatively embrace this agenda. The next cycle of reporting makes a further commitment to adopt leading reporting practices. This enhances the committee's argument for Responsible Competitiveness, and so on.

A possible solution is to demonstrate that Integrated Reporting is about more than just reporting. Integrated Reporting has to be seen as more than just a reporting mechanism. The underlying value proposition can be articulated in several ways, but we submit the following as pillars of a sound argument for Integrated Reporting:
It will change how the market recognizes CR performance. As one example, certain commodities, such as coffee, cocoa, and tea, see sustainable development concerns threatening stable supply. Embracing and reporting on integrated CR strategies will mitigate risk and create (responsible) competitive advantage. Using Integrated Reporting communicates to investors in their own language why they need to make decisions based on information incorporating ESG factors.
It will broaden the definition of performance to include important ESG risks and opportunities, more comprehensively and longer-term than competitors.
It will increase internal integration, bringing disparate functions and processes together to create a more efficient, streamlined organization.
Integrated Reporting could become a vital tool to advance a Responsible Competitiveness Strategy. The intended purpose of Integrated Reporting is to build meaningful connections between ESG and financial performance, both internally and in outward-facing communications. Integrated Reporting could become the missing piece to an approach that would truly integrate CR into the core business.

2.3.2 Leadership

Leadership is the daily guidance of the CEO and other senior executives to achieve the vision. Leadership sets the tone, priorities and targets. Leadership often starts and stops at the commitment to publish a report.
After the executive mandate is issued, things are set in motion: resources are marshaled, a project plan is put in place, and a team goes to work. However, producing GRI reports requires extensive cross-functional knowledge integration and supporting data collection (Integrated Reporting will require even more). It leads to a set of findings and public commitments that require cross-functional management follow-through—but the follow-through is too often either absent or insufficient. This constrained leadership can create internal organizational tension and strife.
A possible solution is that leaders should be visibly engaged throughout the process.
The value of Integrated Reporting is as much about the journey as the destination. Leaders should understand—at a high level—the full process required to produce an Integrated Report. Their leadership therefore should extend to communicate their expectations that cross-functional teams

should commit time and resources to solve knowledge integration and data challenges, and to review and respond to the findings from the reporting effort.

2.3.3 Management

Management is the everyday operation of a company and its employees. Good management ensures that all employees and teams have clear objectives that leverage their skills, are engaged and productive, and feel valued.
Quite often it happens that the companies' employees don't know why they are doing Integrated Reporting—or how to do it. Many do not understand the value of CR reporting, either, which is likely to make Integrated Reporting seem like even more of an "add-on." And while any team could throw together a "combined" report, it will take education, engagement, and proper incentives for the same team to produce a meaningfully Integrated Report.
The solution lays into the managers approach, managers should make sure their employees know how they fit into the process and how integrated reporting fits into the big picture."
Next, leaders should thoughtfully select those who will be responsible for delivering an Integrated Report. Leaders from line and staff functions should appoint team members with appropriate knowledge and authority to support the Integrated Reporting process. Leaders should set expectations for managers regarding the quality of the report and make it clear to employees "what's in it for them." Should, for example, the report receive recognition from third-parties as an example of leading practice? Staff involved in the report should understand how its success will affect their performance ratings. Leaders should also set a cross-functional review to understand and reflect on what the information in the reports suggests regarding future strategy.

2.3.4 Knowledge Integration

The systems used to capture, analyze, and report data determine internal and external understanding of a company's performance. The questions of what to measure, how to measure it, and how to present it are tied to successful Integrated Reporting.
Integrated Reporting therefore creates an enormous knowledge management and integration challenge.
Little consensus exists on how or what to measure related to sustainable development. It is not intuitively obvious how to understand the links between "traditional" reporting data and ESG data. Existing systems are often barely adequate to handle financial reporting. Collecting information on sustainable development performance taxes existing knowledge management systems beyond what they can handle.
The solution could be to build enterprise knowledge management and data collection systems that enable on-demand information gathering.
This should strengthen knowledge management across all dimensions of corporate performance and not solely ESG performance. In addition, companies need to actively participate in industry and cross-sector forums that define standardized and comparable metrics for ESG performance. With appropriate vision, leadership and management systems in place, companies can begin to tackle the knowledge integration challenge.

Companies have been able to muddle through similar challenges in CR reporting. However, Integrated Reporting holds the potential to change the game—creating a more powerful feedback loop that aligns stakeholder and shareholder expectations for corporate performance. The paradox is that companies need to produce Integrated Reports to create the mix of external and internal

incentives to change organizational practices and embrace strategies of Responsible Competitiveness. However, in order to produce a meaningful Integrated Report at all, companies need to launch the same kind of organizational change processes the report is meant in part to catalyze.
Breaking out of this conundrum will require internal champions to articulate how Integrated Reporting supports corporate vision, and leaders to actively embrace and advance it. Integrated Reporting must also be translated into clear management and knowledge integration processes. By driving organizational change in these areas, companies, their shareholders, and their stakeholders will find Integrated Reporting a valuable tool to drive a Responsible Competitiveness agenda.

2.4 Benefit of IR

It is possible to identify three classes of benefits.
The first is internal benefits, including better internal resource allocation decisions, greater engagement with shareholders and other stakeholders, and lower reputational risk.[70]
The second is external market benefits, including meeting the needs of mainstream investors who want ESG information, appearing on sustainability indices, and ensuring that data vendors report accurate nonfinancial information on the company.
The third is managing regulatory risk, including being prepared for a likely wave of global regulation, responding to requests from stock exchanges, and having a seat at the table as frameworks and standards are developed.[71]
Of course, integrated reporting is not a panacea for improving resource allocation decisions or a silver bullet for solving contemporary problems with financial and nonfinancial reporting, particularly as it is so young. Companies interested in implementing integrated reporting face a number of challenges, beginning with the fact that no globally accepted framework specifying what goes into an integrated report exists. But there are a growing number of examples of integrated reports from which companies can learn.
A closely related problem is that there is no globally accepted set of standards for measuring and reporting nonfinancial information. Few companies have internal control and measurement systems for nonfinancial information that are of the same quality as for financial information. Simply gathering all the nonfinancial and financial information to issue an integrated report is a formidable challenge in most companies.
Users of integrated reports also face constraints that limit the value of integrated reporting to them today. The lack of a framework and standards for nonfinancial information makes it difficult to compare the performance of different companies, a core feature of investment analysis.
Another limitation is the small number of companies practicing integrated reporting, and the fact that it will likely be adopted across industries and countries to varying degrees. Questions exist about the reliability of the information reported by companies. For the most part, having any type of third-party assurance on nonfinancial information in the report, let alone on the entire integrated report, is voluntary. And even when assurance is provided, it is not done with the same degree of rigor as the audit of a financial report.
Although these challenges are significant, they can and must be overcome, and quickly. A sustainable society requires that all of its companies practice integrated reporting, so that resources

[70] Robert G. Eccles and Michael P. Krzus, One Report: Integrated Reporting for a Sustainable Strategy, Hoboken, N.J.: John Wiley & Sons, 2010: 146–56.
[71] Robert G. Eccles and Kyle Armbrester, "Two Disruptive Ideas Combined: Integrated Reporting in the Cloud," IESE Insight, no. 8, 2011.

used today do not jeopardize access to resources for future generations. There really is no alternative to integrated reporting. This still infant idea needs to grow into a strong and robust management practice. Doing this requires a cross-sector approach that involves the public and private sectors, and civil society as represented by NGOs.

2.5 The leverage effect of IR

2.5.1 A Leverage Mechanism Toward Sustainability

A 2012 working paper, “The Impact of a Corporate Culture of Sustainability on Corporate Behavior and Performance,” explained that the denominated high-sustainability firms out-performed the low-sustainability firms in terms of both stock market and accounting measures over a period of 18 years.[72]

While not explicitly emphasized by the IR framework, organizations may choose to orient their IR project toward improved sustainability. In this case, the sustainability “leverage effect” of IR results from the progressive integration/reinforcement of sustainable issues among operational practices. In this regard, the implementation of IR could act as a support for learning and transforming practices toward sustainability. By moving to IR, companies might move from a somewhat reactive conception of sustainability reporting to an explorative and proactive organizational approach.

In order to do so, the corporate value system of an organization and its culture must include sustainability and ethics. The board and executive managers must exhibit strong commitment to adopt sustainability as well as the move to IR. Often, organizations that embark in an integrated reporting and thinking journey will not need corporate social responsibility/sustainability as a separate function since sustainability is gradually embraced by the organization’s different functions—from commercial to marketing, from logistics to finance. Through the development of an integrated report, “stakeholders will gain a better understanding of the quality and sustainability of performance through insight into external influences, strategic priorities and the dynamics of the chosen business model.”[73] An integrated report indeed often reveals if sustainability is indeed really integrated into the business strategy of the organization.

2.5.2 A Leverage Mechanism Toward Holistic Thinking

IR allows companies to stimulate holistic thinking within their organization. The need to consider multiple capitals in the value-creation process contributes to broadening the conception of their company and its operations. It promotes a multifaceted approach to information gathering and decision making that companies consider beneficial. According to the South Africa Institute of Chartered Accountants (SAICA) “Integrated Thinking: An Exploratory Survey” report, more than 70% of responding executives and nonexecutive directors felt that decision making had improved as a result of integrated thinking efforts.[74]

“Integrate: Doing Business in the 21st Century” recognizes that integrated thinking is achieved when:

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[72] Robert G. Eccles, Ioannis Ioannou, and George Serafeim, “The Impact of Corporate Sustainability on Organizational Process and Performance,” working paper, Harvard Business School, 2012.

[73] Pricewaterhouse Coopers, “Integrated Reporting: The Future of Corporate Reporting,” May 2012, p. 5, www.pwc.de/de_DE/de/rechnungslegung/assets/integrated_reporting.pdf.

[74] The South African Institute of Chartered Accountants (SAICA), “Integrated Thinking: An Exploratory Survey,” 2014, www.integratedreportingsa.org/Portals/0/Documents/SAICAIntegratedThinkingLandscape.pdf.

Nonfinancial and financial performances are no longer separated, and the entire organization accepts that one affects the other.

The company's strategy is shared by all functions and divisions. Decision making is carried out with a longer-term view on value creation.[75]

Operationally, holistic thinking can be observed when accounting for capitals is developed to sustain long-term value creation, when the boundaries of capital accounting extend along the entire supply chain to encompass the broad responsibility mind-set, and when organizations create value for a wide range of stakeholders.

Holistic thinking is observed in integrated information technology systems (see "Integrating Information Systems") and when boards and management start to use sustainability measures (e.g., human capital, natural capital-related key performance indicators (KPIs)) for decision making and developing a strategy.[76]

2.5.3 A Leverage Toward a Stakeholder-Inclusive Approach

In terms of stakeholders, investors and providers of financial capital are the target audience for the IIRC framework. In the same vein, it also alludes to stakeholder engagement being informative through the IR process but does not provide specific guidance on stakeholder engagement. Other observers see the integrated report as a means to meet broader stakeholder expectations.[77] Some individuals more heavily emphasize the importance of continuous dialogue between the company and its stakeholders to ensure responsiveness to stakeholder views and interests and to integrate their views into the IR process when material.[78]

Being an emerging phenomenon, companies that have implemented IR have the opportunity to appropriate it and make the most of its possibilities. It is up to each company to develop its own IR approach, keeping in mind the needs of its multiple stakeholders.

In addition to shaping the content of the report in terms of material issues relevant to stakeholders, broadly engaging your company's stakeholders enables a more in-depth leverage of holistic thinking.[79] Such engagement allows you to embed stakeholder views and interests in the conduct of the company's day-to-day operations and to consider the company's strategy, risks, and opportunities in light of stakeholder feedback.[80]

In addition to integrating stakeholder views into their understanding of the value-creation process, IR offers benefits in terms of accountability to stakeholders. A survey of companies in South Africa that issued mandatory integrated reports reveals that the majority of companies perceive an improved trust relationship with their stakeholders following the publication of their report. They

[75] Mervyn King and Leigh Roberts, Integrate: Doing Business in the 21st Century, Juta & Company Ltd., South Africa, 2013.

[76] The South African Institute of Chartered Accountants (SAICA), "Integrated Thinking: An Exploratory Survey," 2014, www.integratedreportingsa.org/ Portals/0/Documents/SAICAIntegratedThinkingLandscape.pdf.

[77] Maxi Steyn, "Organizational Benefits and Implementation Challenges of Mandatory Integrated Reporting," Sustainability Accounting, Management and Policy Journal, 2014, pp. 476–503.

[78] The Integrated Reporting Committee (IRC) of South Africa, "Framework for Integrated Reporting and the Integrated Report: Discussion Paper," January 2011, www.sustainabilitysa.org/Portals/0/IRC%20of%20SA%20Integrated%20Reporting%20Guide%20Jan%2011.pdf.

[79] The International Integrated Reporting Committee (IIRC), "The International <IR> Framework," December 2013, www.theiirc.org/international-ir-framework.

[80] The Integrated Reporting Committee (IRC) of South Africa, "Preparing an Integrated Report: A Starter's Guide," December 2014, www.integratedreportingsa.org/Portals/0/Documents/IRCSA_StartersGuide.pdf.

also strongly highlight how issuing an integrated report helped them develop improved and/or meaningful stakeholder engagement practices.[81]

2.5.4 A leverage towards long term thinking

IR provides companies the opportunity to embrace long-term thinking, meaning envisioning the future of the company in 5, 10, or even 20 years. The idea is to reverse the trend from the past few decades to shorten strategic time horizons by allowing managers to reflect on the organization's future challenges. This could be done both within the organization by offering an arena for discussing how it could sustain in the future and outside the organization while engaging its stakeholders throughout the IR process. By adopting IR, an organization encourages its employees and stakeholders to shift toward sustainability by offering a forward-looking report (e.g., target settings in terms of CO2 and also the use of prospective exercises about what the business could be in 5, 10, or 20 years) that could also include qualitative data.
Interestingly, both companies and investors show great interest in focusing more on long-term strategy and less on quarterly earnings reports. For instance, an investor with a long-term horizon, as opposed to one who trades on a daily basis, is going to evaluate companies differently and reward long-term thinking.
On one hand, IR can become a means for companies to attract long-term investors who are more likely to work in a partnership with companies and support organizational transformation toward the inclusion of the six capitals—although the latter takes time. On the other hand, IR helps investors integrate nonfinancial concerns into their valuation processes and more deeply exchange with the company about their strategic choices when it comes to the company's license to operate (e.g., controversial issues)—an increasing concern for investors whether they are holders of equity or debt.
By bearing in mind the wealth of future generations and adopting a multi-stakeholder view, this approach is more aligned with the vision of sustainability as well as with the long-term horizon of the company and the fiduciary duty of institutional investors who commit themselves to providing benefits for the coming 20 or 30 years. In doing so, IR could become a way to enable both organizations and investors to reward long-termism after the period of extreme volatility that has dominated the economy since the financial crisis of 2008.

2.6 The concept of VA

The concept of VA has its roots in macro-economic principles (see, e.g. Scha¨fer, 1951; Cox, 1979; Basu, 1992; Gilchrist, 1971). First used in the USA at the end of the eighteenth century, it has since then been a measure of performance and for the creation of economic wealth in an economic sector, an industry or a whole national economy. At least since the beginning of the last century it has been used by all developed countries with capitalistic economic systems for the Census of Production and the calculation of the National Product, which is nothing more than the calculation of national VA. Due to the strong influence and notable activities of the United Nations (UN), this calculation is currently comparable all over the world.
It is measured by the extent to which the value of an item is enhanced between the point in time at which it is acquired by the firm and the point in time at which it is (alone or combined with other

[81] Maxi Steyn, "Organizational Benefits and Implementation Challenges of Mandatory Integrated Reporting," Sustainability Accounting, Management and Policy Journal, 2014, pp. 476-503.

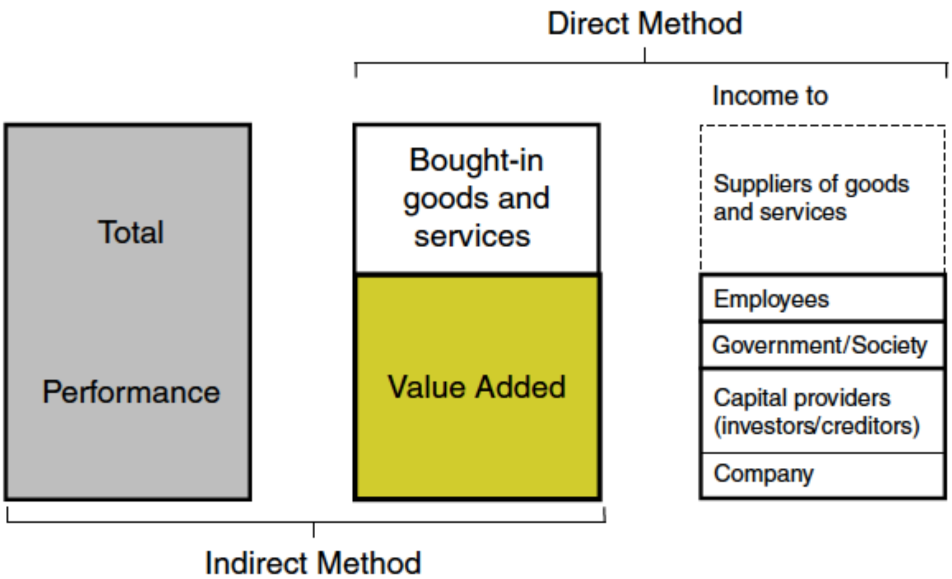
goods) sold or made available for sale by the firm.[82] Hence, in general VA can be defined as follows[83,84]:

VA = O - I ("indirect method" or "subtractive method")
or
VA= RE + RG + RCP + NAWC ("direct method" or "additive method")

where O, output; I, input; RE, remuneration of employees; RG, remuneration of government; RCP, remuneration of capital providers; NAWC, not appropriated wealth creation, retained or not distributed parts of the VA.

VA can be calculated in two different ways. There is the entity focused performance aspect and the society focused social aspect. The performance aspect is expressed by the indirect method, which reveals the value creation through an entity's activities. The direct method consists of the addition of the remuneration of the productive factors "labor" and "capital" as well as of the community represented by the public sector. (Figure 3.6)

Figure 3.6



Source: Axel Haller Chris van Staden, (2014),"The value added statement – an appropriate instrument for Integrated Reporting", Accounting, Auditing & Accountability Journal, Vol. 27 Iss 7 pp. 1190 - 1216

An analysis of the history of the use of VA in corporate reporting shows that VA has been used as a decision and reporting measure in the corporate reporting areas of financial, managerial and

[82] Cox, B. (1979), Value Added – An Appreciation for the Accountant Concerned With Industry, William Heinemann Ltd, London.
[83] Meyer-Merz, A. (1985), Die Wertscho¨pfungsrechnung in Theorie und Praxis, Schulthess, Zu¨ rich.
[84] Renshall, M., Allan, R. and Nicholson, K. (1979), Added Value in External Financial Reporting, The Institute of Chartered Accountants in England and Wales, London.

sustainability reporting. However, in contrast to national (macroeconomic) accounting, its popularity has been very different from country to country and over time.[85,86,87]
While in some countries, e.g. Germany[88] and the USA[89], the discussion about VA as a useful corporate measure has a longer tradition, it was not before the 1970s when the structured calculation of VA and its publication in annual reports became "fashionable" in Europe. This was due to the growing opinion in those days that companies (in particular large ones) should reflect in their reports how they meet their social responsibility, primarily with regard to the employees and the society as a whole.[90,91,92] In this period, various versions of the structured calculation of VA (the so-called VAS) were developed and proposed as an important instrument of "social accounting".
Primarily due to changes in the political and social environment of corporate reporting, the corporate as well as the academic interest in VA and VA reporting declined in European countries during the 1980s. However, the (voluntary) presentation of the VAS in corporate reports of European companies never disappeared totally, as per the literature[93,94,95] and as per the current annual reports of companies, e.g. BMW[96], Henkel[97] and Volkswagen[98].

With the "sustainability movement" in society and the related increase in published corporate sustainability reports, the idea of the 1970s of "social accounting" resurrected and with this the VA concept. Here VA is used as an indicator of the economic impact of an entity on society, and therefore as one of several indicators of "sustainability performance" and of the social orientation

[85] McLeay, S. (1983), "Value added: a comparative study", Accounting, Organizations and Society, Vol. 8 No. 1, pp. 31-56.
[86] Shaoul, J. (1996), "The power of accounting: reflecting on water privatization?", Accounting, Auditing & Accountability Journal, Vol. 10 No. 3, pp. 382-405.
[87] Pong, C. and Mitchell, F. (2005), "Accounting for a disappearance: a contribution to the history of the value added sta ement in the UK", Accounting Hi torians Journal, Vol. 32 No. 2, pp 173-199.
[88] In the 1920s in Germany, for instance, Max Lehmann began to investigate the usefulness of the performance measure "Wertscho¨pfung" (the German term for VA) to report on, and control the activities of a company (see, e.g. Lehmann, 1926; Georgieff, 1938; Gockel, 1953; Rentsch, 1954; Haller, 1997).
[89] Suojanen (1954) was the first to introduce the VA concept in financial reporting in the USA. He indicated that accountancy's role is to report the results of the organization's operations and interactions to various interested parties in ways they can understand best. He suggested the VA concept for income measurement, as a way for management to fulfil their accounting duty to the various interest groups.
[90] Burchell, S., Clubb, C. and Hopwood, A. (1985), "Accounting in its social context: towards a history of value added in the United Kingdom", Accounting, Organizations and Society, Vol. 10 No. 4, pp. 381-413.
[91] Maunders, K.T. (1985), "The decision relevance of value added reports", in Choi, F. and Mueller, G.G. (Eds), Frontiers of International Accounting: An Anthology, UMI Research Press, Ann Arbor, MI, pp. 225-245.
[92] Meek, G. and Gray, S. (1988), "The value added statement: an innovation for US companies", Accounting Horizons, Vol. 2 No. 2, pp. 73-81.
[93] Haller, A. (1997), Wertscho¨pfungsrechnung, Scha¨fer-Poeschel, Stuttgart.
[94] Ianniello, G. (2010), "The voluntary disclosure of the value added statement in annual reports of Italian listed companies", Agricultural Economics – Czech, Vol. 56 No. 8, pp. 368-378.
[95] Van Staden, C.J. (2003), "The relevance of theories of political economy to the understanding of financial reporting in South Africa: the case of value added statements", Accounting Forum, Vol. 27 No. 2, pp. 224-246.
[96] BMW (2012), Annual Report 2012, Bayerische Motoren Werke, Munich, pp. 59-60, available at: http://annual-report2012.bmwgroup.com/bmwgroup/annual/2012/gb/English/pdf/ report2012.pdf (accessed 18 December 2013).
[97] Henkel (2012), Sustainability Report 2012, Henkel AG & Co., Du¨sseldorf, p. 3, available at: http:// sustainabilityreport.henkel.com/fileadmin/2012_NB/PDF_EN/Henkel_SR2012_en.pdf (accessed 18 December 2013).
[98] Volkswagen (2012), Experience D[r]iversity Annual Report 2012, Volkswagen AG, Wolfsburg, p. 184, available at: www.volkswagenag.com/content/vwcorp/info_center/en/themes/2013/ 03/Annual_Report_2012.html (accessed 18 December 2013).

of companies.[99,100] However, in order to distinguish it from the shareholder value-oriented notion of "(economic) VA", different terms are often used. For example, the GRI, which has produced the most authoritative guidelines with regard to sustainability reporting, uses the term "direct economic value generated and distributed" (EVG&D) and refers to it as being the first core economic indicator (EC1) in a sustainability report according to the G 3.1 and the G 4 guidelines.[101,102] Like the traditional understanding of VA in the 1970s, the GRI emphasizes the duality of this indicator that highlights the economic value generated by an entity and the way this is distributed to the various stakeholders (being employees, capital providers, governments and the community).[103]
According to the IIRC[104], IR aims to:

1. communicate "the full range of factors that materially affect the ability of an organization to create value over time";
2. "inform the allocation of financial capital that supports value creation";
3. it also intends to "enhance accountability and stewardship with respect to the broad base of capitals […] and promote understanding of the interdependencies between them"; and
4. finally, it should "support integrated thinking".

Value creation. The existence of a company is only guaranteed if it is able to create enough VA that all monetary and other interests of the stakeholders are satisfied. Therefore, creating VA is the central precondition of the going concern assumption. Without VA a company loses its "raison d'etre", thus its license to operate (which is an aspect of an entity's social capital that is to be included in IR; IIRC). VA is the amount of wealth increase that can be distributed to the stakeholders who have contributed to the corporate performance.[105] Therefore, a statement which discloses the generation of VA and its distribution, documents whether the management of a company has met its responsibility vis-a` -vis a range of stakeholder groups with regards to the performance of the enterprise, the use of input resources, and the distribution of wealth increases. VA represents more than just net income, it shows the contribution (wealth increase) of the company to the national economy.[106,107] Hence, VA reveals an entity's impact on the economy and on society, a core element of the IIRC's concept of value creation.

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[99] Aldama, L.P. and Zicari, A. (2012), "Value-added reporting as a tool for sustainability: a Latin American experience", Corporate Governance, Vol. 12 No. 4, pp. 835-498.
[100] Cahan, S.F. and Van Staden, C.J. (2009), "Black economic empowerment, legitimacy and accounting disclosures: evidence from post-apartheid South Africa", Accounting & Finance, Vol. 49 No. 1, pp. 37-58.
[101] GRI (2011), G3.1 Guidelines, Global Reporting Initiative, Amsterdam, available at: www.globalreporting.org
[102] GRI (2013), G4 Sustainability Reporting Guidelines, Global Reporting Initiative, Amsterdam, available at: www.globalreporting.org
[103] Compared to the traditional definition of VA, the GRI's EC1 measure stresses the distribution (social income generating) side of VA (referred to above as the "social aspect" of VA), because it regards suppliers of goods and services also as value generating stakeholders, and therefore takes into account the "gross value creation" of a company (sales, etc.) and not the "additional value creation" (which is output minus costs of bought in goods and services). Another difference to the traditional definition of VA that stresses the bridging function between the economic and social aspect of value creation is the fact that the EVG&D concept discloses "community investment" separately, which is not the case in the traditional VA.
[104] IIRC (2013b), Consultation Draft Framework, IIRC, London, available at: www.theIIRC.org
[105] Shaoul, J. (1996), "The power of accounting: reflecting on water privatization?", Accounting, Auditing & Accountability Journal, Vol. 10 No. 3, pp. 382-405.
[106] Maunders, K.T. (1985), "The decision relevance of value added reports", in Choi, F. and Mueller, G.G. (Eds), Frontiers of International Accounting: An Anthology, UMI Research Press, Ann Arbor, MI, pp. 225-245.
[107] Schreuder, H. (1979), "Corporate social reporting in the federal republic of Germany: an overview", Accounting, Organizations and Society, Vol. 4 Nos 1/2, pp. 109-122.

Capital allocation. Although VA is an income measure that focuses on a group of major stakeholders, it is nevertheless significant to the providers of financial capital that are the primary audience of IR.[108] In contrast to net income or EVA, it embraces the remuneration of both equity and debt providers, as distribution components. There is no net income without VA, but there can be VA without net income. A loss shows that the wealth creation was not enough to reimburse all stakeholders. This relationship between net income and VA can be put in a nutshell with the following formula:

VA = sum of “remuneration costs” + net income

The term “remuneration costs” signify all those costs which are not regarded as “bought-in material and services”, but as remuneration of the stakeholder groups employees, state, civil society and capital providers. In addition, the bought-in material and services (the input factor) reveals the remuneration of the suppliers (this perspective is taken in the gross VA approach of the GRI). Thus, the distribution of VA reflects the reimbursement to providers of different capitals. Using VA data in an IR would provide figures and instruments, which are (or should be) used by corporate management, and thus would comply with the management approach that is included in the IR concept.

Accountability and stewardship with respect to the broad base of capitals. The duality of the VA concept also corresponds well with the IIRC’s concept of different capitals that constitute corporate value. In particular, the distribution aspect reflects the interrelatedness of financial capital, human capital and social capital that is explicitly mentioned in the Framework.[109] The VA concept makes it obvious that the wealth created is the basis for distribution, that can be regarded as a return on investment for different sorts of capital, that are referred to in the Framework. The distribution of VA provides information on human capital (salaries, training and other benefits), financial capital (interest and dividends) and social capital (taxes and other contributions to the community and charity organizations, etc.). In addition, the creation (production) aspect of VA reveals a capital mentioned in the Framework, which is manufactured capital (reflected in the bought-in goods and materials and in the amount of depreciation and amortization on the assets used). In addition, putting these input-factors in relation to VA depicts the relative contribution of the company to the national wealth, that may be interpreted as contributions to social and relationship capital (the IIRC mentions “an organization’s social license to operate” as one component of such capital).

Integrated thinking. Against the background of the above-mentioned arguments it can also be stated that if management uses VA and its components as internal measures in a portfolio of decision useful data, they have incorporated integrated thinking to some extent. Considering the monetary effects of the current and future business models, corporate strategies, as well as management decisions and actions on national wealth creation is an important characteristic of management’s integrated thinking, in a best practice approach. In doing so, management perceives the entity as part of society. Confronting the distribution conflicts between the stakeholders, attempting to reach a balanced consensus between the stakeholders and reporting on this issue in a structured manner in a VAS, can be perceived as one of the outcomes of applying integrated thinking.

[108] IIRC (2013b), Consultation Draft Framework, IIRC, London, available at: www.theIIRC.org
[109] IIRC (2013b), Consultation Draft Framework, IIRC, London, available at: www.theIIRC.org

2.6.1 The concept of VA and the guiding principles of IR

The IIRC states and explains the following six guiding principles for the presentation of an IREP.

1	Strategic focus and future orientation	"Insight into the organization's strategy, and how that relates to its ability to create value in the short, medium and long term and to its use of, and effects on, the capitals" (IIRC, 2013, para. 3.2)
2	Connectivity of information	Presentation, "as a comprehensive value creation story, the combination, inter-relatedness and dependencies between the components that are material to the organization's ability to create value over time" (IIRC, 2013, para. 3.7)
3	Stakeholder responsiveness	"Insight into the quality of the organization's relationships with its key stakeholders and how and to what extent the organization understands, takes into account and responds to their legitimate needs, interests and expectations" (IIRC, 2013, para. 3.13)
4	Materiality and conciseness	Provision of "concise information that is material to assessing the organization's ability to create value in the short, medium and long term" (IIRC, 2013, para. 3.22)
5	Reliability and completeness	Inclusion of "all material matters, both positive and negative, in a balanced way and without material error" (IIRC, 2013, para. 3.30)
6	Consistency and comparability	The information "should be presented on a basis that is consistent over time and in a way that enables comparison with other organizations to the extent it is material to the organization's own value creation story" (IIRC, 2013, para. 3.48)

Strategic focus and future orientation. The ability of a company to create VA is a precondition to the remuneration of financial capital providers as well as the other VAD-stakeholders. An increase in VA automatically translates into an increase in wealth. The development of the VA figure over time can serve as a good indicator of the future ability of wealth creation. In addition, VA acts as a central component in various measures that are known to have an important strategic role for corporate success. These are productivity, vertical integration and the size and growth of a company.

Productivity is seen to be a more appropriate measure for evaluating a company's profitability and future success than net income. It represents the general economic notion of efficiency, and therefore it is regarded as one of the important KPIs of companies, industries and whole national economies, with predictive value for future profitability.[110,111] It can be stated that VA-based productivity ratios have high predictive value and therefore decision relevance with regard to future corporate success. VA ratios also show the level of efficiency regarding a company's use of two different capitals, human capital (productivity of labor, calculated by the ratios "VA per number of employees" and "VA/number of working hours") and financial capital (productivity of capital, calculated by the ratio "VA/invested financial capital").

The measure vertical integration, which is also based on VA (with ratios like "VA per sales", "VA per production" or "VA per input factors" (bought-in-materials), is considered to be an important strategic and competitive factor that influences future innovation and profitability.[112] However, in contrast to productivity, a high or a low vertical integration cannot generally be stated as positive or negative for a company. The benefit depends totally on the conditions of the market the company is in, the strategic intention, and the general cost structure of the company.

[110] Enthoven, A. (1985), Mega Accounting Trends, Centre for International Accounting Development at the University of Texas at Dallas, Dallas, TX.

[111] Lieberman, M.B. and Kang, J. (2008), "How to measure company productivity using value-added: a focus on Pohang steel (POSCO)", Asia Pacific Journal of Management, Vol. 25 No. 2, pp. 209-224.

[112] Buzzell, R.D. and Gale, B.T. (1987), The PIMS-Principles, Free Press, New York, NY.

VA figures also serve as a very useful measure of the size and growth of a company. Size is an indicator of the market power of a company, its independence from changes in market structures, the amount of resources available and used, and the volume of its economic, social and (most likely also) environmental impact. It, therefore, indicates the significance of the company for society, and interrelated with this, increases the political cost of a company.[113] These attributes are mentioned in the IIRC's proposed Framework. The impact of size on corporate success depends on market conditions, market developments and other parameters. Therefore, size information is only relevant in comparison with competitors and in comparisons over time.
All three VA-based measures represent "organizational value drivers", which should be mentioned and explained in an IR, and they relate company specific characteristics with "industry or regional benchmarks" and "quantitative indicators commonly used by other organizations".

Connectivity of information. The duality involved in the VA concept reveals the connectivity between value generation and value distribution to VAD-stakeholders. By presenting a VAS a company would consider and disclose the effect of its business model on its economic and social environment, as the VA-based measures of a single entity are very suitable to be connected with comparable measures at an industry and/ or a national level[114]. In addition, a VAS can reveal the interrelatedness of the use of different capitals by the company. These are all characteristics inherent to IR.

Stakeholder responsiveness. As one of the major interests of stakeholders is their monetary stake in the wealth creation of a company, the distribution side of the VAS responds well to the needs of the stakeholders. The way VA is distributed between the stakeholders give insights into the role of particular stakeholder groups in the business model of the company and its "specific value creation story" as well as to what extent the company has considered particular stakeholder interests. It also reveals whether the company is able to manage conflicting shareholder interests in distributing VA in a way that can be perceived as socially "fair", and to which extent it differs in this respect from other companies in the same, or other, environments/industries. Such disclosure would "enhance transparency and accountability, which are essential in building trust and resilience", it also makes "internal processes more transparent", which "is valuable to most stakeholders". VAS can be a useful instrument to show that a company considered the interests and expectations of stakeholders and the whole society, which is an important precondition of long-term corporate success.[115]

Materiality and conciseness. Information disclosed in an adequately designed VAS can be perceived as being "material to assessing the organization's ability to create value" with regards to most companies. Being a clearly structured financial statement, the VAS has a high level of conciseness without compromising other guiding principles such as completeness and comparability.

Reliability and completeness. According to the IIRC, reliability stands for a lack of "bias in the selection or presentation of information" and "freedom from material error". As VA is a broad performance measure that is not directed to meet the interests of only one group (e.g. investors),

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[113] Watts, R.L. and Zimmerman, J.L. (1978), "Towards a positive theory of the determination of accounting standards", The Accounting Review, Vol. 53 No. 1, pp. 112-134.
[114] Shaoul, J. (1997), "A critical financial analysis of the performance of privatised industries: the case of the water industry in England and Wales", Critical Perspectives on Accounting, Vol. 8 No. 5, pp. 479-505.
[115] Evan, W. and Freeman, R. (1988), "A stakeholder theory of the modern corporation: Kantian capitalism", in Beauchamp, T. and Bowie, N. (Eds), Ethical Theory and Business, 3rd ed., Prentice-Hall, Englewood Cliffs, NJ, pp. 97-106.

but also those of other stakeholders, we argue that it is less biased than net income.[116] The link to the financial accounting data ensures that the information provided in a VAS has the same level of completeness and freedom of error as the financial statements.

Consistency and comparability. Although the IIRC prefers a principles-based approach in the Framework, it nevertheless states that “a significant degree of comparability across organizations” is necessary “to meet relevant information needs”. In this respect, the VA concept is preferable to the concept of income.
The fact that the VA concept is used in four types of accounting systems (which are: managerial accounting, financial accounting, social accounting and national accounting) provides another comparability-advantage, because in analyzing corporate performance, data from all four systems can be compared and can serve as benchmarks (e.g. for productivity analysis). This characteristic also supports the argument that the use of VA measures supports “integrative thinking” and “connectivity”, because it connects the company’s value creation story with its economic and social environment and helps to analyze corporate behavior in this environment.[117]

The above arguments show that an appropriately structured VAS would be an information instrument that is conceptually compatible with the IR approach and objectives. It could contribute considerably to the usefulness of IR, because it tells an essential part of an entity’s “value creation story”, in particular the amounts, components and factors of wealth creation and wealth distribution between major stakeholder groups. The information provided complies with the needs of the providers of financial capital as well as other stakeholders, and therefore corresponds with the general “theories of a firm” that are applied all over the world, which are the “shareholder concept” and the “stakeholder concept”.
Since the information in a VAS is primarily derived from the accounting system of a company, the VAS meets the IIRC’s cost/benefit considerations for IR because the benefits to the reporting entity as well as the information users may well exceed the costs. As with all other monetary reporting instruments, a VAS cannot capture information that is not measurable in monetary terms.[118] However, this does not conflict with the approach of the IIRC, that states “many uses and effects are best (and in some cases can only be) reported on in the form of narrative rather than through quantitative indicators”.
In capturing relevance, reliability and international comparability, the measurement of VA and of the elements of the VAS should be based on widely accepted internationally accounting standards, which are at the moment IFRS. As there are reasonable arguments for the computation of VA on a net and on a gross basis (meaning including or excluding depreciation/amortization)[119], gross and net VA should be disclosed separately.[120] In order to provide additional performance and cost information to a cost-of-sales income statement and to stay comparable with the VA concept in

[116] In this context, it is very important that the value added statement ceases to be regarded primarily as an instrument of social reporting, with a focus on employees, because then it also tends to be set up or interpreted with this bias.
[117] Shaoul, J. (1998), “Critical financial analysis and accounting for stakeholders”, Critical Perspectives on Accounting, Vol. 9 No. 2, pp. 235-249.
[118] However, there are examples in the literature that take value added further to also measure non-monetary items; see for example, Figge and Hahn (2004), Hahn et al. (2007), Mook (2007).
[119] Morley, M. (1978), The Value Added Statement – A Review of its Use in Corporate Reports, Institute of Chartered Accountants of Scotland, London.
[120] In international comparisons, gross VA is usually preferred, because in doing so, depreciation and amortization differences between countries do not influence the analyses. From a conceptual perspective depreciation should be regarded as input (intermediary material) and should therefore be deducted. For this reason, management accounting practice usually uses net VA.

national accounting, VA from operations should be calculated on the basis of produced goods and services and not only on sales (revenues).[121]
VA is a broad performance concept that is characterized by a duality, because it represents the wealth creation of a company through its business activities and at the same time the value distributed to major stakeholders of the company. Although VA figures, ratios and VASs have been used in national, financial, management and social accounting for several decades in various forms, in various countries and with variable popularity, the concept of VA has so far never become main-stream in corporate reporting. Various explanations have been given for this fact as well as for the rise and decline of the popularity of the VAS in particular time periods in various countries, particularly the UK. What is clear from this well-documented history in the academic literature is that the VA concept and its representation in a VAS is specifically related to the role of the company within society, thus corporate social responsibility and accountability. While the VAS is not currently widely published in western developed countries, published research from developing countries, where the VAS is applied in corporate reporting practice, have continued to confirm the role of VA and the VAS to demonstrate the integration of a company in society and its related social responsibility.

2.7 Existing Challenged and potential solutions

As with any transformation journey, organizations should expect challenges when implementing an IR project. Some found challenges within their organization itself, and other challenges are brought on by the external context within which the organization operates.
Though central to IR, the concept of materiality raises different issues than the meaning of materiality to the implementation of the concept. Companies understand materiality as a key criterion for deciding what is or is not important, the (potential) financial and nonfinancial impacts a company has on its stakeholders (including, but not limited to, its shareholders). The meaning of materiality differs across companies as well as across stakeholders. Investors tend to favor a financial view of materiality, close to the definition provided by the SEC: "information that a reasonable investor would consider to be important according to the context of information affordable." Yet other actors might prefer the GRI's broader view of materiality, which could be said to be both relevant and consequential for stakeholders: "the report should cover aspects that: Reflect the organization's significant economic, environmental and social impacts; or substantively influence the assessments and decisions of stakeholders."[122]
These different approaches of materiality have major consequences when it comes to designing the materiality matrix of the company. Within a financial framework, only sustainability issues that could potentially have impact (e.g., through reputational image) on the company would be taken into account. In a more stakeholders-oriented approach, issues that matter for a group of stakeholders could be included in the decision matrix even though they are not important to the company. Gathering all the stakeholders in one group (i.e., one axis of the matrix) increases the difficulty of evaluating what could be considered material. The diversity and potentially contradictory IR users' expectations also raise strategic and operational problems, reporting problems in particular. How can one integrated report align with two complementary but different

[121] This treatment is contrary to the disclosure practice of companies in most countries and also to the value creation concept of the GRI. Only in Germany and France is there a stronger tendency to disclose production-based VAS, which is very much related to the required or popular format of the income statement. The production orientation is also favored by some Anglo-Saxon researchers, for example Gray and Maunders (1980).
[122] GRI, G4 Sustainability Reporting Guidelines, Reporting Principles and Standard Disclosures, 2013, p. 17.

strategies in terms of information needs? Many actors seek to find a solution to this information multiplicity and statute. The purpose of this procedure is to guarantee the quality of the information given by the companies to their stakeholders. Until now, however, IR keeps being constructed, and there seems to be no clear approach. Investors want a clear financial and strategic outlet, while other stakeholders prefer more detailed reporting, priorities changing over time. It seems that companies choose what they prefer according to their priorities.

2.7.1 IR and Organizational Culture

Organizational culture has a major influence on the development of an IR project. To succeed, IR must adapt to the existing culture of the company while allowing some comparison with competitors in order to be comparable to its peers (notably to meet investors' expectations).
The main challenge is then to unite all organizational forces to move the project along. For instance, the detailed application of the IR framework sometimes spurs some resistance among employees, especially those having doubts or feeling uncertain about how particular IR principles fit within their organization. The aim to provide holistic thinking is particularly problematic given the fact that most companies are organized in silos. Similarly, depending on the organizational structure, the dedication of employees from plants and/or business units might be tricky to obtain, but it is essential for the evolution of the project.[123]

2.7.2 Integrating Information Systems

The aim is to transform the patchwork of existing IT programs into a coherent structure that will provide the necessary information to measure the capitals and the value created. This challenge is especially important for companies in which the reporting structure is organized in silos, with financial, social, and environmental information being gathered, monitored, and reported by three or more different groups. At the same time, breaking these silos—and hereby transforming the corporate reporting culture—might generate efficiencies along the reporting chain.
Given the central focus of IR on the company's creating value, it appears essential to align the reporting system with the organization's strategy. This is a complex problem, which cannot be approached by simply writing a corporate strategic plan and then developing the adequate IR—or, even worse, developing IT—to support that plan. IR and strategic renewal must be thought of in a complementary fashion. Companies also face a paradox when it comes to their communications with mainstream investors. Investors are significantly involved with the IIRC and thus appear interested in IR information. In their day-to-day information requests, however, mainstream investors still ask for traditional information to conduct their own analyses, which is not necessarily the case of long-term and socially responsible investors. The ambivalence of the investor world puzzles many organizational actors.

2.7.3 The Legal and Economic Environments

The legal environment in which corporations operate can also influence their motivation to get on board with the IR journey. For example, corporations operating in a more litigious environment are somewhat uncomfortable with the transparency principle underlying IR because they fear interest groups might use this information against them. Additionally, the forward-looking orientation of IR

[123] Global Reporting Initiative (GRI), "The Sustainability Content of Integrated Report – A Survey of Pioneers," GRI Research and Development Series, 2013, www.globalreporting.org/resourcelibrary/GRI-IR.pdf.

raises similar concern because of the potentially high level of uncertainty surrounding predictions of all kinds. Potential activism and even legal actions concern corporations.
Economic downturns and core operations problems have also challenged the IR project. Economic and operational difficulties tend to move IR implementation to the backseat, with corporations dedicating their limited resources to their most urgent problems and, at the same time, setting aside social and environmental issues.

Altogether, the value attributed to IR lies principally in the holistic embedding process it brings into organizations. This process and the changes in mind-set it carries into organizations are considered far more important than the integrated report itself as a communication outlet. There is much at play behind the official integrated report.
By taking into account the strategic dimension and the innovative potential of the integrated report, companies are doing far more than a simple reporting exercise. Rather, they are moving toward collective learning on their value proposition and value creation processes. Organizations learn about their interdependencies on the different capitals and start accounting for them in an integrated manner.

2.8 Beyond Business Corporation

Although most of the current focus on integrated reporting is on companies, the concept applies equally well to many types of organizations. Virtually any organization that uses financial, natural, and human resources should practice integrated reporting. As representatives of civil society and in collaboration with the public and private sectors, nongovernmental organizations have a major role to play in promoting integrated reporting, particularly through their advocacy role and what Waygood calls "capital market campaigning." This is based on two complementary techniques, argues Waygood, of "first, pressuring investors to invest capital in one company or sector rather than another; and, second, using the rights and influence associated with share ownership to voice concerns directly with company directors and senior management."[124]
NGOs can direct investor groups to influence industry associations, stock exchanges, standard setters, regulators, and legislators to encourage and require integrated reporting by companies. NGOs also can use their public policy advocacy muscle to argue that the current structure of capital markets acts as a constraint against sustainable development for two main reasons: short-termism and market failure. Focusing on short-term financial targets clearly creates a disincentive to make investments that produce positive economic and sustainable returns, such as reducing a company's carbon emissions and waste and improving its working conditions. NGOs can advocate for a longer-term orientation by investors, just as they can by companies. They also can lobby government entities to require companies to internalize the environmental and social costs they create by placing these liabilities on their balance sheets, thereby addressing the market failure problem. Obviously, NGOs cannot do any of this unless ESG performance information is available from companies. One hopes the desire for this information will create an incentive. And as time goes on, investors will be in a position to compare the performance of their portfolio companies practicing integrated reporting to those that are not. NGOs have an important role to play in the creation and enforcement of frameworks and standards for integrated reporting. They can engage with the IIRC and support its efforts. They also can help ensure the proper practice by companies and use by investors and other stakeholders of integrated reporting by monitoring public and private sector

[124] Steven Waygood, "Civil Society and Capital Markets" in Sustainable Investing: The Art of Long-Term Performance, edited by Cary Krosinsky and Nick Robins, Earthscan, 2008: 178.

entities that have an enforcement role. In doing so, they will be the "watcher of the watchers," representing the interests of civil society, to ensure that those responsible for the application of integrated reporting frameworks and standards are doing their job.
Finally, if NGOs expect companies and investors to put their self-interest in a broader social and longer-term context, they must do the same. NGOs advocating for integrated reporting must practice it themselves. Like all organizations, NGOs use financial, natural, and human resources to accomplish their objectives—admittedly at smaller levels than large corporations and governments. They need to disclose their use of these resources, practicing the same level of transparency they want from companies, investors, and the government. The clock is ticking for creating a sustainable society. In some areas, such as climate change, there are those who believe it has already struck midnight. But we must get on with it, starting with each and every one of us as citizens of the world, whether we represent public, private, or nongovernmental interests. Now is the time for all three sectors to acknowledge and act before it is too late.

2.9 Toward the universal adoption of IR

So what can be done? We begin by noting again that integrated reporting is not a silver bullet. Many other things must happen as well, including integrated: asset management, asset ownership, investment legal duties, proxy voting, corporate governance, corporate brokerage, investment consulting, financial literacy, and financial regulation.[125]
All of these can help spread the adoption of integrated reporting; integrated reporting, in turn, can contribute to each of these. The causal relationships are many and complex; there is no simple, single, linear path to take.
Furthermore, the most promising path will vary by country. In some countries, regulatory forces will play a stronger role. In others, it will be market forces. Both will be necessary in all countries.
The International Organization of Securities Commissions (IOSCO), "the international body that brings together the world's securities regulators and is recognized as the global standard setter for the securities sector," should establish a task force to publish a report on how securities commissions can support integrated reporting within their existing regulatory regime. This will support the lay of the groundwork for the timing and nature of new legislation and regulation to support integrated reporting.
Second, asset owners, asset managers, and sell-side analysts should encourage companies to practice integrated thinking in their communications with them. They should also, and on an incremental basis, start practicing more integrated thinking themselves. This means they need to go beyond having separate "ESG teams" to having their sector specialists develop a view on what the material ESG issues are and how they can affect financial performance.
Also, the accounting community should move from mere advocacy for integrated reporting to actually helping to spread its adoption. This means that the audit professionals, not simply the advisory or consulting professionals (which is largely the case to date), need to have proactive conversations about integrated reporting with the CEO, CFO, and board of directors of the companies they audit. The auditors also need to become better informed about what information investors want, since they are the ultimate clients.
For these reasons the road to universal adoption of integrated reporting is a long one, but it is one that must be traveled.

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[125] Waygood, S. (2015). "A Roadmap for Sustainable Capital Investments: An Aviva White Paper." Aviva Investors: 1-60.

In this chapter we have begun by underlying the transformation function that IR absolves and to what kind of leverage effect this function can foster. We have understood the benefits that IR bring to companies as well as the existing challenges in its implementation.
To provide to the reader an empirical and pragmatic analysis on what does it mean to implement an IR report, in the next chapter we present specific parts of integrated reports form different corporation, underlining their compliance with the IR framework, and what benefit they bring to the company.

Chapter 3

In this last chapter we present specific part of the report of the following corporations: Eni, SAP, Unilever, BAT and AXA. These are all companies that are following the IR framework to prepare their year-end report, and we believe that presenting specific parts of their report and showing how they comply with the IR framework can help the reader in better understanding the IR tool and its full potential.

3.1 ENI

The Italian Oil & Gas company Eni is an example of corporation that has embraced the integrated reporting as a tool to address the impact of its business and operations on the society. In its 2016 year-end report, that Eni calls Integrated Annual Report, the company underlines:

"Eni's 2016 integrated annual report is prepared in accordance with principles included in the "International Framework", published by International Integrated Reporting Council (IIRC). It is aimed at representing financial and sustainability performance, underlining the existing connections between competitive environment, group strategy, business model, integrated risk management and a stringent corporate governance system."[126]

In its integrated annual report Eni discloses its business model, that in accordance with the "International Framework" is the system through which an organization transforms inputs, through its business activities, into outputs and outcomes in order to fulfill the organization's mission and create sustainable value in the short, medium and long-term.
Before dig into Eni's business model it is important to clarify what it the company mission, since the business model is at the end of the day the set of activities that a firm is using to fulfill it. As presented on its annual report Eni's mission is:

"We are an energy company. We are working to build a future where everyone can access energy resources efficiently and sustainably. Our work is based on passion and innovation, on our unique strengths and skills, on the quality of our people and in recognizing that diversity across all aspects of our operations and organization is something to be cherished. We believe in the value of long term partnerships with the countries and communities where we operate."[127]

Eni's mission clearly states the "reason d'etre" of the company, Eni is an energy company and it is working on building a future in which everyone can access energy resources. The company mission further clarifies this, stating that this access has to be efficient and sustainable. These two adjectives underline the way the company wants to operate. The mission then specify how Eni is planning to operate mentioning the company's focus of innovation, the quality of the people working for it and the value the company recognized in diversity. The "grand finale" in Eni's mission is the clear statement that the company believe in creating value by interacting with a wide range of stakeholders, including the communities in which the company itself operates. The fact that Eni has embedded in such a clear way the interconnection between the company and the wide range of

[126] Eni, Integrated Annual Report, 2016 pp. 3
[127] Eni, Integrated Annual Report, 2016 preface

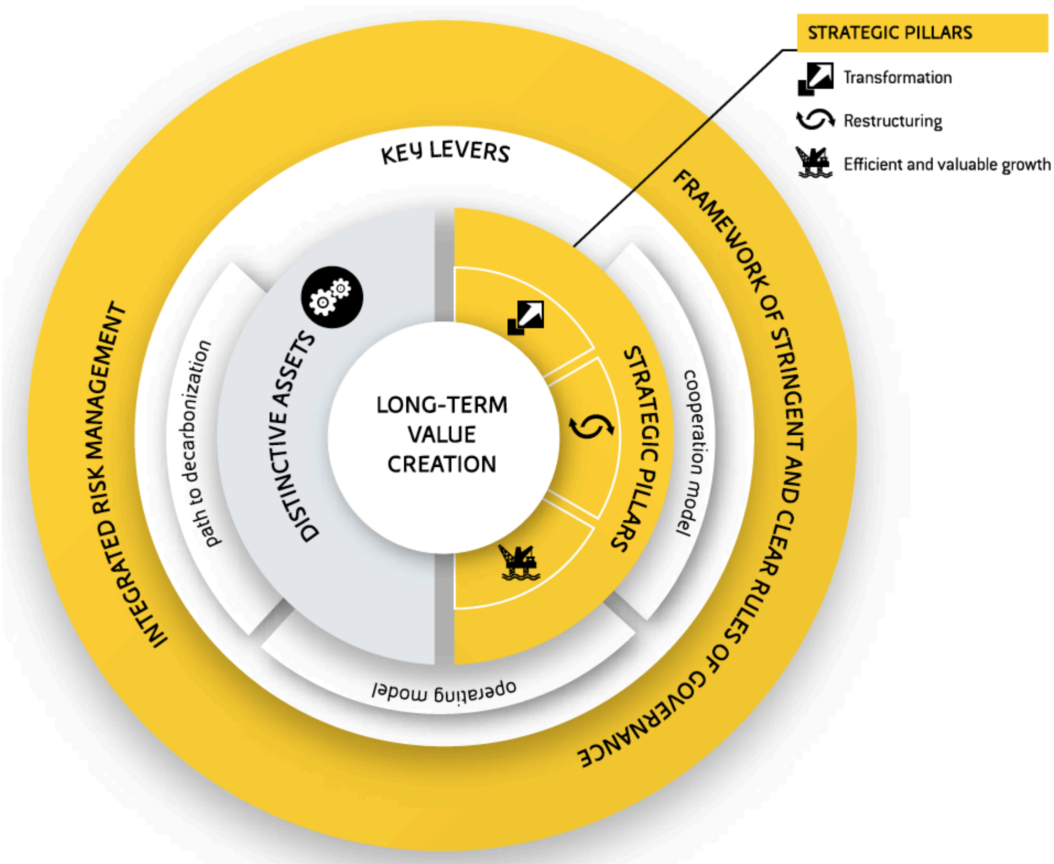
external stakeholder, testify the great deal of commitment that this organization has in reporting the impact of its activities.

For what concern the business model Eni targets long-term value creation by delivering on profitability and growth, efficiency, operational excellence and handling operational risks of its businesses. Eni identifies as main challenge of the energy industry the balance between the maximization of the access to energy and the fight against the climate change, which necessarily involves a change in the energy mix, through the reduction of carbon footprint.
The answer of Eni to this challenge is the integrated strategy that combines financial strength with social and environmental sustainability, articulated on the following critical success factors:

1. The cooperation and development model relating to the Countries in which Eni operates. Eni's commitment is addressed to the energy production for domestic market, the diffusion of the access to energy and diversification of the energy mix.
2. The operating model able to minimize risks and the social and environmental impacts of the activities.
3. A clear and defined strategy of decarbonization.

The environmental conservation and relationships with local communities, the fight against the climate change, the preservation of health and safety of people working in Eni and with Eni, the respect of human rights, ethics and transparency represent the fundamental values which address the use of Eni's distinctive assets.
The following image (Figure 3.1a) represents Eni's business model as presented in the company 2016 Integrated Annual Report.

Figure 3.1a



Source: Eni, Integrated Annual Report 2016

Eni's Integrated Annual report provides details about the company distinctive assets, analyzed on the basis of financial, operational, environmental, technological, human, social and relational dimensions, in order to identify the related quantitative parameters (KPIs). These KPIs allow a continuous monitoring of the target achievement and the identification of the intervention areas by pursuing the strategic guidelines that allow, in an increasingly complex scenario, to optimize and anticipate the value creation. These six dimensions, as called by the company, are the six kinds of capitals that the IR has identified, 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. (Figure 3.1b and 3.1c)

Figure 3.1b

Dimension	Distinctive assets for value creation	Main KPIs	Value creation for Eni	Value creation for Eni's stakeholders
ECONOMIC AND FINANCIAL	- Financial structure - Liquidity reserves	- Cash flow from operations - Leverage - Dividend per share - Dividend yield - Opex per boe (E&P) - Adjusted operating profit - Net profit - F&D cost (3 year average) (E&P) - Capital expenditure - Future net cash flows	- Going concern - Lower cost of capital - Leverage optimization - M&A opportunities - Mitigation of market volatility - Credit rating	- Yields - Share price appreciation - Social and economic growth - Satellite activities
OPERATING PERFORMANCE	- Hydrocarbon reserves (oil and gas) - Efficiency in exploration - Reduced time to market - Developed and productive assets - Retail G&P portfolio - Refineries and bio-refineries - Chemical plants - Green plants - Integrated risk management	- Discovered resources on yearly basis and cumulated - Unit Exploration cost per boe (E&P) - Organic RRR - Break-even of new upstream projects - Time to market - Break-even SERM - Total biofuels production - Installed renewable energy power (MWp)	- Profitability - Growth in hydrocarbon reserves - Enlarging asset portfolio - Increase assets value - Reduction of operational risk - Reputation - Energy and operational efficiency	- Availability of energy sources and green products - Energy for local market - Satellite activities - Reduction of emissions and responsible use of resources - Employment
ENVIRONMENTAL AND CLIMATE	- Hydrocarbon reserves (oil and gas) - Air - Water - Biodiversity and ecosystems - Soil	- Reserves by type - Direct GHG emissions (tons CO_2eq) - Gas flaring - Upstream GHG emission index - Investments in energy efficiency - Avoided emissions due to renewable energy - Oil spill from operations - Water withdrawal	- Growth in hydrocarbon reserves - Opex reduction - Higher energy efficiency - Operating risks mitigation - Reputation - License to operate - Stable relationship with stakeholders	- Reduction of GHG emissions - Reduction of gas flared - Reduction of oil spill - Mitigation of blow-out risk - Biodiversity preservation - Green products - Containment of water consumption - Energy efficiency

Source: Eni Integrated Annual Report 2016

Figure 3.1c

INNOVATION AND RESEARCH	- Technologies and intellectual properties - Corporate internal procedures - Corporate governance system - Control and management system - Knowledge management - ICT (Green Data Center)	- Investments in R&D by type (of which: new energy) - Number of R&D partnership - Tangible value generated by R&D activity - Number of patents in renewable energies	- Competitive advantage - Risk mitigation - Transparency - Productivity - License to operate - Stakeholders' Acceptability - Increase of energy and operational efficiency	- Reduction of environmental and social impacts - Transfer of best available technologies and know-how to host Countries - Contribution to fight against corruption in host Countries - Green products
PEOPLE AND SAFETY	- Health and safety of people - Know-how and skills - Experience - Engagement - Diversity (gender, seniority, geographical) - Eni's thinking - Asset integrity	- Number of total employees by gender and type - Local employees by category - TRIR (Employees and Contractors) - Investments and spending in asset integrity - Frequency of incidents by sectors (including blow-out)	- Productivity - Efficiency - Competitiveness - Innovation - Risk mitigation - Reputation - Talent attraction - Job enhancement - Career advance	- Create employment and preserve jobs - Wellness of Eni's people and local communities - Increase and transfer of know-how
SOCIAL, HUMAN RIGHTS AND TRANSPARENCY	- Relationship with stakeholders (institutions, governments, communities, associations, customers, suppliers, industrial partners, NGOs, universities, labor unions) - Eni brand	- % procurement on the local market by Country - Community investments - N. of people trained/training hours on human rights - Total payments to Governments	- Operational & Social license - Reduction in time to market - Reduction in Country risk - Market share - Alignment to international best practices - Reputation - Competitive advantage - Customers retention - Suppliers reliability	- Local socio-economic development - Customers and suppliers satisfaction - Share of expertise with territories and communities - Satisfaction and incentive of people - Promoting respect for workers' rights - Contribution to fight against corruption in host Countries

Source: Eni Integrated Annual Report 2016

As the previous chart displays Eni identifies six dimensions that affect its business model and for each one the company highlights the distinctive assets involved in the value creation and the KPIs that are used to measure the generated value. The Economic and Financial dimension for instance takes into account the Financial structure and Liquidity reserves of the company, and in order to assess how the company is performing along this dimension the main KPIs used are: cash flow from operations, leverage, dividend per share, dividend yield, adjusted operating profit, net profit, capital expenditure and future net cash flow.

Eni makes a step further in assessing its six dimensions by highlighting how they create value for the company and its stakeholders. Emphasizing this aspect is rather important since one of the main objective of an integrated report is to connect the company with the external environment and above all showing how a company is creating and delivering value in the short, medium and long term. Taking in consideration the Economic and Financial dimension Eni divides the value creation of this dimension in two areas:

- Value creation for Eni: going concern, lower cost of capital, leverage optimization, M&A opportunities, mitigation of market volatility, credit rating.
- Value creation for Eni's stakeholders: yields, share price appreciation, social and economic growth, satellite activities.

The benefits for the company and stakeholders are highlighted as result of the use of the company assets and their related connections.

3.1.1 Scenario and Performance.

Eni annual report includes a section called scenario and performance in which the company assesses and presents the kind of environment in which it is operating.
In particular quoting the Eni annual report:

"An international environment characterized by oversupply and low prices, the ongoing transformations in the European mid-downstream businesses and the process of decarbonization in the energy system, represent the main challenges faced by the oil companies. The surplus in supply and the downward dynamic on prices continue to require a strategy of capex rationalization, addressed to projects with lower break-even and initiatives finalized to cost reduction. To achieve the target of limiting global temperature increase, natural gas will play a central role as main full alternative to carbon."[128]

Furthermore, Eni enriches the analysis of the external environment and the impact on its operations by focusing in four main points:

1. **Transition towards a low-carbon energy mix.** Companies operating in the energy sector have to face with challenges arisen from COP21 such as climate change and gradual decarbonization process. In this context, natural gas represents an opportunity for a strategic repositioning, due to gas low carbon intensity and the integration with renewable sources in order to produce electricity. To achieve these targets the promotion of policies aimed to replace coal in electricity generation will be crucial.

2. **First signs of rebalancing.** In 2016, the decline in non-OPEC production, particularly in the USA, and the robust increase in demand were offset by growth in OPEC production which has slowed the absorption of surplus in the world oil balance. The year closes with an average Brent price of 44 $/bbl, moving from the minimum of 31 $/bbl reported in January to 54 $/bbl in December.

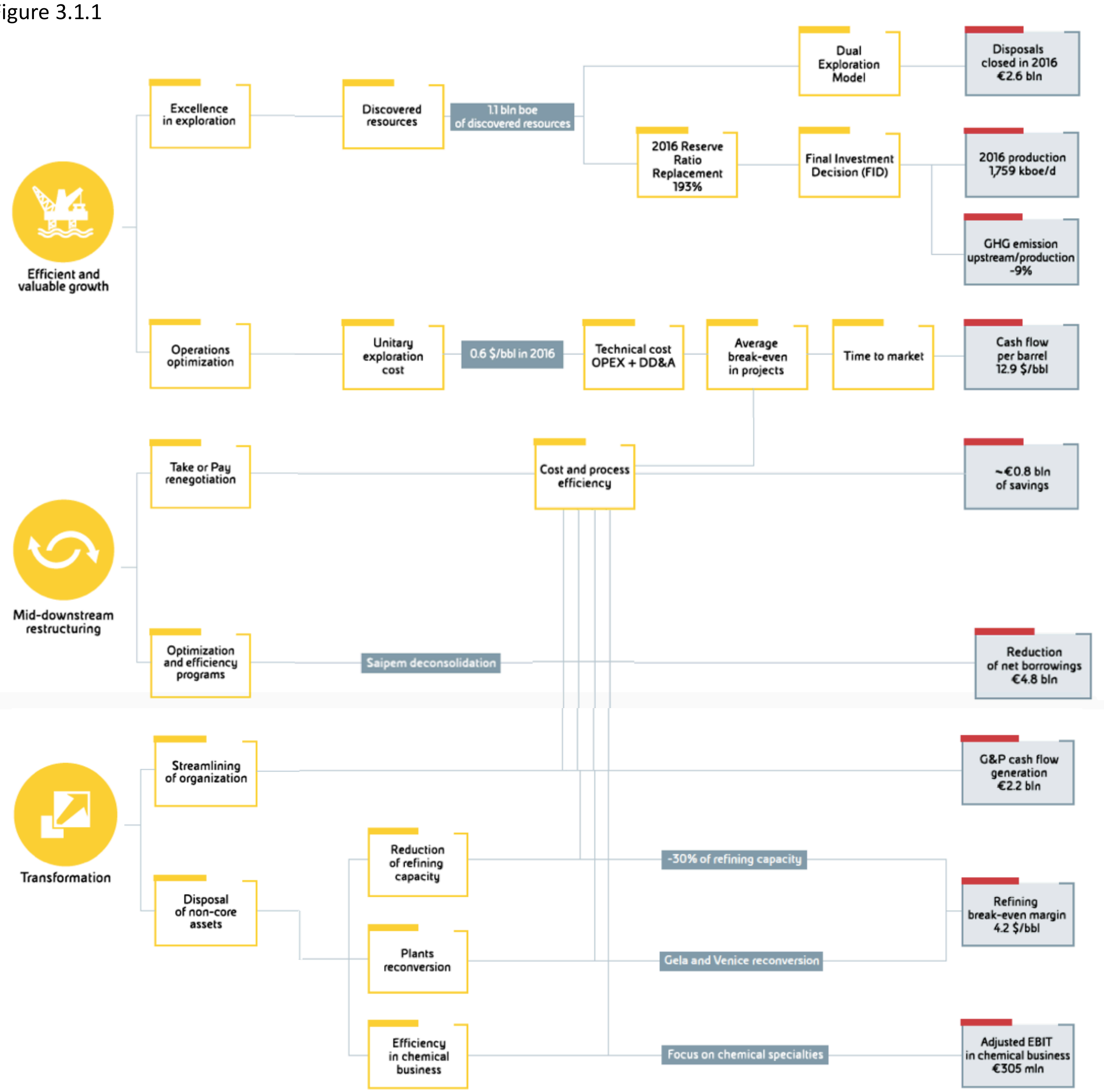
3. **The future productions affected by price recovery.** The oil industry suffers two consecutive years of cutting investment, with consequent reduction in exploration activities and sanctioning of new projects. Although in 2017 is expected a recovery in activities, the additional productions might not be adequate to satisfy the robust growth in demand. The oil companies need a stable increase in prices to accelerate activities and investments in order to recover productions.

4. **The ongoing transformation of European mid-downstream businesses**. In the European refining industry persists a strong competitive pressure by players located in the Middle East, the USA and Russia (main diesel supplier in Europe) and Asia, which present competitive advantages in terms of costs of procurement and efficiency. Despite the capacity rationalization realized in recent years, Europe remains in a situation of structural fuel surplus in a context characterized by a more independent position of the United States, which traditionally represented a final market for European gas streams. Against the backdrop of a slight recovery in demand, the supply of gas remains abundant and increasing compared to the previous year.

[128] ENI, Integrated Annual Report, 2017, pp. 18

As for the information and in-depth external environment analysis Eni annual report is consistent with the IR framework. Along this analysis in fact the company is presenting to the general public what are the actions that is taking to mitigate and be sustainable in the value creation process (Figure 3.1.1).

Figure 3.1.1



Source: Eni Integrated Annual Report 2016

3.1.2 Strategy

In this section Eni aims to provide a clear outlook on its strategy. The main goal of Eni's growth strategy is to build a high-margin cash portfolio and will be pursued through the following levers:

1. the portfolio consolidation through high impact exploration activity on conventional basins, in proximity of existing facilities and not far from the final market.
2. the development of projects with a "design to cost" approach, aimed to accelerate production start-ups and reduce financial exposure.
3. the maximization of value through the integration of our portfolio with gas marketing activities (with a more relevant role played by LNG), the improvement of mid-downstream businesses and the active management of portfolio based on Dual Exploration Model.

Eni's annual report further specifies:

"Leveraging on this business model, Eni intends to pursue in the medium and long-term, a high growth production rate, preserving a financial structure allowing the coverage of capex with operating cash flow, assuming in the 2017-20 period an average price level lower than 45 $/bbl. Over the next four years, the Company plans to invest €31.6 billion, 8% lower than the previous plan at constant exchange rates, net of capital expenditure associated with our disposal activity to dilute Eni's interest in recent exploration successes. The four-year capex plan is more selective than in the past and is focused on the more profitable projects and accelerated returns in portfolio. The 2017-20 divestment plan amounts to €5-7 billion, due to the application of "Dual Exploration Model", anticipating monetization of discoveries, as well as further refocusing of activities on the core business. The combined effect of the industrial actions for the development of the Exploration & Production segment, the optimization of mid-downstream businesses and widespread initiatives of spending review will allow to reduce the Brent break-even level with a cash neutrality (including dividend floor) at 60 $/bbl by 2017 and lower than 60 $/bbl in the three years 2018-2020."[129]

3.1.3 Targets, risks and treatment measures

In this section Eni presents the risks with regard to the company targets. The detailed description of the following risks and other less relevant uncertainties factors the Eni's Integrated Annual Report reserved a dedicated section titled "Risk Factors and Uncertainties", so the "Rif. Risk factors and uncertainties section pages…" reference under each box is referred to that specific section on the 2016 annual report (Figure 3.1.3)

[129] Eni, Integrated Annual Report 2016 pp.20

Figure 3.1.3

Commodity risk

Company profitability — Target

Main risk events
Prolonged weak macroeconomic growth and crude oil oversupply.

Treatment measures
Revision of capital expenditure plan; disposal plan; reduction of new projects break-even price; widespread efficiency initiatives.

Rif. Risk factors and uncertainties section pages 71-72

Operational risk, accidents

Company profitability and Corporate Reputation — Target

Main risk events
Blow-out risks and other relevant accidents affecting the extractive infrastructures, refineries and petrochemical plants, the transportation of hydrocarbons by sea and land (i.e. fires/explosions, etc.) with impact on results, cash flow, reputation and strategies.

Treatment measures
Geologic "Real time monitoring" of well drilling phases and pre-drill, real time evaluation of geohazards and geopressions risks, specific technological development and emergency management plans; specific HSE audit and plants monitoring; management and continuous monitoring of shipping operation and third operators, vetting activities.

Rif. Risk factors and uncertainties section pages 80-82

Country risk

Company profitability — Target

Main risk events
Political and social instability in the Countries of operations may lead to acts of internal conflicts, civil unrests, violence, sabotage and attacks, with consequent production interruptions and losses as well as interruptions in gas supplies via pipe and people and assets damages.

Treatment measures
Implementation of the security management system with the analysis of the preventive measures specific for site, keeping efficient and long-lasting relationships with producing Countries and local stakeholders even throughout local social development and sustainability projects; diversification of portfolio assets since the exploration phase.

Rif. Risk factors and uncertainties section pages 78-79

Compliance risk

Corporate Reputation — Target

Main risk events
Negative impact on the Company reputation and business perspectives due to the lack in compliance (real or perceived) with the laws and rules, in particular on Anti-Corruption themes, on behalf of management, employees and contractors, with negative effects on profitability, strategies and shareholders return.

Treatment measures
Establishing the Integrated Compliance Department directly reporting to the CEO; continuing training for compliance/ Anti-Corruption and higher management awareness on the culture of company ethic and integrity; the control on the adequacy of the design and correct application of the 231 Model (Watch Structure), continuous updating of the internal procedures (Code of Ethics, MSG, etc.), continuous monitoring of regulatory developments and a corresponding adaptation of the Anti-Corruption Compliance Program, process of analysis and notices treatment, audit activity, continuing control on the management of legal proceedings performed by dedicated organizational structures.

Rif. Risk factors and uncertainties section page 83

Operational risk

Company profitability and Corporate Reputation — Target

Main risk events
Environmental and health proceedings as well as evolution in HSE legislation may trigger contingent liabilities, impact on Company profitability (costs for remediation activities) and on Corporate reputation.

Treatment measures
Integrated system of HSE management. Transversal organizational unit dedicated to legal assistance to HSE matters; monitoring of authorization processes of the remediation projects through a continuous dialogue with the stakeholders and the competent Authorities for the remediation activities; technological development activities with international universities and partnerships with environmental engineering company.

Rif. Risk factors and uncertainties section pages 73-75

Strategic risk

Company profitability and Corporate Reputation — Target

Main risk events
The impact of climate change mainly relating to drivers of trading environment, regulatory framework and technological development, physical risks and reputation.

Treatment measures
Strengthening of the Climate Change issue in the strategic plan, with medium-term targets and capex in line with the 2025 Action Plan; update of the Climate Change program for the definition of a road map for long-term decarbonization; strengthening of gas as a pillar of the low-carbon transition. Development of a business model integrated with renewable energies; sustainable development of green refinery business and specific initiatives of bio-based chemistry.

Rif. Risk factors and uncertainties section pages 80-82

Source: Eni Integrated Annual Report 2016

Strategic risk

Relationship with Stakeholders, Local development and Corporate Reputation — Target

Main risk events
Relationships with local and international stakeholders on Oil&Gas industry activities, with impact also in the media.

Treatment measures
Dialogue and transparency towards stakeholders on Eni's businesses and sustainability activities; detailed mapping of stakeholders requests; integration of targets and sustainability projects within the strategic plan and incentive program; participation in conferences and international forums also aimed at spotting any "weak signals" from the context.

Rif. Risk factors and uncertainties section pages 78-79

Strategic risk

Company profitability — Target

Main risk events
Potential differencies between the cost of supply and the minimum off take obligations in take-or-pay long-term gas supply contracts compared to current market conditions.

Treatment measures
Prolonged supply portfolio restructuring process through the renegotiation of price-volume conditions and portfolio balancing through the sale of volumes not intended to commercial segments to the financial markets (physical and liquid financial hub) both in Italy and in Northern Europe.

Rif. Risk factors and uncertainties section pages 79-80

Strategic risk

Company profitability — Target

Main risk events
Unsettled extraordinary disposals.

Treatment measures
Existence of a central organizational structure managing extraordinary portfolio operations; Eni's portfolio analysis, in consideration of Eni's segments of operations. Evaluation of alternative deal structures, further disposal targets through portfolio analysis; management and preservation of a fair amount of strategic liquidity.

Rif. Risk factors and uncertainties section page 85

Counterparty risk

Company profitability — Target

Main risk events
Upstream credit and financing risk partner related to the credit proceeds delay or cost recovery. Mid-downstream business credit risk.

Treatment measures
Finalization of specific agreements on repayment plans of third parties receivables; negotiating, monitoring and soliciting towards the governmental authorities; carry agreements negotiation of; securitization package with in-kind withdrawals; receivables sold to financing institutions; time to bill reduction; strict selection and credit line for retail customers; captive insurance for an effective risk reduction.

Rif. Risk factors and uncertainties section pages 85-86

Evolution in the legislation

Company profitability — Target

Main risk events
Regulatory risk of the Oil, Gas&Power sector.

Treatment measures
Participation in forums, advocacy of Eni interests in a continuous dialogue with the institutions and the regulatory authorities; proactive oversight of legislative and regulatory dynamics.

Rif. Risk factors and uncertainties section pages 76-77

Operating risk

Company profitability — Target

Main risk events
Cyber security and industrial espionage.

Treatment measures
Internal structures and rules dedicated to IT security management and information protection, centralized governance model on Cyber security; units dedicated to prevention, monitoring and management of cyber attacks; operating plans aimed at increasing security of industrial sites, training and awareness initiatives dedicated to Eni's employees.

Rif. Risk factors and uncertainties section page 86

Source: Eni Integrated Annual Report 2016

This section, together with the "Risk and uncertainties section", that we are not reporting here, identifies the key risks that Eni is facing and how they can affect the ongoing activities and the corporation ability to create value in the short, medium and long term. Furthermore, Eni is integrating in the risk assessment how the company is going to mitigate the potential negative effect. This kind of exercise is done by Eni in a concise way, that is one of the guiding principle of the IR Framework. Taking as an example the Commodity risk, the company clearly states: (1) how the company can be affected (the company profitability is at risk); (2) which is the main event that can generate this risk (prolonged weak macroeconomic growth and crude oil oversupply); and how the company intends to mitigate it (Revision of capital expenditure plan; disposal plan; reduction of new projects break-even price; widespread efficiency initiatives).

3.2 SAP

SAP is a German multinational software corporation that produces enterprise resource planning (ERP) applications to manage operations and customer relations. Since 2012, SAP has reported on its full-year financial, social, and environmental performance in one integrated report ("SAP Integrated Report") available at http://www.sapintegratedreport.com. In this section the 2017 SAP integrated annual report is analyzed.

The SAP Integrated Report 2017 takes into consideration the recommendations from the International Integrated Reporting Framework. The financial reporting presented in the SAP Integrated Report includes SAP's Consolidated Financial Statements and SAP's Combined Management Report. Following the company's integrated reporting approach, the Combined Management Report also provides non-financial information. This non-financial information relates to topics derived from SAP's materiality assessment including innovation, impact on society, human capital, business conduct, human and digital rights, and climate and energy.

In its 2017 Integrated Report SAP clarify:

"Technological innovation is necessary to tackle some of the world's most intractable problems, which are often driven by complexity. With innovative solutions from SAP, we can empower our customers to create a better economy, society, and environment for the world. Together with our vibrant ecosystem of partners, we have an opportunity to execute our vision to "help the world run better and improve people's lives."[130]

Clarifying SAP vision helps understanding the company's commitment to present its impact on the society; furthermore, SAP adds that in addition to its investments in organic growth, the company also supports entrepreneurs that aspire to build industry-leading businesses, through venture capital funds managed by Sapphire Ventures. Sapphire Ventures currently has over US$2 billion under management and has invested in more than 130 companies on five continents. This includes growth-stage technology companies and early-stage venture capital funds on five continents. Sapphire Ventures pursues opportunities in which it can help fuel enterprise growth by adding expertise, relationships, geographic reach, and capital. It places a particular focus on companies in Europe, Israel, and the United States. Again, the focus is on how the company can be a sustainable player in the market by co-creating value with a wide range of stakeholders, that in this case is translated in supporting entrepreneurs.

3.2.1 Business Model

As for the IR Framework a company business model shall be included in an integrated report, and SAP addresses this topic in a quite clear way. From the 2017 Integrated report the company claim:

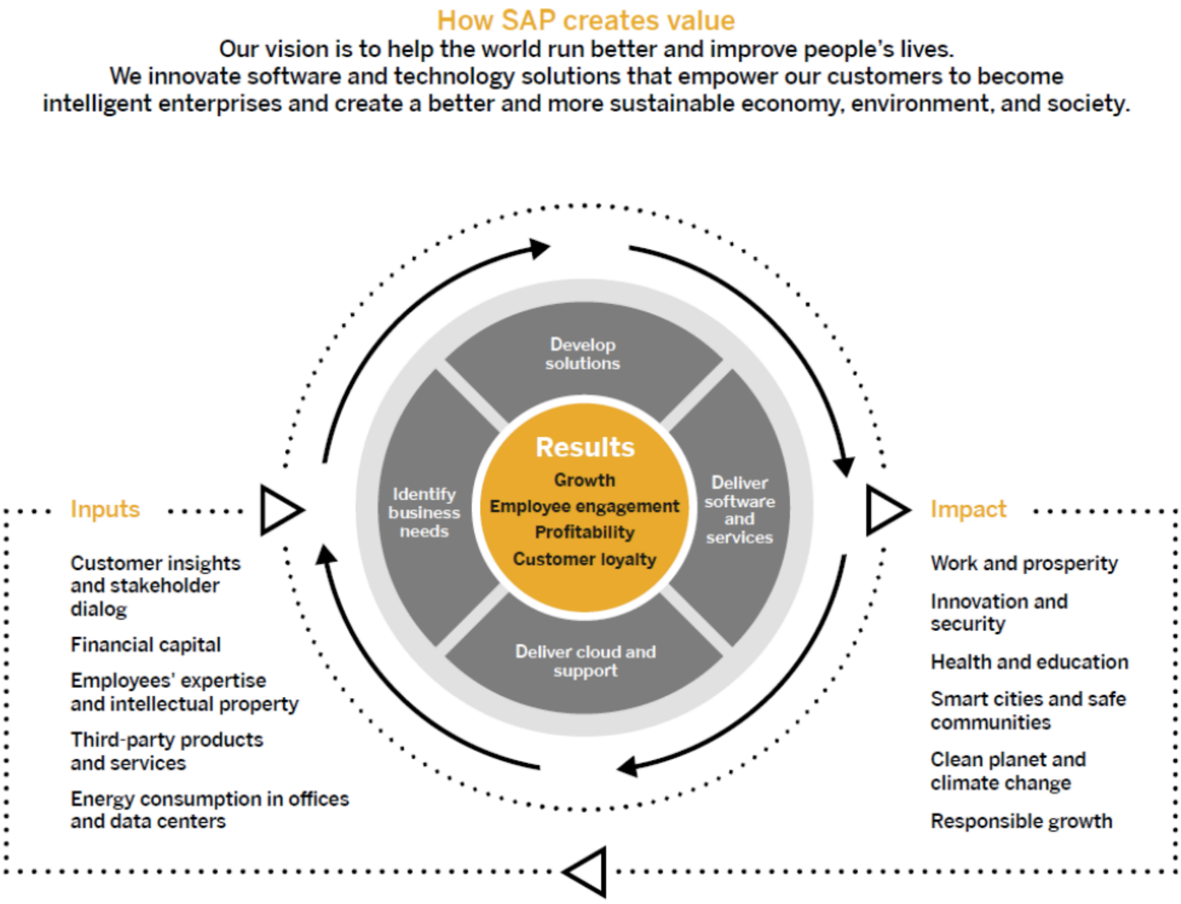
"We innovate software and technology solutions that empower our customers to become intelligent digital businesses and create a better and more sustainable economy, environment, and society. This way, we aim to fulfill our strategic purpose of helping the world run better and improving people's lives. We create value by identifying the business needs of our customers and addressing these with innovative software, service, and support solutions. The collaboration with

[130] SAP Integrated Report, 2017 pp. 61

our customers and partners throughout this process helps us continuously improve our solutions and deliver enhanced value to our customers. Our value creation process does not happen in a vacuum. It is enabled by external inputs and value drivers and leads to significant impact at our customers and – through them – in the world."[131]

As from the explanation of the business model the company clearly states that the value creation process does not happen in a vacuum (i.e. in a stand-alone way of doing business) but rather with a deep interaction with external inputs and drivers. The way SAP takes so clearly a position on how the company is able to create and deliver value testifies how the company thinking and integrated report is aligned with the IR Framework. In the next image is reported an infographic of SAP's business model (Figure 3.2.1)

Figure 3.2.1



Source: SAP Integrated Report 2017

3.2.2 Financial and Nonfinancial performance

Further attention in the report is 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. SAP's four global corporate goals (objectives) reflect this balanced view: two focus on the company financial performance (growth and profitability) and two on nonfinancial performance (customer loyalty and employee engagement). SAP's Integrated annual report states:

[131] SAP Integrated Report, 2017 pp. 63

"We believe the most important indicators for measuring our success comprise both financial and non-financial areas:

- *Growth*
- *Profitability*
- *Customer loyalty*
- *Employee engagement"*[132]

Since an integrated report shall be able to present also precise measure and index of the indicators the company is using to assess its impact we are reporting in the following charts of the specific key performance indicators (KPIs) used by SAP to measure performance.

Outlook and Results for 2017

Strategic Objective	KPI	2017 Outlook* (non-IFRS, at constant currencies)	2017 Results (non-IFRS, at constant currencies)
Growth	Cloud subscriptions and support revenue	€3.8 billion to €4.0 billion	€3.83 billion
	Cloud and software revenue	+7.0% to +8.5%	+8%
	Total revenue	€23.4 billion to €23.8 billion	€23.77 billion
Profitability	Operating profit	€6.85 billion to €7.0 billion	€6.92 billion
Customer Loyalty	Customer Net Promoter Score	21% to 23%	17.8%
Employee Engagement	Employee Engagement Index	84% to 86%	85%

* The outlook was communicated in January 2017 and raised in July and October 2017. The 2017 outlook numbers above reflect the raised outlook from October 2017.

Outlook for 2018 and Ambitions for 2020

Strategic Objective	KPI	2017 Results (non-IFRS)	2018 Outlook (non-IFRS, at constant currencies)	2020 Ambition (non-IFRS)
Growth	Cloud subscriptions and support revenue	€3.77 billion	€4.8 billion to €5.0 billion	€8.0 billion to €8.5 billion
	Cloud and software revenue	€19.55 billion	€20.7 billion to €21.1 billion	
	Total revenue	€23.46 billion	€24.6 billion to €25.1 billion	€28 billion to €29 billion
Profitability	Operating profit	€6.77 billion	€7.3 billion to €7.5 billion	€8.5 billion to €9.0 billion
Customer Loyalty	Customer Net Promoter Score	17.8%	21% to 23%	35% to 40%
Employee Engagement	Employee Engagement Index	85%	84% to 86%	84% to 86%

Source: SAP Integrated Report 2017

It is worth reporting here what the company is presenting in further assessing its commitment to meet the non-financial objectives (i.e. customer loyalty and employees engagement). In its

[132] SAP Integrated Report, 2017 pp. 64

Integrated Report SAP presents two sections respectively title Customers and Employees and Social Investments.

Regarding the Costumers' objective SAP's integrated report states:

"Customer loyalty is one of our four corporate objectives, along with growth, profitability, and employee engagement. We measure customer loyalty based on a Net Promoter Score (NPS) approach which uses a range from –100% to +100%. In 2017, our combined on-premise and cloud Customer Net Promoter Score (Customer NPS) was +17.8% (2016: +19.2%). We completed the elimination of differences in the survey approach that existed in one of our acquired entities While we continue to have a positive Customer NPS, we did not reach our target of 25% in 2017. Based on customer feedback, we continue to focus on helping customers choose the SAP products that best support their business needs, simplifying purchasing processes for customers, and making our products easy and pleasing to use. With a sustained emphasis on customer experience across the company, we are again targeting a combined Customer NPS of 21% to 23% in 2018, with our medium-term goal being 35% to 40% by 2020."[133]

Regarding the Employees Engagement's objective, it is worth underlining how SAP is connecting its people to the company financial performance and ability to create value. In particular SAP emphasizes that its people strategy is focused on attracting the best talent and creating the right environment to nurture that talent, that can actually help the company to deliver value. This kind of connection and impact that non-financial measure can have on the financial results of a company is what an integrate report shall aim at.
From SAP's Integrated report:

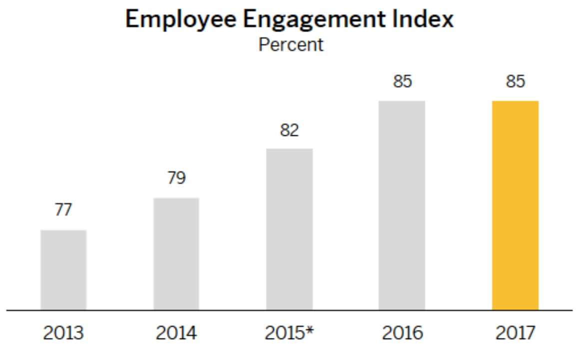
"Our people are key in helping our customers to successfully drive their digital transformation. We are fully committed to enabling our employees to grow their skills at every stage of their career at SAP."[134]

"Our human resources (HR) strategy focuses on creating a workplace that can attract and retain the best talent in the market. Using our own cloud technology and following our core principle of Run Simple, we transform the way we hire, develop, and retain our people. At the same time, our HR strategy allows us to create a culture at SAP that can successfully deal with the agility and scope of a digital workplace driven by purpose. This culture inspires innovation, leads change, and ultimately creates employee satisfaction. Our HR team stays focused on delivering seamless employee experiences by following three guiding principles: simplification, standardization, and consumer satisfaction for applicants, employees, and managers."[135]

For what concern the employees' engagement SAP is reporting the score of its internal Employee Engagement Index (EEI) (Figure 3.2.2a).

[133] SAP Integrated Report, 2017, pp 74
[134] SAP Integrated Report, 2017 pp. 84
[135] SAP Integrated Report, 2017 pp. 84

Figure 3.2.2a

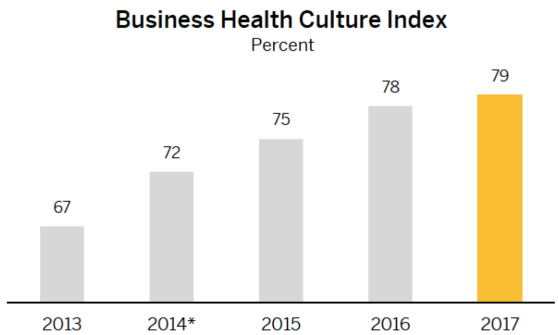


*The EEI score for 2015 was recalculated from 81% to 82% based on updated questions.

Source: SAP Integrated Report 2017

Additionally, SAP reports another index the Business Health Culture Index (BHCI) (Figure 3.2.2b) that assesses the degree to which SAP workplace culture supports people's well-being, work-life balance, and organizational health. This index increased, which shows that SAP is sustainably developing its organization.

Figure 3.2.2b



*The BHCI score for 2014 was recalculated based on updated questions.

Source: SAP Integrated Report 2017

SAP Integrated Report presents other company's practices that has been used to meet its employees' engagement objective. The company states that while staying focused on a diverse workforce spanning different generations, "early talent" hires (people with professional experience of up to two years) continued to be a key priority. In 2017, approximately 25% of SAP external hires fell into this category. SAP continues in focusing on how it is investing in the professional development of all employees. In 2017, SAP focused on a career path for experts, who offer specialized expertise, drive innovation, and support SAP strategy to run better.

By Investing in professional development, SAP stay focused on staff retention. The company overall retention rate in 2017 was 94.6% compared to 94.3% in 2016. SAP defines retention as the ratio of the average number of employees minus the employees who voluntarily departed, to the average number of employees.

The average tenure with SAP remains at a high level (7.2 years in 2017 and 6.9 years in 2016). The high loyalty of SAP people is a true testimony of SAP being an employer of choice. Building trust in leaders is a key ingredient for continuously high employee engagement. By the end of 2017, 58.9%

of leaders at SAP completed the company's flagship leadership development program. In 2017, leadership trust continued to improve, with a Net Promoter Score (NPS) of 61% (2016: 57%).[136]

SAP's goal is to estimate the impact of the non-financial 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 managing processes and activities in a more effective way and, most importantly, building awareness of the heterogeneous capitals, resources, and relationships used and affected.

3.3 Unilever

Unilever is a British-Dutch transnational consumer goods company; its 2017 annual report includes a section dedicated on how the company creates value and how it runs the business. It includes Unilever's strategy, business model, market outlook and key performance indicators, as well as Unilever's approach to sustainability and risk. This specific section is reporting the company performance regarding to what Unilever refers as the Unilever Sustainable Living Plan.

3.3.1 Unilever Sustainable Living Plan

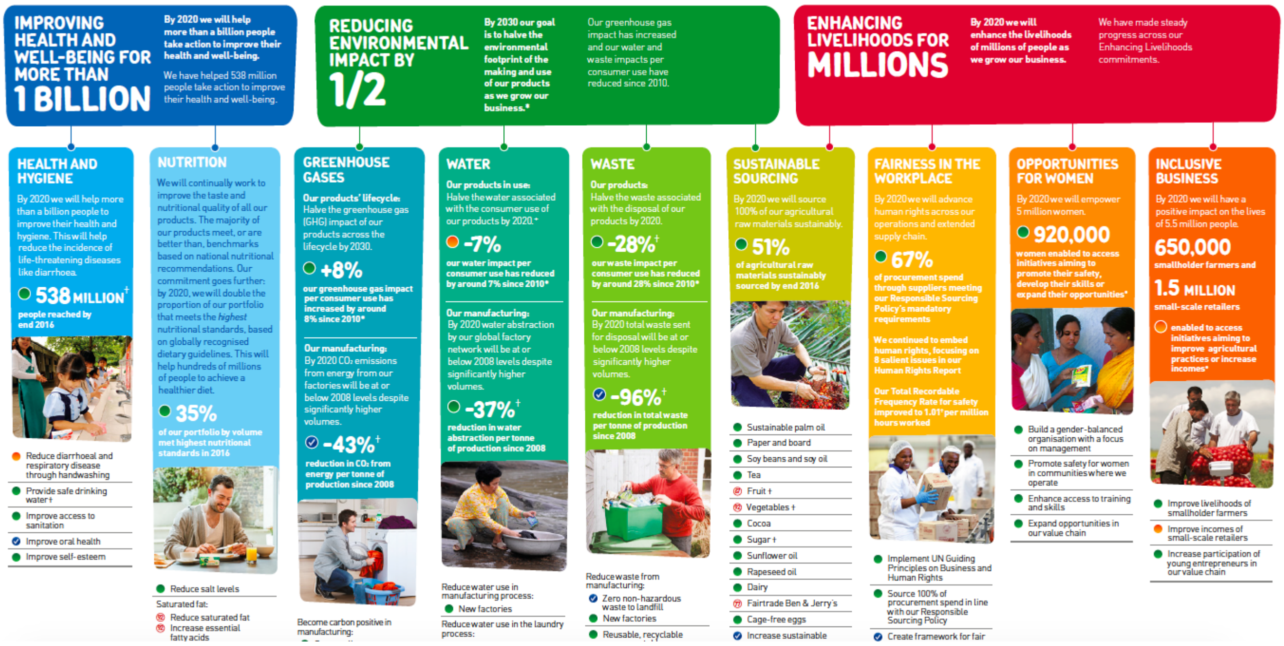
The Unilever Sustainable Living Plan (USLP), is at the heart of the company strategy for achieving business growth and since its launch in 2010 it has provided a blueprint for achieving the company's vision to grow its business whilst reducing the environmental footprint and increasing its positive social impact.
Unilever's business imperative, upon which the USLP is based, is as follow:

"We believe business growth should not be at the expense of people and the planet. That's why we've changed the way we do business, and why we want to change the way business is done. Our business model drives growth that is consistent, profitable, competitive – and responsible."[137]

Unilever's disclosure of its Sustainable Living Plan (Figure 3.3.1) presents its vision and strategic priorities around several capitals, including social/relationship, natural, and human capital. The plan has three big goals to achieve, underpinned by nine commitments and targets spanning Unilever's social, environmental and economic performance across the value chain. Unilever claims that it will continue to work with others to focus on those areas where the company can drive the biggest change.

[136] SAP Integrated Report, 2017, pp 85
[137] Unilever, Our Sustainable Living Report Hub, https://www.unilever.com/sustainable-living/our-sustainable-living-report-hub/

Figure 3.3.1



Source: Unilever Sustainable Living Plan, summary of progress 2016.

These goals and commitment as mentioned above are affecting how the company uses and leverages the capitals that throughout the business model are transformed into the final products. Unilever's approach in doing business is characterized by high integrity and the company's commitment in including these capitals, and their changes, in its annual report is in line with the guiding principles of the IR framework.
To provide a more in-depth analysis and give tangible examples of how these goals are affecting different capitals, the goals and the related commitments are presented below:

- **Improving health and well-being for more than 1 billion people.** By 2020 the company aims to help more than 1 billion people take action to improve their health and well-being.
    a. Health and Hygiene. By 2020 Unilever aims to help more than a billion people to improve their health and hygiene.
    b. Nutrition. Unilever will continually work to improve the taste and nutritional quality of all its products. The majority of Unilever products meet, or are better than, benchmarks based on national nutritional recommendations. The company's commitment goes further: by 2020, it will double the proportion of its portfolio that meets the highest nutritional standards, based on globally recognized dietary guidelines. This will help hundreds of millions of people to achieve a healthier diet.

- **Reducing Environmental Impact by ½.** By 2030 Unilever goal is to halve the environmental footprint of the making and use of its products as the company grow its business.
    a. Greenhouse Gases. This commitment impacts (1) the *products' lifecycle* and (2) the *manufacturing*. For what concern the first one the objective is to halve the greenhouse gas (GHG) impact of Unilever products across the lifecycle by 2030; whilst for the latter the goal is that by 2020 CO2 emissions from energy from Unilever's factories will be at or below 2008 levels despite significantly higher volumes.
    b. Water. This commitment will impact the *products in use* (halve the water associated with the consumer use of Unilever's products by 2020) and the manufacturing (by

2020 water abstraction by Unilever's global factory network will be at or below 2008 levels despite significantly higher volumes).

c. Waste. This will affect the products (halve the waste associated with the disposal of Unilever's products by 2020) and manufacturing (by 2020 total waste sent for disposal will be at or below 2008 levels despite significantly higher volumes).
d. Sustainable sourcing. By 2020 Unilever will source 100% of our agricultural raw materials sustainably.

- **Enhancing Livelihood for Millions.** By 2020 Unilever's goal is to enhance the livelihoods of millions of people as we grow our business.
  a. Sustainable Sourcing. As above described in the point 2d above.
  b. Fairness in the workplace. By 2020 Unilever aims to advance human rights across its operations and extended supply chain.
  c. Opportunities for Women. Unilever's objective is to empower 5 million women by 2020.
  d. Inclusive Business. By 2020 Unilever aims to have a positive impact on the lives of 5.5 million people.

As from the goals description the different categories of capitals involved testify how the logic of the integrated reporting is embedded in Unilever's annual report. Examples of social capital are the quest for fairness in the workplace, the inclusive business and the commitment to give opportunities for women; the "relationship" capital can be seen in the commitment in implementing a sustainable sourcing; natural capital can be found in how the company is managing the use of water and the waste it is producing.

In presenting an assessing the different capitals Unilever's annual report does a step forward, in fact the company provide clear and precise measures respect to its 2020 goals. The next table reports these indicators.

UNILEVER SUSTAINABLE LIVING PLAN

	2017	2016	2015
IMPROVING HEALTH & WELL-BEING BIG GOAL: By 2020 we will help more than a billion people take action to improve their health and well-being. See page 13			
HEALTH & HYGIENE Target: By 2020 we will help more than a billion people to improve their health and hygiene. This will help reduce the incidence of life-threatening diseases like diarrhoea.	601 million	538 millionΦ	482 millionΔ
NUTRITION Target: By 2020 we will double the proportion of our portfolio that meets the highest nutritional standards, based on globally recognised dietary guidelines. This will help hundreds of millions of people to achieve a healthier diet.	39%◊	35%	34%Δ
REDUCING ENVIRONMENTAL IMPACT BIG GOAL: By 2030 our goal is to halve the environmental footprint of the making and use of our products as we grow our business. See pages 13 and 14			
GREENHOUSE GASES Target: Halve the greenhouse gas impact of our products across the lifecycle by 2030 (greenhouse gas impact per consumer use).	9%◊	8%	7%θ
Target: By 2020 CO_2 emissions from energy from our factories will be at or below 2008 levels despite significantly higher volumes (reduction in CO_2 from energy per tonne of production since 2008).** +	(47%)◊	(43%)Φ	(39%)Δ
WATER Target: Halve the water associated with the consumer use of our products by 2020 (water impact per consumer use).	(2%)◊	(7%)	(1%)Δ
Target: By 2020 water abstraction by our global factory network will be at or below 2008 levels despite significantly higher volumes (reduction in water abstraction per tonne of production since 2008).**	(39%)◊	(37%)Φ	(37%)Δ
WASTE Target: Halve the waste associated with the disposal of our products by 2020 (waste impact per consumer use).	(29%)	(28%)Φ	(26%)θ
Target: By 2020 total waste sent for disposal will be at or below 2008 levels despite significantly higher volumes (reduction in total waste per tonne of production since 2008).**	(98%)◊	(96%)Φ	(97%)Δ
SUSTAINABLE SOURCING Target: By 2020 we will source 100% of our agricultural raw materials sustainably (% of tonnes purchased).	56%	51%	60%^
ENHANCING LIVELIHOODS BIG GOAL: By 2020 we will enhance the livelihoods of millions of people as we grow our business. See page 14			
FAIRNESS IN THE WORKPLACE Target: By 2020 we will advance human rights across our operations and extended supply chain, by:			
• Sourcing 100% of procurement spend from suppliers meeting the mandatory requirements of the Responsible Sourcing Policy (% of spend of suppliers meeting the Policy)	55%‡	-	-
• Reducing workplace injuries and accidents (Total Recordable Frequency Rate of workplace accidents per million hours worked)**	0.89◊	1.01Φ	1.12Δ
OPPORTUNITIES FOR WOMEN Target: By 2020 we will empower 5 million women, by:	1,259,000◊⁎	920,000	806,000
• Promoting safety for women in communities where we operate	7,000◊	7,000	6,000
• Enhancing access to training and skills (number of women)	1,175,000◊	836,000	730,000
• Expanding opportunities in our value chain (number of women)	77,000◊	77,000	70,000
• Building a gender-balance organisation with a focus on management (% of managers that are women)**	47%◊	46%	45%
INCLUSIVE BUSINESS Target: By 2020 we will have a positive impact on the lives of 5.5 million people by:			
• Enabling small-scale retailers to access initiatives aiming to improve their income (number of small-scale retailers)	1.6 million⁎	1.5 million	1.8 million
• Enabling smallholder farmers to access initiatives aiming to improve their agricultural practices	716,000◊⁎	650,000	600,000

Baseline 2010 unless otherwise stated
** Key Non-Financial Indicators.
◊ PricewaterhouseCoopers (PwC) assured in 2017. For details and 2017 basis of preparation see www.unilever.com/ara2017/downloads
Φ PwC assured in 2016. For details and 2016 basis of preparation see www.unilever.com/sustainable-living/our-approach-to-reporting/reports-and-publications-archive
Δ PwC assured in 2015. For details and 2015 basis of preparation see www.unilever.com/sustainable-living/our-approach-to-reporting/reports-and-publications-archive
θ Greenhouse Gases was assured as a 6% increase in 2015 by PwC. This was restated to 7% in 2016 as we revised our 2010 baseline with updated product data. Waste was assured as a 29% reduction in 2015 by PwC. This was restated to 26% in 2016 as we revised our 2010 baseline with updated recycling data.
‡ During the year we have amended how we assess compliance with the Responsible Sourcing Policy, hence prior year numbers are not comparable. See page 14 for further details.
⁎ Around 370,000 women have accessed initiatives under both the Inclusive Business and the Opportunities for Women pillars in 2017.
( ) In the table above, brackets around numbers indicate a negative trend which, for environmental metrics, represents a reduction in impact
+ Target approved by the Science Based Targets Initiative
^ See page 13 for more information

Source: Unilever Annual Report and Accounts, 2017

3.3.2 Risk Assessment

The Unilever's Sustainable Living Plan and the related capitals are closely connected with the risk assessment that the company provide in its annual report. Most importantly in the Unilever's annual report the relation between the capitals and the risk appears quite clear and the readers can easily get an understanding on how the different capital are used and affected.
In the next section are presented the major risks and their link with the capitals.

Sustainability. The company claims that the success of its business depends on finding sustainable solutions to support long-term growth. In a world where resources are scarce and demand for them continues to increase, it is critical that Unilever succeed in reducing its resource consumption and converting to sustainably sourced supplies. In doing this Unilever is dependent on the efforts of partners and various certification bodies. The company is also committed to improving health and wellbeing and enhancing livelihoods around the world, so Unilever and its communities grow successfully together.
The Unilever Sustainable Living Plan sets clear long-term commitments to improve health and wellbeing, reduce environmental impact and enhance livelihoods. Underpinning these are targets in areas such as hygiene, nutrition, sustainable sourcing, fairness in the workplace, opportunities for women and inclusive business as well as greenhouse gas emissions, water and waste. These targets and more sustainable ways of operating are being integrated into Unilever's day-to-day business through initiatives such as efficient packaging design, waste reduction and recycling and converting to use of renewable energy. Progress towards the Unilever Sustainable Living Plan is monitored by the Unilever Leadership Executive and the Boards. The Unilever Sustainable Living Plan Council, comprising six external specialists in sustainability, guides and critiques the development of Unilever's strategy.

Climate Change. Unilever reports that climate changes and governmental actions to reduce such changes may disrupt its operations and/or reduce consumer demand for its products. Climate changes are occurring around the globe which may impact the company business in various ways. They could lead to water shortages which would reduce demand for those of Unilever's products that require a significant amount of water during consumer use. They could also lead to an increase in raw material and packaging prices or reduced availability. Governments may take action to reduce climate change such as the introduction of a carbon tax or zero net deforestation requirements which could impact Unilever's business through higher costs or reduced flexibility of operations. Increased frequency of extreme weather (storms and floods) could cause increased incidence of disruption to Unilever's manufacturing and distribution network. Climate change could result therefore in making products less affordable or less available for Unilever's consumers resulting in reduced growth and profitability.
As part of Unilever Sustainable Living Plan the company monitors climate change and is responding by developing operations and products with reduced environmental impact. Unilever seeks to develop products that will require less water during consumer use. The company aims to minimize its impact on climate change through committing to emission reduction targets and has developed a roadmap to be carbon positive by 2030. Unilever monitors trends in raw material availability and pricing, and proactively reformulate its products where appropriate. The company monitors governmental developments around actions to combat climate change and act to minimize the impact on our operations. Precise measures of the capitals involved, as water, waste and sustainable sourcing, are all presented in the annual report.

Ethical. Unilever believes that acting in an ethical manner, consistent with the expectations of customers, consumers and other stakeholders, is essential for the protection of the reputation of Unilever and its brands. Unilever's brands and reputation are valuable assets and the way in which the company operates, contribute to society and engage with the world around it is always under scrutiny both internally and externally. Despite the commitment of Unilever to ethical business and the steps the company takes to adhere to this commitment, there remains a risk that activities or events cause Unilever to fall short of its desired standard, resulting in damage to Unilever's corporate reputation and business results.
Unilever's Code of Business Principles and the Code Policies govern the behavior of the company's employees, suppliers, distributors and other third parties who work with it. The company's processes for identifying and resolving breaches of its Code of Business Principles and its Code Policies are clearly defined and regularly communicated throughout Unilever. Data relating to such breaches is reviewed by the Unilever Leadership Executive and by relevant Board Committees and helps to determine the allocation of resources for future policy development, process improvement, training and awareness initiatives. Furthermore, the commitment to run an inclusive business and enhancing opportunities for women pictured in Unilever's Sustainable Living Plan is how the capitals are involved and connected with this specific risk.

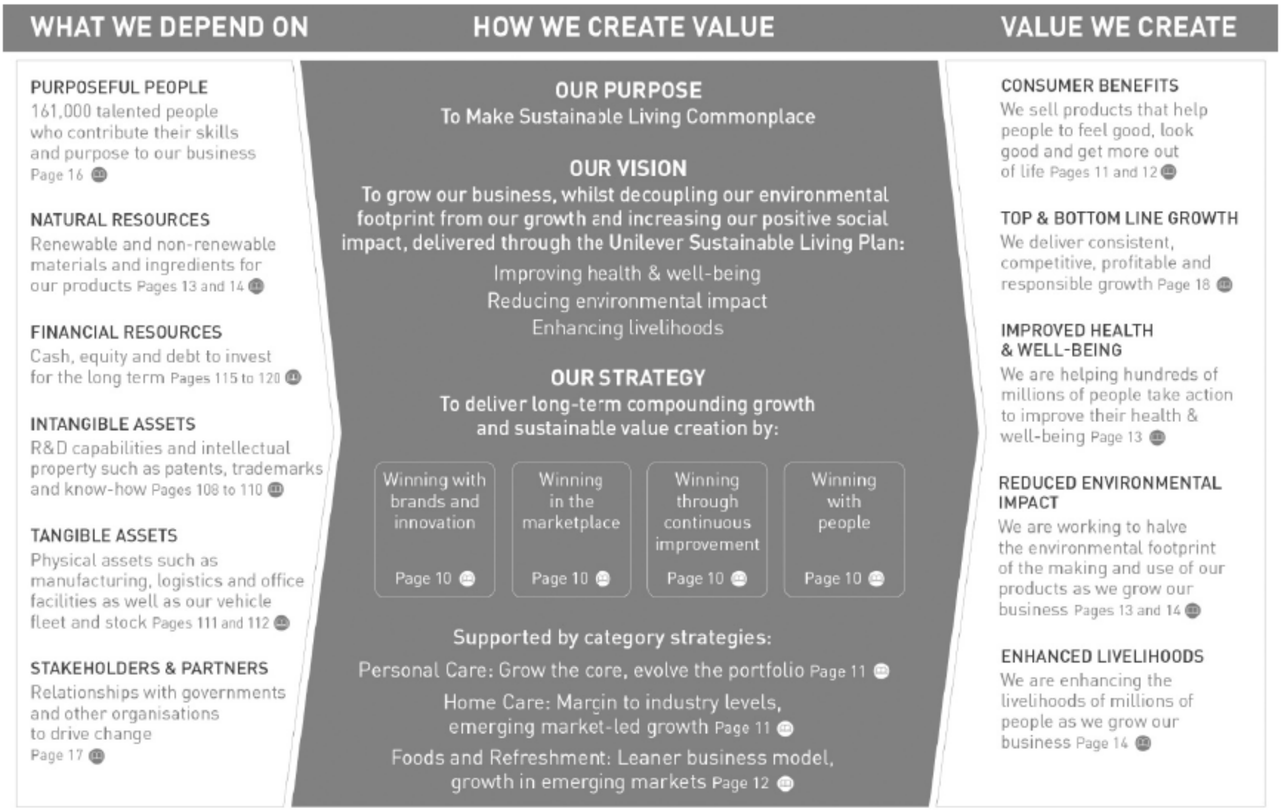
3.3.3 Business Model

The last section dedicated to Unilever is about the company's business model (Figure 3.3.3) since it can help again in giving a perspective and understand how the capitals are used in the value creation process. In particular Unilever refers to the sustainable value creation as follow:

"Sustainable value creation also means investing for the long term, which is why the Unilever Sustainable Living Plan (USLP) is at the heart of our business model and Vision to grow our business, whilst decoupling our environmental footprint from our growth and increasing our positive social impact, in turn contributing to the United Nations Sustainable Development Goals".[138]

[138] Unilever Annual Report and Accounts, 2017, pp. 9

Figure 3.3.3



Source: Unilever Annual Report and Accounts 2017

Again, the USLP is at the heart of the company strategy and initiatives. It is the business mantra that is guiding all the company activities to create value in the short, medium and long term. The inputs are represented by what the company refers as “what we depend on”. Together with the more traditional capital, like the tangible assets and financial resources, the company clearly identifies other macro-categories that are: purposeful people, natural resources and stakeholders & partners.

With *purposeful people* Unilever refers to the fact that it is creating an organization and culture where its employees are empowered to act like entrepreneurs and business owners. Unilever is helping its people develop new skills, new ways of working and new entrepreneurial leadership qualities within a culture that values diversity in all its forms. In turn this helps Unilever to attract and retain the best talent which is vital to accelerate long-term value creation.
Unilever is developing an inclusive culture, promoting gender balance and respecting the contribution of all employees regardless of gender, age, race, disability or sexual orientation. Consistent with its Code Policy on Respect, Dignity & Fair Treatment, Unilever aims to ensure that applications for employment from everyone are given full and fair consideration and that everyone is given access to training, development and career opportunities.
The USLP sets out clear targets for expanding opportunities and enhancing access to skills and training for women in Unilever’s value chain. It also sets out the company’s ambition to build a gender-balanced workforce within Unilever, with 50% of women in management positions by 2020. Unilever runs programs across the organization aimed at attracting, retaining and developing female talent. This includes developing candidates for potential future roles, maintaining balanced slates, and practical help such as a minimum 16 weeks’ paid maternity leave as a global standard – more than the regulatory requirement in over 50% of countries where the company operates.

With respect to *natural resources* Unilever’s vision of inclusive growth is aimed at delivering value for multiple stakeholders, and it is encapsulated in the Unilever Sustainable Living Plan (USLP). The USLP represents a simple idea – that business should put itself at the service of society. By doing so it will generate consistent and profitable growth. The USLP has three big goals: improving the health and well-being of more than one billion people by 2020; halving our environmental footprint by 2030; and enhancing livelihoods for millions by 2020. The USLP drives value for Unilever, generating more growth, lower costs, less risk and more trust in the business. The USLP responds directly to a number of macro forces such as a lack of access to water and sanitation, strains on the food system and the climate and the environment, and rising inequality.

Stakeholders & partners their engagement is essential to grow Unilever’s business and to reach the ambitious targets set out in the USLP.
Unilever’s Code of Business Principles and Code Policies guide how the organization interacts with its partners – among others suppliers, customers, governments, Non-Governmental Organizations (NGOs) and trade associations. Only authorized and appropriately trained employees or representatives can engage with these groups and a record should be kept of all interactions. All engagement must be conducted: in a transparent manner with honesty, integrity and openness; in compliance with local and international laws and in accordance with Unilever’s values.

3.4 British American Tobacco

British American Tobacco (BAT) is the British multinational Tobacco company headquartered in London. The governance section of BAT's annual report is a good example of the company effort to portray of its governance structure support its ability to create value in the short, medium and long term.

3.4.1 Governance

The governance section of the British American Tobacco's annual report lists the activities undertaken by the Board during the year under each of the company's strategic priorities. This outlines the ways in which the Board has influenced and monitored the strategic direction of the company, thus demonstrating how the company's governance structure supports its ability to create value. This is consistent with the "Governance" content element of the IR Framework, since this particular section of BAT's annual report describe how the organization's governance structure supports its ability to create value in the short, medium and long term.
The link between strategy and governance is often one of the hardest to demonstrate, but BAT clearly provides insight into how the Board focuses on the company's strategy, and how this relates to its ability to create value in a sustainable way.
Here we report the four BAT's strategic priorities and the related board's activities.

Growth.

"Growth remains our key strategic focus. Continued investments in, and development of our strategic focus area is central to the Board's annual agenda."[139]

As reported growth represents for BAT a central priority for the Board's activities that in 2017 has been characterized by:

- NGP[140] strategy and updates on the Group's NGP performance, including the acquisition of ViP e-cigarette company in the UK; the launch of glo in Japan; and the Group's approach to, and future plans in respect of, the NGP portfolio.
- The Group's acquisition of RAI
- The RAI's business strategy and performance following its acquisition by the Group
- Acquisition opportunities, including the acquisition of Winnington, the maker of the market leading white snus product, Epok in Sweden.
- The acquisition of certain tobacco assets from Bulgartabac Holding AD.
- Operating Performance and the continued significant impact of foreign exchange rates on the Group's financial performance, including measures taken by management to mitigate foreign exchange risks.
- The quarterly financial performance of the associates of the Group.
- The Group's results and current outlook throughout the year.

[139] BAT Annual Report, 2017, pp.60
[140] NGP- Next Generation Products: such as vapor and tobacco heating products and oral tobacco and nicotine products

Productivity.

"The Board pays close attention to the Group's operational efficiency and our programmes are aimed at delivering a globally integrated enterprise with cost and capital effectiveness"[141]

The efficiency of the Group's operation is central topic on the Board's agenda, and BAT's annual report quite precisely discloses the actions undertaken by the Board in 2017:

- Organizational design changes following the successful completion of the acquisition of RAI, including proposals to simplify the Group's regional structure to fully integrate the NGP business into the core operations of the Group.
- Business transformation programmes to implement operational efficiencies.
- Proposed changes to the Group's delegated authorities framework to reflect organizational changes.
- The operating performance of the Group
- Proposal to issue multiple series of guaranteed bonds in the US.
- Group liquidity, confirming that the Company was with its financing principles and noting planned refinancing activities for the year ahead.

Sustainability.

"The Board places considerable emphasis on the need for our business to be sustainable for the long term, to meet the expectations of our stakeholders and inform our commitments to society"[142]

Sustainability is important for the success in the long-term and also to have a positive impact on the society. Again, the annual report is presenting the Board's activity on this topic:

- The group's Global Product Stewardship Policy Framework in light of the new product stewardship challenges for the Group arising from its NGP activities.
- The status of the Group's litigation proceedings, including updates on the class actions in Quebec, Canada, against the Group's subsidiary Imperial Tobacco Canada and two other Canadian manufacturers; the Sequana dividend trial; the trial in Georgia brought by Tiblisi Tobacco; and key RAI litigation matters.
- Updates on compliance matters including allegations of misconduct and the activities of the newly created Business Conduct and Compliance department.
- Approving changes to the Group's Standards of Business Conduct to reflect US legislative and regulatory requirements following the acquisition of RAI.
- Environment, Health and Safety performance and long-term targets.
- The Group's Risk Register, considering the Group's risk appetite and determining the Group's viability for Financial Reporting Council reporting purposes, taking account of the Company's current position and principal risks.
- The Group's director and officer insurance cover and agreeing revised provisions to take into account the change in requirements in this area following the acquisition of RA

[141] BAT Annual Report, 2017, pp.60
[142] BAT Annual Report, 2017, pp. 60

Winning Organization.

"Setting the "tone from the top" is an important part of the Board's role, helping to foster a culture centered on our Guiding Principles and which harnesses diversity"[143]

As presented from the company annual report the Board has a high commitment in achieving the company's objectives. The activities that the Board has undertaken in 2018 were:

- Succession planning at Board level, including Executive Director and Management Board succession planning and monitoring the progress of Management Board developments plans.
- The performance of Executive Directors and Management Board members.
- Non-Executive Director appointments in light of requirements following the acquisition of RAI, including approving the appointment of three new non-Executive Directors from the RAI board of directors as proposed by the Nominations Committee.
- The composition of Board Committees and approving changes to the Committees.
- Proposed changes to the roles and responsibilities of the Management Board and approving changes including the creation of the roles of Chief Operating Officer and Chief Marketing Officer.
- RAI integration plans, including proposals for ensuring integration and retention of talent in the enlarged Group.

The section the we have reported presents how the activities, from a governance point of view, has fostered the company's objectives. They include particular actions that the Board has taken, how the organization's culture has contributed in creating a winning organization, how the sustainability issue has been taken into the next level with the direct involvement of the ones charged with leadership.
BAT's Annual Report's Governance section embraces fully the "Governance" content element highlighted by the IR framework.

[143] BAT Annual Report, 2017, pp. 60

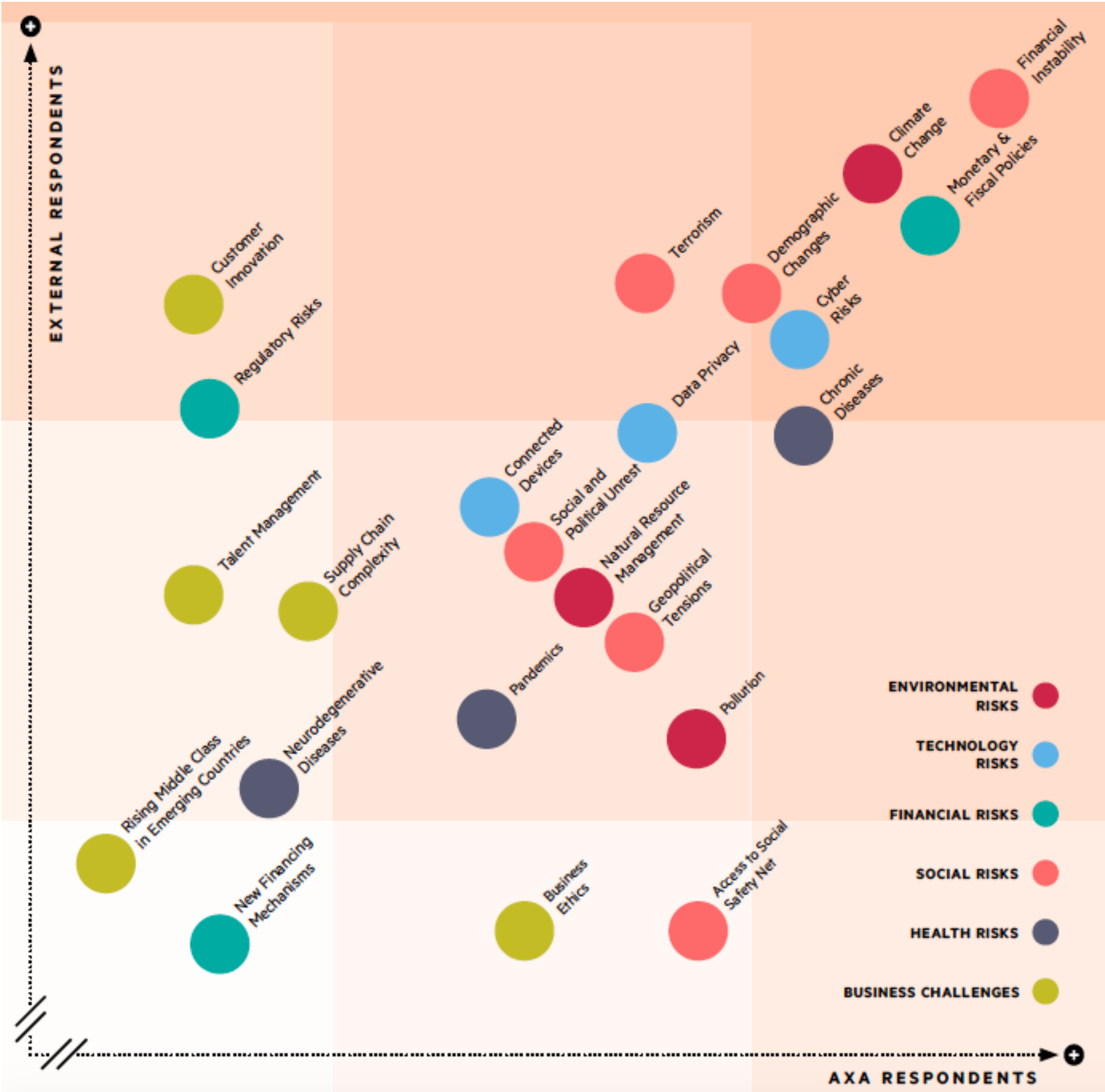
3.5 AXA

The last company that we are presenting in this section is AXA the French multinational insurance firm. In particular the risks and opportunities section is analyzed.

3.5.1 Risks and Opportunities

AXA concisely links its material issues to the company's risks and opportunities in a two-page spread in their 2016 Integrated Report. The material risks are initially plotted according to their level of importance and the relevance of the risk/opportunity to both AXA respondents and external stakeholders (Figure 3.5.1). This also shows compliance with the <IR> Framework which discusses stakeholders' role in providing insights into risk management. Individual risks are further categorized into six classes (Environmental, Technology, Financial, Social, Health and Business).

Figure 3.5.1



Source: AXA, 2016 Integrated Annual Report

Each year, AXA conducts a survey among various internal and external stakeholders to assess the material risks and issues that might have an impact on its business in the short, medium and long term. In 2016, 912 people in 54 countries took part in the survey. Their responses were categorized and hierarchized along two axes: relevance of the risk/opportunity according to AXA respondents and according to external respondents. The results were used to compare our analyses from different points of view.
AXA clarifies further the company position towards the risks assessment:

"To create long-term value, we must anticipate the risks threatening our development and that of our customers, while capitalizing on the new opportunities offered by a changing world. We maintain ongoing dialogue with our internal and external stakeholders to identify those risks and opportunities, as illustrated opposite. Furthermore, in 2014 we set up a Stakeholder Advisory Panel comprising members from civil society to take part in regular informal discussions about the broad trends shaping our environment. These discussions have highlighted five major issues that are key for our business and our social responsibility."[144]

This statement highlights the deep connection between the company and the external stakeholder together with the voluntary of the company to involve a broader audience to make sustainable risk assessment. AXA then introduces the five categories of risks the open dialogue has identified, for each of them the report presents the action the company is taking to mitigate them.

- Digital: the digital revolution is driving rapid and massive development of new practices such as the sharing economy. AXA needs to be able to accompany these transformations in terms of customer experience.
  Action Taken: AXA has partnered with BlaBlaCar to make ridesharing more reliable: free extra insurance, 24/7 assistance hotline, etc.
- Climate change: natural disasters cause economic and social loss to AXA's customers and increase the burden of claims to be settled by the company.
  Action taken: AXA has divested its coal-based assets and will have tripled its green investments by 2020. The company has published a study on actions taken by towns and SMEs to increase their resilience to climate change. The AXA Research Fund supports some 100 projects related to natural disasters.
- Demographic Transition: as people live longer, the world's population is growing and aging, putting increased pressure on resources and the public services.
  Action Taken: the company has announced its decision to divest all of its tobacco industry assets totaling 1.8 million euros.
- Cyber Risk: companies are increasingly dependent on their information systems. A poorly adapted or insecure environment can damage their business operations and threaten their profitability.
  Action taken: To protect the data of large corporations, AXA Matrix offers a prevention service that mitigates the damage caused by an information technology incident. It secures the most sensitive business assets, such as industrial systems, financial control, etc.
- Financial Risk: since the financial crisis, governments, regulators and economic agents have been thinking about how to create a sustainable financial system that will support rather than weaken the real economy.

[144] AXA Annual Report, 2016, pp.43

Action taken: Since December, AXA has chaired the High-Level Expert Group on sustainable finance established by the European Commission. By the end of 2017, the Group is due to propose recommendations on how to integrate sustainability criteria into the European financial system.

This chapter has presented specific parts of the IR of some corporations: we have highlighted the scenario and performance, the strategy and targets, risks and treatment measures part of the ENI integrated annual report, the business model and financial and non-financial section of SAP, the Unilever Sustainable Living Plan from Unilever, the governance section of BAT and the risks and opportunities part of AXA's integrated annual report.
Such analysis was aiming to present from an empirical point of view what does it mean for corporation to adopt the IR framework.

Conclusion

In this work we have started with an overview of the development that has characterized the last 20 years of the academic literature on accounting and accountability systems for the combined management and reporting of financial and non-financial performance.
Later introducing the concept of Integrated Reporting <IR> and analyzing in depth what are the key elements and principles of this reporting tool, we have learned how compared to conventional accounting, integrated reporting is asserted to provide broader explanations of performance making “visible all the relevant capitals on which performance (past, present and future) depends,” providing “a meaningful presentation of the organization’s prospects for long-term resilience and success” and facilitating “the informational needs of, and assessments by, investors and other stakeholders”. The stated purpose of looking beyond the financial reporting entity “is to identify risks, opportunities and outcomes that materially affect the organization’s ability to create value” for itself and thus “financial returns to the providers of financial capital”.
This work has emphasized how integrated reports provide a more holistic view of business than conventional financial reports by explicitly acknowledging interconnections between financial, environmental and social dimensions of corporate performance.

In the second chapter, we have presented the transformation function that IR absolves by fostering “integrated thinking” so that the company operates in a holistic way, taking account of material ESG issues across the six capitals (financial, manufactured, natural, intellectual, human, and social and relationship) that affect financial performance. Integrated Reporting in this way will clearly communicate the alignment of sustainable development considerations with core enterprise-wide strategy. Investors in turn will begin to distinguish companies that possess a deep understanding of material risks and opportunities and will steer capital toward these more accountable organizations thus creating a virtuous cycle accelerating sustainability in business.
Furthermore, to stress the impact of IR we have underlined the benefits and the leverage effect that the companies will have in adopting IR.
Furthermore, we have introduced the notion that the universal adoption of IR is a transformation journey, and as for any transformation journey, organizations should expect challenges when implementing an IR project. Some found challenges within their organization itself, and other challenges are brought on by the external context within which the organization operates.
Integrated reporting is not a silver bullet. Many other things must happen as well before a universal adoption of IR will occur.

In the third chapter different parts of companies’ integrated reports have been presented, to provide to the reader tangibles examples on how this tool has been used. We recall here a few examples.
Eni’s 2016 integrated annual report is prepared in accordance with principles included in the “International Framework”, published by International Integrated Reporting Council (IIRC). It is aimed at representing financial and sustainability performance, underlining the existing connections between competitive environment, group strategy, business model, integrated risk management and a stringent corporate governance system.
The governance section of the British American Tobacco’s annual report lists the activities undertaken by the Board during the year under each of the company’s strategic priorities. This outlines the ways in which the Board has influenced and monitored the strategic direction of the

company, thus demonstrating how the company's governance structure supports its ability to create value. This is consistent with the "Governance" content element of the IR Framework.
The Unilever Sustainable Living Plan (USLP) taught us about the company's vision to grow its business whilst reducing the environmental footprint and increasing its positive social impact, in accordance with the spirit of the IR.

We hope that with the extensive analysis carried out in this work as well the tangibles examples that has been presented, the IR concept can be clearer to the general public and that more awareness will arise to drive the adoption of this reporting tool.

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Summary

Considerable development has characterized in the last 20 years the academic literature on accounting and accountability systems for the combined management and reporting of financial and non-financial performance. Academics and practitioners have analyzed the interaction between managements' strategic propositions, organizational control systems and performance measurement and reporting systems.[145] Among several proposals advanced by scholars within the accounting, management and governance domains[146], three frameworks that have emerged are:

1. The Triple Bottom Line
2. Sustainability Reporting
3. Integrated Reporting

The Triple Bottom Line, that is a form of external reporting, became popular towards the end of 1990s.[147] It provided a new language to express the sustainability concept to an audience more accustomed to external disclosure of the economic bottom line.[148] The Triple Bottom Line suggested the need to also disclose information regarding environmental and social matters.[149]

As social and environmental reporting became more widely practiced, and as the amount of social and environmental information reported by many organizations expanded, increasingly organizations began to separate out social and environmental disclosures, using media other than the annual report to disclose much of this information.

In tandem with the growth in stand-alone social and environmental reporting practices, initiatives to develop voluntary reporting standards to guide organizations in initiating and implementing these reporting practices developed. The Institute of Social and Ethical Accountability (commonly known as AccountAbility) and the Global Reporting Initiative (commonly known by the acronym GRI) were among the membership organizations that developed the most enduring and widely adopted reporting and assurance standards for social and environmental reporting.[150]

In 2004, the Prince's Accounting for Sustainability Project was formed. One of its aims was to address this disconnect for many readers of sustainability reports. Over the following years it developed guidance for what it referred to as "connected reporting" where organizations were expected to draw report readers' attention to the main connections between those social, environmental and economic actions and outcomes that were material for the reporting organization.[151] In the following years, several reporting organizations and regulatory bodies

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[145] Parker, L.D. (2012), "Qualitative management accounting research: assessing deliverables and relevance", Critical Perspectives on Accounting, Vol. 23 No. 1, pp. 54-70.

[146] Nixon, B. and Burns, J. (2012), "The paradox of strategic management accounting", Management Accounting Research, Vol. 23 No. 4, pp. 229-244.

[147] Elkington, J. (2004), "Enter the triple bottom line", in Henriques, A. and Richardson, J. (Eds), The Triple Bottom Line, Does it All add Up? Assessing the Sustainability of Business and CSR, Earthscan, London, pp. 1-16.

[148] Adams, C., Frost, G. and Webber, W. (2004), "Triple bottom line: a review of the literature", in Henriques, A. and Richardson, J. (Eds), The Triple Bottom Line, Does it All add Up? Assessing the Sustainability of Business and CSR, Earthscan, London, pp. 17-25.

[149] Elkington, J. (1998), Cannibals With Forks: The Triple Bottom Line of 21st Century Business, New Society Publishers, Gabriola Island and Stony Creek, CT.

[150] Buhr, N., Gray, R. and Milne, M.J. (2014), "Histories, rationales, voluntary standards and future prospects for sustainability reporting: CSR, GRI, IIRC and beyond", in Bebbington, J., Unerman, J. and O'Dwyer, B. (Eds), Sustainability Accounting and Accountability, 2nd ed., Routledge, London, pp. 51-71.

[151] Hopwood, A.G., Unerman, J. and Fries, J. (Eds) (2010), Accounting for Sustainability. Practical Insights, Earthscan, London.

responded to the challenge of providing a more holistic picture within sustainability reports of interacting material social, environmental and economic actions and impacts.
In 2010, the GRI and the Prince's Accounting for Sustainability Project jointly formed the IIRC (International Integrated Reporting Council) to develop integrated reporting (IR) at a global level. At the outset, one of the main distinguishing features of integrated reporting was its aim to provide a concise report (in a relatively few pages) that would indicate an organization's most material social, environmental and economic actions, outcomes, risks and opportunities in a manner that reflected the integrated nature of these factors for the organization.[152]
IR is essentially about establishing a new global reporting framework to harmonies disparate reporting requirements in a way that also increases the effectiveness of what firms report. As such, there is an overt institutionalization agenda underway by the IIRC.[153] The IIRC's structure includes a stakeholder-based Council and Board, working groups, a pilot program of reporting companies, and "ambassadors".
IR is essentially about the "integration" of six capitals (financial, manufactured, intellectual, human, social and relationship, and natural) which capture the factors managers should incorporate in to strategy to ensure their long-term viability.[154] This is evident in the description of IR as forward looking, focused on connections between financial and non-financial activities that underpin company value-creation, and geared towards explaining the value creation logic underpinning the company's strategy.[155]

IR is described by the IIRC as bringing together…

"…information about an organization's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates. It provides a clear and concise representation of how an organization demonstrates stewardship and how it creates and sustains value."[156]

The intention is to develop a new global reporting framework that simplifies company reporting, but also improves the effectiveness of reporting in the context of a changed world order. Advocates suggest that the Global Financial Crisis, the need for greater transparency, problems of resource scarcity, and environmental issues all present new risks that must be addressed by managers in how they create value. In contrast to sustainability reporting, IR is oriented toward the future and seeks to capture interconnections between the financial and non-financial drivers of performance.
On the 16 April 2013, the IIRC released a Consultation Draft (CD) of the first Integrated Reporting Framework. According to the CD an integrated report is a concise communication about how an organization's strategy, governance, performance, and prospects, in the context of its external environment, lead to the creation of value over the short, medium, and long term.

The fundamental concept that drives the IR is that value is not generated by or within an organization alone but is influenced by the external environment (including economic conditions, technological change, societal issues and environmental challenges), which provides the context

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[152] IIRC. (Ed.) (2012), Prototype of the International /IRS Framework, IIRC.
[153] Rowbottom, N. and Locke, J. (2013), "The emergence of integrated reporting", Asia Pacific Interdiscipoinary Research in Accounting Conference, Kobe.
[154] International Integrated Reporting Committee (2013a), Capitals: A Background Paper, IIRC.
[155] Phillips, D., Watson, L. and Willis, M. (2011), "Benefits of comprehensive integrated reporting", Financial Executive, Vol. 27 No. 2, pp. 26-30.
[156] IIRC, (2011) Towards Integrated Reporting, Communicating Value in the 21th Century, pp.2.

within which the organization operates; created through relationships with others; and, finally, dependent on the availability, affordability, quality and management of various resources. For these reasons, IR aims to provide insights about the external environment that affects an organization, the resources and relationships used and affected by the organization (which in the IR framework are referred to as the capitals), as well as about the way in which the organization interacts with the external environment and the capitals to create value over the short, medium and long term.

The overall purpose of the IR is to communicate and illustrate a broader understanding of the organizational performance compared to traditional reporting by describing, and measuring, where practicable, the material elements of value creation, the different type of capitals employed and affected, and the intertwined relationships between them. The fundamental concepts of IR are represented by the creation of value over time, the capitals that an organization uses and affects, and the organization’s business model.

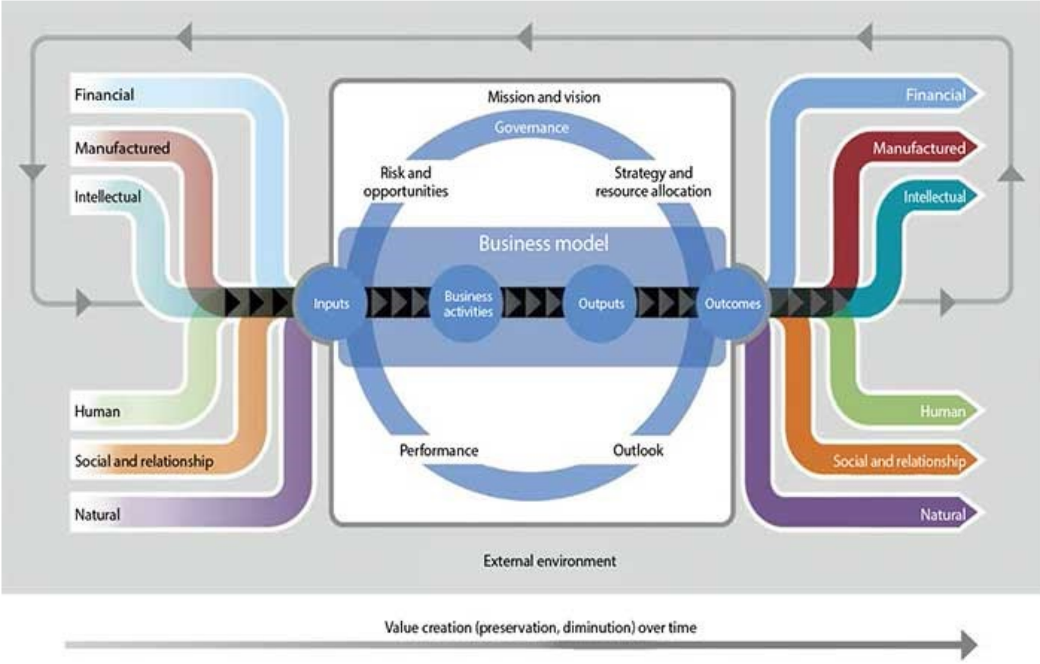
The six capitals identified within the IR Framework developed by the IIRC are: financial, manufactured, intellectual, human, social and relationship, and natural. However, it is important to note that the IR Framework does not require organizations to strictly adopt the six categories listed above. Rather, irrespectively of how an organization categorizes capitals for its own purposes, the types identified above are to be used as a benchmark to ensure the organization does not overlook a capital that it uses or affects.

- **Financial Capital**- It is referred to the pool of funds that is available to an organization for use in its production processes or that is obtained through financing (debt, equity, grants).
- **Manufactured Capital**- It is referred to the manufactured physical objects that are available to an organization for use in the production of good and services (buildings, equipment, infrastructures)
- **Intellectual Capital**- It is a non-tangible form of capital like intellectual proprieties, copyrights and organizational capitals like knowledge, systems and procedures.
- **Human Capital**- It is referred to people competencies, capabilities and experience.
- **Social and Relationship Capital**- It is referred to the institutions and the relationship within and between communities and networks. Capital of this kind may include: shared norms, values and behaviors; key stakeholders relationship; intangibles associated with the company’s brands and reputation.
- **Natural Capital**- It is referred to all renewable and non-renewable environmental resources that provide support to the past, current and future prosperity of an organization. According to the CD it includes: air, water, land, minerals, biodiversity and eco-system health.

According to this value creation map (Figure 1) the core of an organization is its business model, that is the vehicle through which an organization creates value. An organization’s ability to create value in the short, medium, and long term depends on an understanding of the connectivity between its business model and a wide range of internal and external factors.

The business model which draws on capitals as inputs converts them, through the business activities, in outputs. These outputs together with the business activities, that include the planning, design and manufacture of products, lead to outcomes in terms of effects on the capitals.

Figure 1



Source: The International IR Framework

An integrated report is built around seven elements that define its content and communicate the organization's unique value-creation story. According to the CD these elements are:

1. **Organizational overview and external environment:**
   What does the organization do, and what are the circumstances under which it operates?
2. **Governance:**
   How does the organization's governance structure support its ability to create value in the short, medium, and long term?
3. **Opportunities and risks:**
   What are the specific opportunities and risks that affect the organization's ability to create value over the short, medium, and long term, and how is the organization dealing with them?
4. **Strategy and resource allocation:**
   Where does the organization want to go, and how does it intend to get there?
5. **Business model:**
   What is the organization's business model, and to what extent is it resilient?
6. **Performance:**
   To what extent has the organization achieved its strategic objectives, and what are its outcomes in terms of effects on the capitals?
7. **Future outlook:**
   What challenges and uncertainties are the organization likely to encounter in pursuing its strategy, and what are the potential implications for its business model and its future performance?

The seven points which form the content elements are fundamentally linked to each other, but yet they are not intended to serve as a standard structure for an integrated report with information about them appearing in a set sequence or as isolated, standalone sections. Rather, information in an integrated report is presented in a way that makes the connections between the Content

Elements apparent. The fact that these content elements are stated in the form of question testify how much the individual circumstances of an organization are taken into account in the integrated reporting.

The IR Framework is principles based rather than being founded on a more rigid, rules-based approach, because its intention is to offer an appropriate balance between flexibility and prescription. IR Framework doesn't focus on rules for measurement, disclosure of individual matters, or even the identification of specific key performance indicators. Rather, the Framework is driven by integrated thinking, which, as illustrated in the CD, should lead to integrated decision making and execution toward the creation of value.
The Guiding principles identified by the IR Framework are the following:

- **Strategic focus and future orientation:** An integrated report should provide insight into the organization's strategy, and how it relates to the organization's ability to create value in the short, medium and long term, and to its use of and effects on the capitals.
- **Connectivity of information:** An integrated report should show a holistic picture of the combination, interrelatedness and dependencies between the factors that affect the organization's ability to create value over time.
- **Stakeholder relationships:** An integrated report should provide insight into the nature and quality of the organization's relationships with its key stakeholders, including how and to what extent the organization understands, takes into account and responds to their legitimate needs and interests.
- **Materiality:** An integrated report should disclose information about matters that substantively affect the organization's ability to create value over the short, medium and long term.
- **Conciseness:** An integrated report should be concise.
- **Reliability and completeness:** An integrated report should include all material matters, both positive and negative, in a balanced way and without material error.
- **Consistency and comparability:** The information in an integrated report should be presented: (a) on a basis that is consistent over time; and (b) in a way that enables comparison with other organizations to the extent it is material to the organization's own ability to create value over time.

Compared to conventional accounting, integrated reporting is asserted to provide broader explanations of performance making "visible all the relevant capitals on which performance (past, present and future) depends," providing "a meaningful presentation of the organization's prospects for long-term resilience and success" and facilitating "the informational needs of, and assessments by, investors and other stakeholders". The stated purpose of looking beyond the financial reporting entity "is to identify risks, opportunities and outcomes that materially affect the organization's ability to create value" for itself and thus "financial returns to the providers of financial capital".[157]
Integrated reports provide a more holistic view of business than conventional financial reports by explicitly acknowledging interconnections between financial, environmental and social dimensions

[157] International Integrated Reporting Council (2011), Towards Integrated Reporting: Communicating Value in the 21st Century, IIRC, New York, NY.
International Integrated Reporting Council (2012a), Understanding Transformation: Building the Business Case for Integrated Reporting, IIRC.
International Integrated Reporting Council (2012b), Towards Integrated Reporting: Communicating Value in the 21st Century – Summary of Responses to the September 2011 Discussion Paper and Next Steps, IIRC.

of corporate performance. As such, they may promote "cultural change" within organizations by highlighting that business operates within a broader context of, inter alia, changing stakeholder demands, macro-economic conditions and natural resource constraints. Integrated reporting encourages company boards and managements to think strategically about how such issues impact their businesses, and the risks and opportunities they present.[158] It may, for example, encourage corporates to take a more commercial approach to their social investments.[159]

In addition to content, audience, and practice, each type of corporate reporting can be understood in terms of the function it fulfills. Some authors have argued that corporate reporting has two functions: information and transformation.

The information function refers to corporate reporting's duty to provide counterparties to the corporation the information they need to make an informed decision on whether to transact with the company and, if so, on what terms. The information function is "one-way" in that the company provides the information and the counterparty makes its decision, but with no intent to affect the behavior of the company.

In contrast, the transformation function involves feedback from the counterparty with the intent of changing the company.

While the information function assumes no feedback from counterparties, the transformation function relaxes this assumption, allowing for engagement and activism from the counterparties. The counterparties receive and evaluate the information. Where they see opportunities to influence corporate behavior to their benefit, and potentially to the benefit of the corporation, they actively try to bring about change. This engagement, activism, and change process enables a company to transform. The transformation function is a "two-way" street: the company must be open to the feedback it is getting from its counterparties and willing to engage with them.

IR absolves to this transformation function by fostering "integrated thinking" so that the company operates in a holistic way, taking account of material ESG issues across the six capitals (financial, manufactured, natural, intellectual, human, and social and relationship) that affect financial performance. It will lead to a better managed company that is more able to create value over the short, medium, and long term, and in doing so, provide the information necessary for its investors to take a longer-term view and to attract more who do. It is a kind of "reverse activism" in which the company is influencing its investor base rather than the other way around.

Nonetheless, Integrated Reporting holds the potential to function as a vital driver of organizational change towards Responsible Competitiveness.[160] Responsible Competitiveness is the enterprise-wide approach to managing environmental, social, economic and governance issues. The Responsible Competitiveness approach builds sustainable competitive performance through measurable, transparent, and accountable commitments to employ renewable resources and to improve the well-being of workers, communities, and ecosystems.

Integrated Reporting will clearly communicate the alignment of sustainable development considerations with core enterprise-wide strategy. Investors in turn will begin to distinguish companies that possess a deep understanding of material risks and opportunities and will steer capital toward these more accountable organizations thus creating a virtuous cycle accelerating

[158] Eccles, R.G. and Krzus, M.P. (2010), One Report: Integrated Reporting for a Sustainable Strategy, John Wiley & Sons, Hoboken, NJ.

[159] Eccles, R.G. and Krzus, M.P. (2010), One Report: Integrated Reporting for a Sustainable Strategy, John Wiley & Sons, Hoboken, NJ.

[160] Please visit www.accountability.org for background on Responsible Competitiveness. Responsible Competitiveness™ is a trade mark registered to AccountAbility Strategies, no. 2521826

sustainability in business. This is at least one vision of the power of Integrated Reporting to drive change that embeds Responsible Competitiveness.
Integrated Reporting requires its own integrated strategy—a corporate vision and goals that reflect environmental, social and governance-related (ESG) risks and opportunities while emphasizing financial, environmental and social sustainability—and integrated systems—structures that enable the real-time flow of information and resources as needed across organizational silos. Successful Integrated Reporting will require these things, but few organizations have them.

For the companies that are using IR as a reporting tool, it's possible to identify three classes of benefits.
The first is internal benefits, including better internal resource allocation decisions, greater engagement with shareholders and other stakeholders, and lower reputational risk.[161]
The second is external market benefits, including meeting the needs of mainstream investors who want ESG information, appearing on sustainability indices, and ensuring that data vendors report accurate nonfinancial information on the company.
The third is managing regulatory risk, including being prepared for a likely wave of global regulation, responding to requests from stock exchanges, and having a seat at the table as frameworks and standards are developed.[162]
Of course, integrated reporting is not a panacea for improving resource allocation decisions or a silver bullet for solving contemporary problems with financial and nonfinancial reporting, particularly as it is so young. Companies interested in implementing integrated reporting face a number of challenges, beginning with the fact that no globally accepted framework specifying what goes into an integrated report exists. But there are a growing number of examples of integrated reports from which companies can learn.

Along with these benefits IR can have a leverage effect on four core company dimensions: Sustainability, Holistic Thinking, Stakeholder-Inclusive Approach and Long-Term Thinking.
In this case, the sustainability "leverage effect" of IR results from the progressive integration/reinforcement of sustainable issues among operational practices. In this regard, the implementation of IR could act as a support for learning and transforming practices toward sustainability. By moving to IR, companies might move from a somewhat reactive conception of sustainability reporting to an explorative and proactive organizational approach.
IR allows companies to stimulate holistic thinking within their organization. The need to consider multiple capitals in the value-creation process contributes to broadening the conception of their company and its operations. It promotes a multifaceted approach to information gathering and decision making that companies consider beneficial.
In terms of stakeholders, investors and providers of financial capital are the target audience for the IIRC framework. In the same vein, it also alludes to stakeholder engagement being informative through the IR process but does not provide specific guidance on stakeholder engagement. Other observers see the integrated report as a means to meet broader stakeholder expectations.[163] Some individuals more heavily emphasize the importance of continuous dialogue between the company and its stakeholders to ensure responsiveness to stakeholder views and interests and to integrate

[161] Robert G. Eccles and Michael P. Krzus, One Report: Integrated Reporting for a Sustainable Strategy, Hoboken, N.J.: John Wiley & Sons, 2010: 146–56.
[162] Robert G. Eccles and Kyle Armbrester, "Two Disruptive Ideas Combined: Integrated Reporting in the Cloud," IESE Insight, no. 8, 2011.
[163] Maxi Steyn, "Organizational Benefits and Implementation Challenges of Mandatory Integrated Reporting," Sustainability Accounting, Management and Policy Journal, 2014, pp. 476–503.

their views into the IR process when material.[164] In addition to integrating stakeholder views into their understanding of the value-creation process, IR offers benefits in terms of accountability to stakeholders. A survey of companies in South Africa that issued mandatory integrated reports reveals that the majority of companies perceive an improved trust relationship with their stakeholders following the publication of their report. They also strongly highlight how issuing an integrated report helped them develop improved and/or meaningful stakeholder engagement practices.[165]

IR provides companies the opportunity to embrace long-term thinking, meaning envisioning the future of the company in 5, 10, or even 20 years. The idea is to reverse the trend from the past few decades to shorten strategic time horizons by allowing managers to reflect on the organization's future challenges. This could be done both within the organization by offering an arena for discussing how it could sustain in the future and outside the organization while engaging its stakeholders throughout the IR process. By adopting IR, an organization encourages its employees and stakeholders to shift toward sustainability by offering a forward-looking report (e.g., target settings in terms of CO_2 and also the use of prospective exercises about what the business could be in 5, 10, or 20 years) that could also include qualitative data.

As for any transformation journey, organizations should expect challenges when implementing an IR project. Some found challenges within their organization itself, and other challenges are brought on by the external context within which the organization operates.

Organizational culture has a major influence on the development of an IR project. To succeed, IR must adapt to the existing culture of the company while allowing some comparison with competitors in order to be comparable to its peers (notably to meet investors' expectations).

The legal environment in which corporations operate can also influence their motivation to get on board with the IR journey. For example, corporations operating in a more litigious environment are somewhat uncomfortable with the transparency principle underlying IR because they fear interest groups might use this information against them.

Altogether, the value attributed to IR lies principally in the holistic embedding process it brings into organizations. This process and the changes in mind-set it carries into organizations are considered far more important than the integrated report itself as a communication outlet. There is much at play behind the official integrated report.

By taking into account the strategic dimension and the innovative potential of the integrated report, companies are doing far more than a simple reporting exercise. Rather, they are moving toward collective learning on their value proposition and value creation processes. Organizations learn about their interdependencies on the different capitals and start accounting for them in an integrated manner.

Although most of the current focus on integrated reporting is on companies, the concept applies equally well to many types of organizations. Virtually any organization that uses financial, natural, and human resources should practice integrated reporting. As representatives of civil society and in collaboration with the public and private sectors, nongovernmental organizations have a major role to play in promoting integrated reporting, particularly through their advocacy role and what

[164] The Integrated Reporting Committee (IRC) of South Africa, "Framework for Integrated Reporting and the Integrated Report: Discussion Paper," January 2011, www.sustainabilitysa.org/Portals/0/IRC%20of%20SA%20Integrated%20Reporting%20Guide%20Jan%2011.pdf.

[165] Maxi Steyn, "Organizational Benefits and Implementation Challenges of Mandatory Integrated Reporting," Sustainability Accounting, Management and Policy Journal, 2014, pp. 476-503.

Waygood calls “capital market campaigning.” This is based on two complementary techniques, argues Waygood, of “first, pressuring investors to invest capital in one company or sector rather than another; and, second, using the rights and influence associated with share ownership to voice concerns directly with company directors and senior management.”[166]

NGOs can direct investor groups to influence industry associations, stock exchanges, standard setters, regulators, and legislators to encourage and require integrated reporting by companies. NGOs also can use their public policy advocacy muscle to argue that the current structure of capital markets acts as a constraint against sustainable development for two main reasons: short-termism and market failure.

Obviously, NGOs cannot do any of this unless ESG performance information is available from companies. One hopes the desire for this information will create an incentive. And as time goes on, investors will be in a position to compare the performance of their portfolio companies practicing integrated reporting to those that are not. NGOs have an important role to play in the creation and enforcement of frameworks and standards for integrated reporting. They can engage with the IIRC and support its efforts.

Integrated reporting is not a silver bullet. Many other things must happen as well before a universal adoption of IR will occur, including integrated: asset management, asset ownership, investment legal duties, proxy voting, corporate governance, corporate brokerage, investment consulting, financial literacy, and financial regulation.[167]

All of these can help spread the adoption of integrated reporting; integrated reporting, in turn, can contribute to each of these. The causal relationships are many and complex; there is no simple, single, linear path to take.

Furthermore, the most promising path will vary by country. In some countries, regulatory forces will play a stronger role. In others, it will be market forces. Both will be necessary in all countries.

The International Organization of Securities Commissions (IOSCO), “the international body that brings together the world's securities regulators and is recognized as the global standard setter for the securities sector,” should establish a task force to publish a report on how securities commissions can support integrated reporting within their existing regulatory regime. This will support the lay of the groundwork for the timing and nature of new legislation and regulation to support integrated reporting.

Second, asset owners, asset managers, and sell-side analysts should encourage companies to practice integrated thinking in their communications with them. They should also, and on an incremental basis, start practicing more integrated thinking themselves. This means they need to go beyond having separate “ESG teams” to having their sector specialists develop a view on what the material ESG issues are and how they can affect financial performance.

Also, the accounting community should move from mere advocacy for integrated reporting to actually helping to spread its adoption. This means that the audit professionals, not simply the advisory or consulting professionals (which is largely the case to date), need to have proactive conversations about integrated reporting with the CEO, CFO, and board of directors of the companies they audit. The auditors also need to become better informed about what information investors want, since they are the ultimate clients.

For these reasons the road to universal adoption of integrated reporting is a long one, but it is one that must be traveled.

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[166] Steven Waygood, “Civil Society and Capital Markets” in Sustainable Investing: The Art of Long-Term Performance, edited by Cary Krosinsky and Nick Robins, Earthscan, 2008: 178.

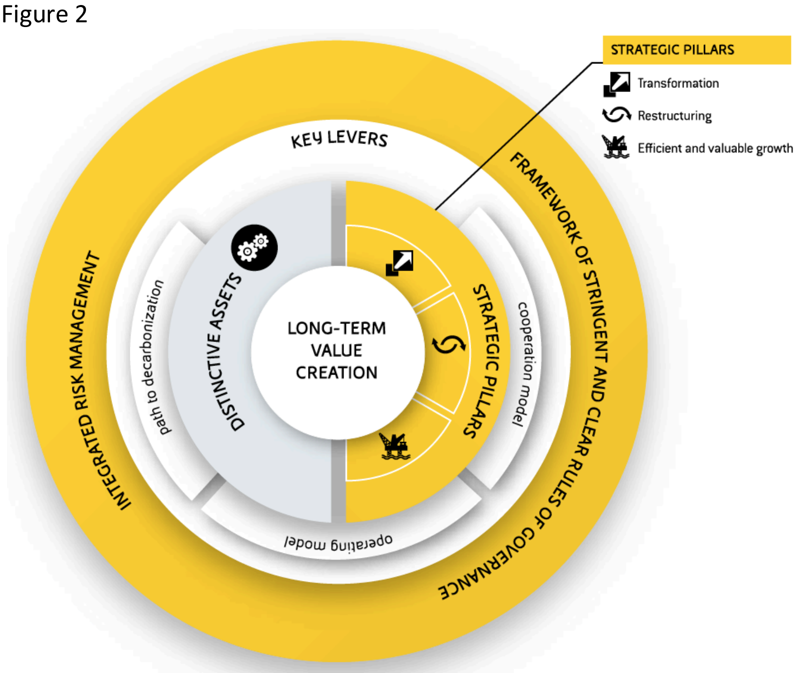
[167] Waygood, S. (2015). “A Roadmap for Sustainable Capital Investments: An Aviva White Paper.” Aviva Investors: 1-60.

As of today, there are many examples between large and smaller corporations that are using the IR. The Italian Oil & Gas company Eni is an example of corporation that has embraced the integrated reporting as a tool to address the impact of its business and operations on the society. In its 2016 year-end report, that Eni calls Integrated Annual Report, the company underlines:

"Eni's 2016 integrated annual report is prepared in accordance with principles included in the "International Framework", published by International Integrated Reporting Council (IIRC). It is aimed at representing financial and sustainability performance, underlining the existing connections between competitive environment, group strategy, business model, integrated risk management and a stringent corporate governance system."[168]

In its integrated annual report Eni discloses its business model, that in accordance with the "International Framework" is the system through which an organization transforms inputs, through its business activities, into outputs and outcomes in order to fulfill the organization's mission and create sustainable value in the short, medium and long-term.
The following image (Figure 2) represents Eni's business model as presented in the company 2016 Integrated Annual Report.

Figure 2



Source: Eni, Integrated Annual Report 2016

Eni's Integrated Annual report provides details about the company distinctive assets, analyzed on the basis of financial, operational, environmental, technological, human, social and relational dimensions, in order to identify the related quantitative parameters (KPIs). These KPIs allow a continuous monitoring of the target achievement and the identification of the intervention areas by pursuing the strategic guidelines that allow, in an increasingly complex scenario, to optimize and anticipate the value creation. These six dimensions, as called by the company, are the six kinds of capitals that the IR has identified, 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. (Figure 3).

[168] Eni, Integrated Annual Report, 2016 pp. 3

Eni identifies six dimensions that affect its business model and for each one the company highlights the distinctive assets involved in the value creation and the KPIs that are used to measure the generated value. The Economic and Financial dimension for instance takes into account the Financial structure and Liquidity reserves of the company, and in order to assess how the company is performing along this dimension the main KPIs used are: cash flow from operations, leverage, dividend per share, dividend yield, adjusted operating profit, net profit, capital expenditure and future net cash flow.

Eni makes a step further in assessing its six dimensions by highlighting how they create value for the company and its stakeholders. Emphasizing this aspect is rather important since one of the main objective of an integrated report is to connect the company with the external environment and above all showing how a company is creating and delivering value in the short, medium and long term. Taking in consideration the Economic and Financial dimension Eni divides the value creation of this dimension in two areas:

- Value creation for Eni: going concern, lower cost of capital, leverage optimization, M&A opportunities, mitigation of market volatility, credit rating.
- Value creation for Eni's stakeholders: yields, share price appreciation, social and economic growth, satellite activities.

The benefits for the company and stakeholders are highlighted as result of the use of the company assets and their related connections.

Figure 3

Dimension	Distinctive assets for value creation	Main KPIs	Value creation for Eni	Value creation for Eni's stakeholders
ECONOMIC AND FINANCIAL	- Financial structure - Liquidity reserves	- Cash flow from operations - Leverage - Dividend per share - Dividend yield - Opex per boe (E&P) - Adjusted operating profit - Net profit - F&D cost (3 year average) (E&P) - Capital expenditure - Future net cash flows	- Going concern - Lower cost of capital - Leverage optimization - M&A opportunities - Mitigation of market volatility - Credit rating	- Yields - Share price appreciation - Social and economic growth - Satellite activities
OPERATING PERFORMANCE	- Hydrocarbon reserves (oil and gas) - Efficiency in exploration - Reduced time to market - Developed and productive assets - Retail G&P portfolio - Refineries and bio-refineries - Chemical plants - Green plants - Integrated risk management	- Discovered resources on yearly basis and cumulated - Unit Exploration cost per boe (E&P) - Organic RRR - Break-even of new upstream projects - Time to market - Break-even SERM - Total biofuels production - Installed renewable energy power (MWp)	- Profitability - Growth in hydrocarbon reserves - Enlarging asset portfolio - Increase assets value - Reduction of operational risk - Reputation - Energy and operational efficiency	- Availability of energy sources and green products - Energy for local market - Satellite activities - Reduction of emissions and responsible use of resources - Employment
ENVIRONMENTAL AND CLIMATE	- Hydrocarbon reserves (oil and gas) - Air - Water - Biodiversity and ecosystems - Soil	- Reserves by type - Direct GHG emissions (tons CO_2eq) - Gas flaring - Upstream GHG emission index - Investments in energy efficiency - Avoided emissions due to renewable energy - Oil spill from operations - Water withdrawal	- Growth in hydrocarbon reserves - Opex reduction - Higher energy efficiency - Operating risks mitigation - Reputation - License to operate - Stable relationship with stakeholders	- Reduction of GHG emissions - Reduction of gas flared - Reduction of oil spill - Mitigation of blow-out risk - Biodiversity preservation - Green products - Containment of water consumption - Energy efficiency

INNOVATION AND RESEARCH	- Technologies and intellectual properties - Corporate internal procedures - Corporate governance system - Control and management system - Knowledge management - ICT (Green Data Center)	- Investments in R&D by type (of which: new energy) - Number of R&D partnership - Tangible value generated by R&D activity - Number of patents in renewable energies	- Competitive advantage - Risk mitigation - Transparency - Productivity - License to operate - Stakeholders' Acceptability - Increase of energy and operational efficiency	- Reduction of environmental and social impacts - Transfer of best available technologies and know-how to host Countries - Contribution to fight against corruption in host Countries - Green products
PEOPLE AND SAFETY	- Health and safety of people - Know-how and skills - Experience - Engagement - Diversity (gender, seniority, geographical) - Eni's thinking - Asset integrity	- Number of total employees by gender and type - Local employees by category - TRIR (Employees and Contractors) - Investments and spending in asset integrity - Frequency of incidents by sectors (including blow-out)	- Productivity - Efficiency - Competitiveness - Innovation - Risk mitigation - Reputation - Talent attraction - Job enhancement - Career advance	- Create employment and preserve jobs - Wellness of Eni's people and local communities - Increase and transfer of know-how
SOCIAL, HUMAN RIGHTS AND TRANSPARENCY	- Relationship with stakeholders (institutions, governments, communities, associations, customers, suppliers, industrial partners, NGOs, universities, labor unions) - Eni brand	- % procurement on the local market by Country - Community investments - N. of people trained/training hours on human rights - Total payments to Governments	- Operational & Social license - Reduction in time to market - Reduction in Country risk - Market share - Alignment to international best practices - Reputation - Competitive advantage - Customers retention - Suppliers reliability	- Local socio-economic development - Customers and suppliers satisfaction - Share of expertise with territories and communities - Satisfaction and incentive of people - Promoting respect for workers' rights - Contribution to fight against corruption in host Countries

Source: Eni Integrated Annual Report 2016

Eni reports the risks that the company is facing and how they can affect the ongoing activities and the corporation ability to create value in the short, medium and long term. Furthermore, Eni is integrating in the risk assessment how the company is going to mitigate the potential negative effect. This kind of exercise is done by Eni in a concise way, that is one of the guiding principle of the IR Framework. Taking as an example the Commodity risk, the company clearly states: (1) how the company can be affected (the company profitability is at risk); (2) which is the main event that can generate this risk (prolonged weak macroeconomic growth and crude oil oversupply); and how the company intends to mitigate it (Revision of capital expenditure plan; disposal plan; reduction of new projects break-even price; widespread efficiency initiatives). Figure 4 reports a portion of the related part of Eni Integrated Annual Report 2016.

Figure 4

Commodity risk

Company profitability — Target

Main risk events
Prolonged weak macroeconomic growth and crude oil oversupply.

Treatment measures
Revision of capital expenditure plan; disposal plan; reduction of new projects break-even price; widespread efficiency initiatives.

Rif. Risk factors and uncertainties section pages 71-72

Operational risk, accidents

Company profitability and Corporate Reputation — Target

Main risk events
Blow-out risks and other relevant accidents affecting the extractive infrastructures, refineries and petrochemical plants, the transportation of hydrocarbons by sea and land (i.e. fires/explosions, etc.) with impact on results, cash flow, reputation and strategies.

Treatment measures
Geologic "Real time monitoring" of well drilling phases and pre-drill, real time evaluation of geohazards and geopressions risks, specific technological development and emergency management plans; specific HSE audit and plants monitoring; management and continuous monitoring of shipping operation and third operators, vetting activities.

Rif. Risk factors and uncertainties section pages 80-82

Country risk

Company profitability — Target

Main risk events
Political and social instability in the Countries of operations may lead to acts of internal conflicts, civil unrests, violence, sabotage and attacks, with consequent production interruptions and losses as well as interruptions in gas supplies via pipe and people and assets damages.

Treatment measures
Implementation of the security management system with the analysis of the preventive measures specific for site, keeping efficient and long-lasting relationships with producing Countries and local stakeholders even throughout local social development and sustainability projects; diversification of portfolio assets since the exploration phase.

Rif. Risk factors and uncertainties section pages 78-79

Source: Eni Integrated Annual Report 2016

SAP is a German multinational software corporation that produces enterprise resource planning (ERP) applications to manage operations and customer relations. Since 2012, SAP has reported on its full-year financial, social, and environmental performance in one integrated report ("SAP Integrated Report") available at http://www.sapintegratedreport.com.
Attention in SAP's report is 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. SAP's four global corporate goals (objectives) reflect this balanced view: two focus on the company financial performance (growth and profitability) and two on nonfinancial performance (customer loyalty and employee engagement). SAP's Integrated annual report states:

"We believe the most important indicators for measuring our success comprise both financial and non-financial areas:

- *Growth*
- *Profitability*
- *Customer loyalty*
- *Employee engagement"*[169]

Since an integrated report shall be able to present also precise measure and index of the indicators the company is using to assess its impact we are reporting in the following charts of the specific key performance indicators (KPIs) used by SAP to measure performance (Figure 5).

Figure 5

[169] SAP Integrated Report, 2017 pp. 64

Outlook and Results for 2017

Strategic Objective	KPI	2017 Outlook* (non-IFRS, at constant currencies)	2017 Results (non-IFRS, at constant currencies)
Growth	Cloud subscriptions and support revenue	€3.8 billion to €4.0 billion	€3.83 billion
	Cloud and software revenue	+7.0% to +8.5%	+8%
	Total revenue	€23.4 billion to €23.8 billion	€23.77 billion
Profitability	Operating profit	€6.85 billion to €7.0 billion	€6.92 billion
Customer Loyalty	Customer Net Promoter Score	21% to 23%	17.8%
Employee Engagement	Employee Engagement Index	84% to 86%	85%

* The outlook was communicated in January 2017 and raised in July and October 2017. The 2017 outlook numbers above reflect the raised outlook from October 2017.

Source: SAP Integrated Report 2017

British American Tobacco (BAT) is the British multinational Tobacco company headquartered in London. The governance section of BAT's annual report is a good example of the company effort to portray of its governance structure support its ability to create value in the short, medium and long term.

The governance section of the British American Tobacco's annual report lists the activities undertaken by the Board during the year under each of the company's strategic priorities. This outlines the ways in which the Board has influenced and monitored the strategic direction of the company, thus demonstrating how the company's governance structure supports its ability to create value. This is consistent with the "Governance" content element of the IR Framework, since this particular section of BAT's annual report describe how the organization's governance structure supports its ability to create value in the short, medium and long term.

Growth represents for BAT a central priority for the Board's activities that in 2017 has been characterized by:

- NGP[170] strategy and updates on the Group's NGP performance, including the acquisition of ViP e-cigarette company in the UK; the launch of glo in Japan; and the Group's approach to, and future plans in respect of, the NGP portfolio.
- The Group's acquisition of RAI

The efficiency of the Group's operation is central topic on the Board's agenda, and BAT's annual report quite precisely discloses the actions undertaken by the Board in 2017:

- Organizational design changes following the successful completion of the acquisition of RAI, including proposals to simplify the Group's regional structure to fully integrate the NGP business into the core operations of the Group.
- Business transformation programmes to implement operational efficiencies.
- Proposed changes to the Group's delegated authorities framework to reflect organizational changes.

[170] NGP- Next Generation Products: such as vapor and tobacco heating products and oral tobacco and nicotine products

Sustainability is important for the success in the long-term and also to have a positive impact on the society. Again, the annual report is presenting the Board's activity on this topic:

- The group's Global Product Stewardship Policy Framework in light of the new product stewardship challenges for the Group arising from its NGP activities.
- The status of the Group's litigation proceedings, including updates on the class actions in Quebec, Canada, against the Group's subsidiary Imperial Tobacco Canada and two other Canadian manufacturers; the Sequana dividend trial; the trial in Georgia brought by Tiblisi Tobacco; and key RAI litigation matters.

Regarding what the company addresses as Winning Organization the Board has a high commitment in achieving the company's objectives. The activities that the Board has undertaken in 2018 were:

- Succession planning at Board level, including Executive Director and Management Board succession planning and monitoring the progress of Management Board developments plans.
- The performance of Executive Directors and Management Board members.
- Non-Executive Director appointments in light of requirements following the acquisition of RAI, including approving the appointment of three new non-Executive Directors from the RAI board of directors as proposed by the Nominations Committee.