

SEMINARIO INTERNAZIONALE «KPIs, INFORMAZIONE NON-FINANZIARIA E CREAZIONE DI VALORE AZIENDALE: CONFUSIONE O CONVERGENZA?»

Sala Consiglio, Camera di Commercio, Milano
17 novembre 2014, ore 10.00-13.15

Laura Girella

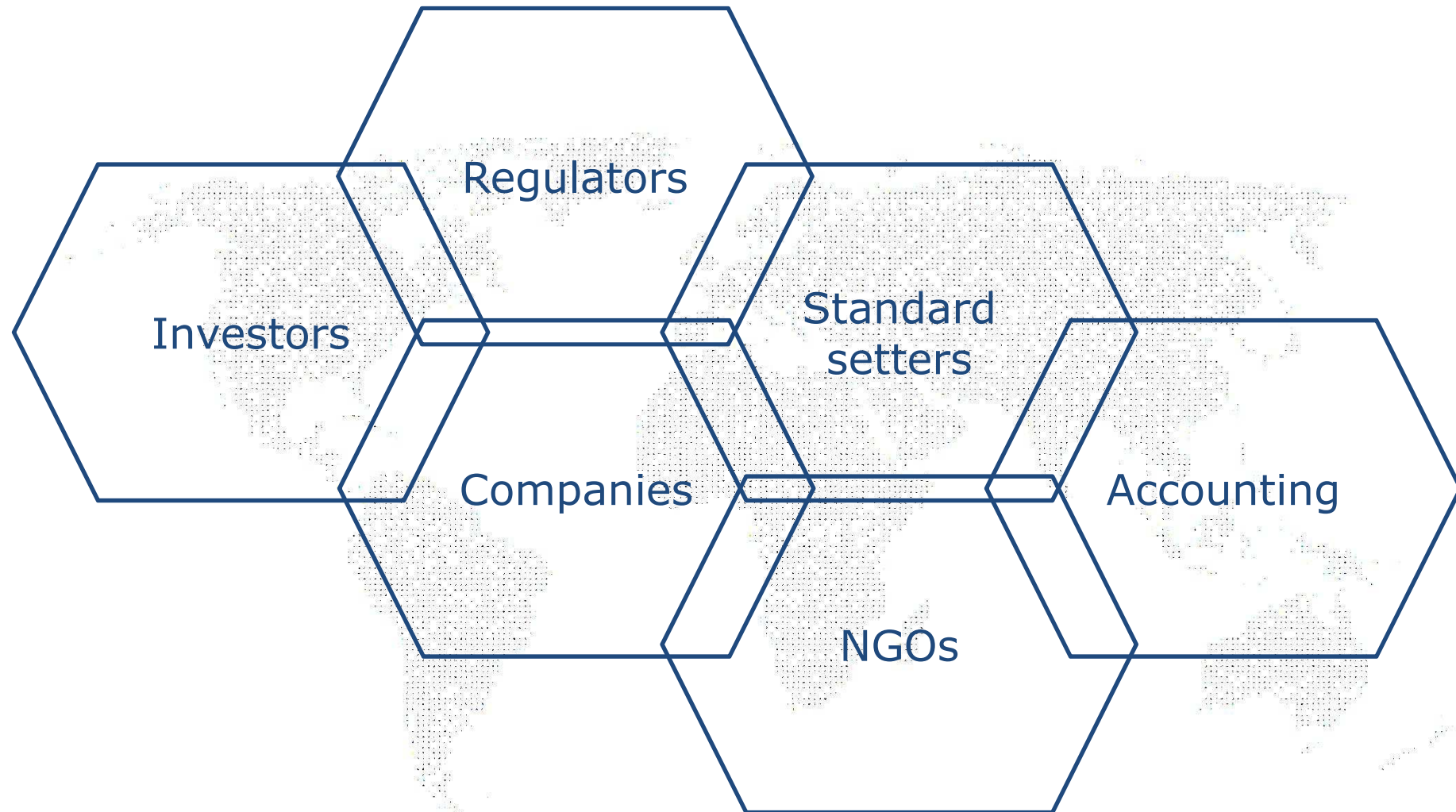
International Integrated
Reporting Council
Region Lead, Italy



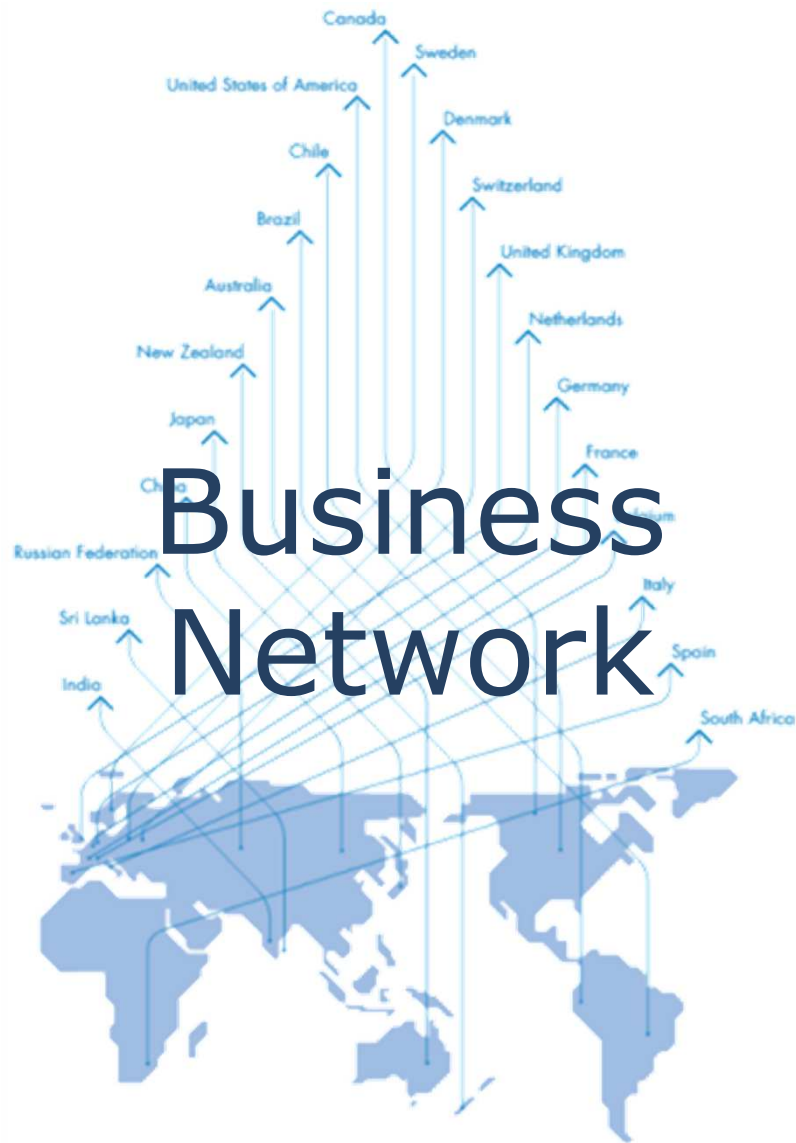
INTEGRATED REPORTING <IR>

Who is the IIRC?

INTEGRATED REPORTING <IR>



Chair: Prof Mervyn King
CEO: Paul Druckman



IIRC Mission

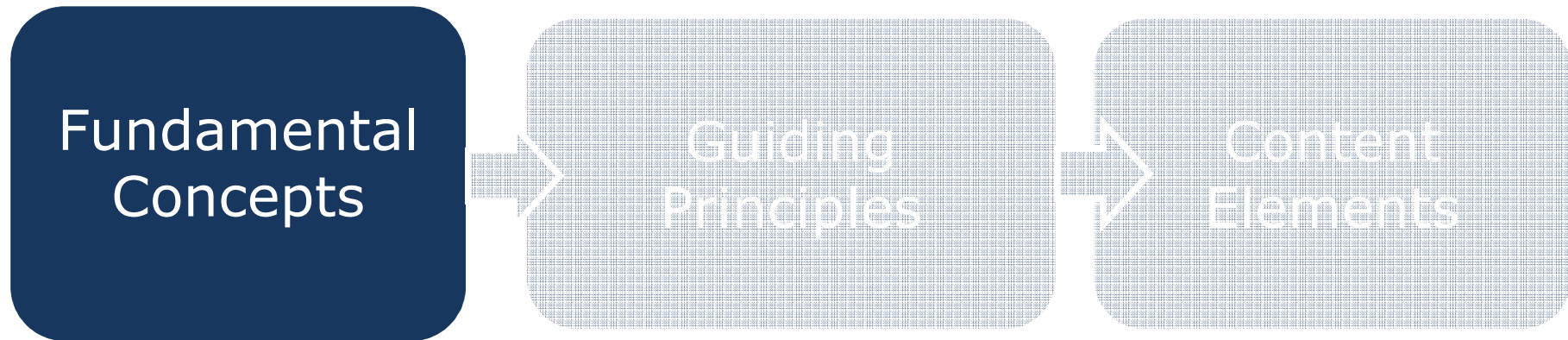
- ... globally accepted framework***
- ... strategy, governance, performance and prospects***
- ... clear, concise and comparable***
- ... evolution of corporate reporting***
- ... financial, governance, management commentary and sustainability reporting***
- ... adoption by report preparers***
- ... recognition of standard setters and investors.***

IIRC Vision

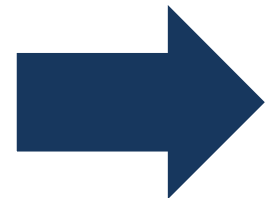
- ... corporate reporting norm***
- ... organizations, their investors and other stakeholders***
- ... informed decision-making***
- ... efficient capital allocation***
- ... creation and preservation of value***
- ... more sustainable global economy.***



- Consultation Draft (CD) of the International <IR> Framework published on 16th April 2013
- Consultation Period: 3 months (16th April-15th July 2013)
- 361 submissions received on the Consultation Draft of the International <IR> Framework from all over the world
- International <IR> Framework released in December 2013
- International <IR> Framework available in 9 languages



- Value Creation for the organization and for others
- The Capitals
- The Value Creation Process





Underpins preparation

Informs content

Presentation of information

Judgement is needed

- *Strategic focus and future orientation*
- *Connectivity of information*
- *Stakeholder relationships*
- *Materiality*
- *Conciseness*
- *Reliability and completeness*
- *Consistency and comparability*



Questions to be answered

Unique story

Connections apparent

Not a set sequence

Not isolated, standalone sections

- *Organizational overview and external environment*
- *Governance*
- *Business model*
- *Risk and opportunities*
- *Strategy and resource allocation*
- *Performance*
- *Outlook*
- *Basis for preparation and presentation*
- *General reporting guidance*

- A principles-based approach

"This Framework does not prescribe specific key performance indicators (KPIs), measurement methods or the disclosure of individual matters. Those responsible for the preparation and presentation of the integrated report therefore need to exercise judgement, given the specific circumstances of the organization, to determine:

- Which matters are material
- How they are disclosed, including the application of generally accepted measurement and disclosure methods as appropriate. When information in an integrated report is similar to, or based on other information published by the organization, it is prepared on the same basis as, or is easily reconcilable with, that other information."

(The International <IR> Framework, para. 1.D)

- ✓ The Framework does not provide guidance on measuring inputs or outputs
- ✓ It is primarily concerned with external reporting, and not related internal processes, BUT it notes that quantitative performance information can enhance the effectiveness and usefulness of business model descriptions
- ✓ Quantitative indicators of performance, such as Key Performance Indicators (KPIs), are particularly useful in expressing targets and managing performance against targets.

“4F Performance

4.30 *An integrated report should answer the question: To what extent has the organization achieved its strategic objectives for the period and what are its outcomes in terms of effects on the capitals?*

4.32 KPIs that combine financial measures with other components (e.g., the ratio of greenhouse gas emissions to sales) or narrative that explains the financial implications of significant effects on other capitals and other causal relationships (e.g., expected revenue growth resulting from efforts to enhance human capital) may be used to demonstrate the connectivity of financial performance with performance regarding other capitals. In some cases, this may also include monetizing certain effects on the capitals (e.g., carbon emissions and water use).”
(The International <IR> Framework)

- ✓ KPIs need to be 'connected' amongst each others
- ✓ Similar to Balanced Scorecard (4 categories of KPIs: customer, internal processes, financial and renewal and development)
- ✓ HOWEVER, within Balanced Scorecard the four categories of KPIs are connected in a general and indirect way through the Strategy Map
- ✓ In <IR> KPIs must be interrelated to provide a holistic picture of the value creation process

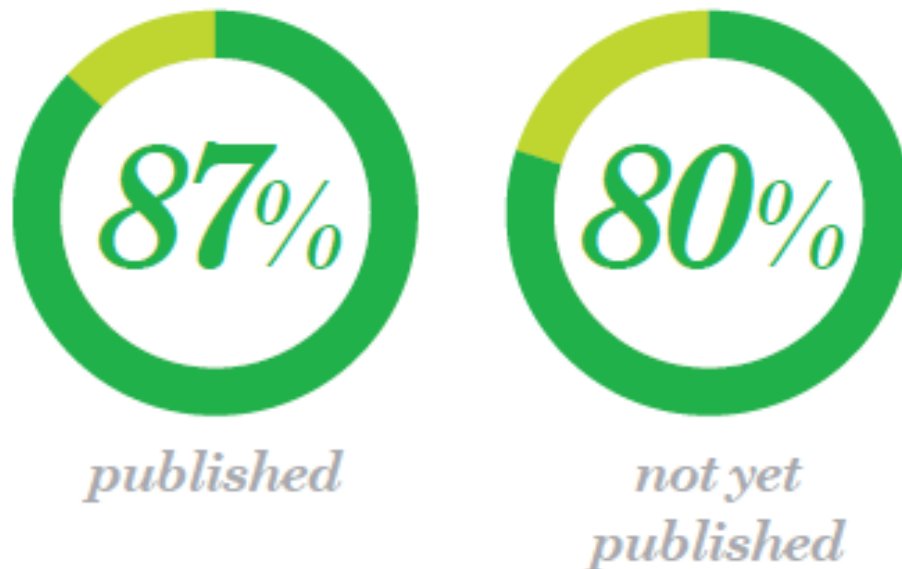
Realizing the benefits:

*The impact
of Integrated Reporting*



- Research conducted by Black Sun and IIRC
- April – August 2014
- Detailed baseline survey to all IIRC Pilot Programme participants + phone interviews
- Participants included:
 - 43 listed companies
 - 10 private companies
 - 10 public sector entities (including state-owned corporations and enterprises run for public benefit)
 - 3 other organizations (including professional membership organizations)

Benefits regarding data quality



- 87% of organizations that have published an Integrated Report have seen benefits regarding data quality, compared with 80% of those in early stages of the <IR> process
- 100% of public sector entities have seen data improvements, compared with 85% of listed companies seeing current benefits in this area (*Realizing Benefits*, p.10)

- In the transition to <IR>, a number of organizations found that much of what they had previously measured was not directly related to value creation
- Organizations also found that reporting on an integrated view of value creation involves measuring and disclosing new information
- One construction and engineering firm realized that, for some types of capital, they did not have any performance indicators. For others, including human capital, they realized that the performance indicators they had been using did not tie to value creation
(*Realizing Benefits*, p. 11)
- Collaboration with other organisations in order to provide guidance also on KPIs → e.g. MoU with World Intellectual Capital Initiative (WICI) just signed in Florence on 14th November 2014

Some Examples from Best Practices

IIRC pilot companies
2013 reporting year

KPIs are identified as part of the company strategy and each KPI is set out in detail with context as to why it is important to the group as a measure. Historical performance data and information on future opportunities is reported



KPIs are described for both financial and non-financial measures with reasons for choice, link to remuneration, comparative information, targets and an indication of both positive and negative results against target.

Confidence targets

Increase our net active membership base by at least 16,000.

Progress

Status



X DID NOT MEET

Our active membership base grew by just over 5,000. This measure has many complexities which make it difficult to track our performance. See p. 27 for details.

Return on average members' equity (ROME) is 6.0 per cent.



✓ EXCEEDED

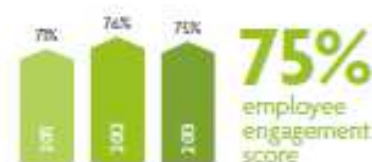
We achieved 6.7 per cent for 2013. If we calculated ROME before our distribution to community and members, ROME was 8.2 per cent. See p. 30 for details.

Integrity targets

The employee engagement score is at least 77 per cent².

Progress

Status



X DID NOT MEET

While we did not reach our target, our engagement score remained high—75 per cent compared with 76 per cent in 2012. See p. 33 for details.

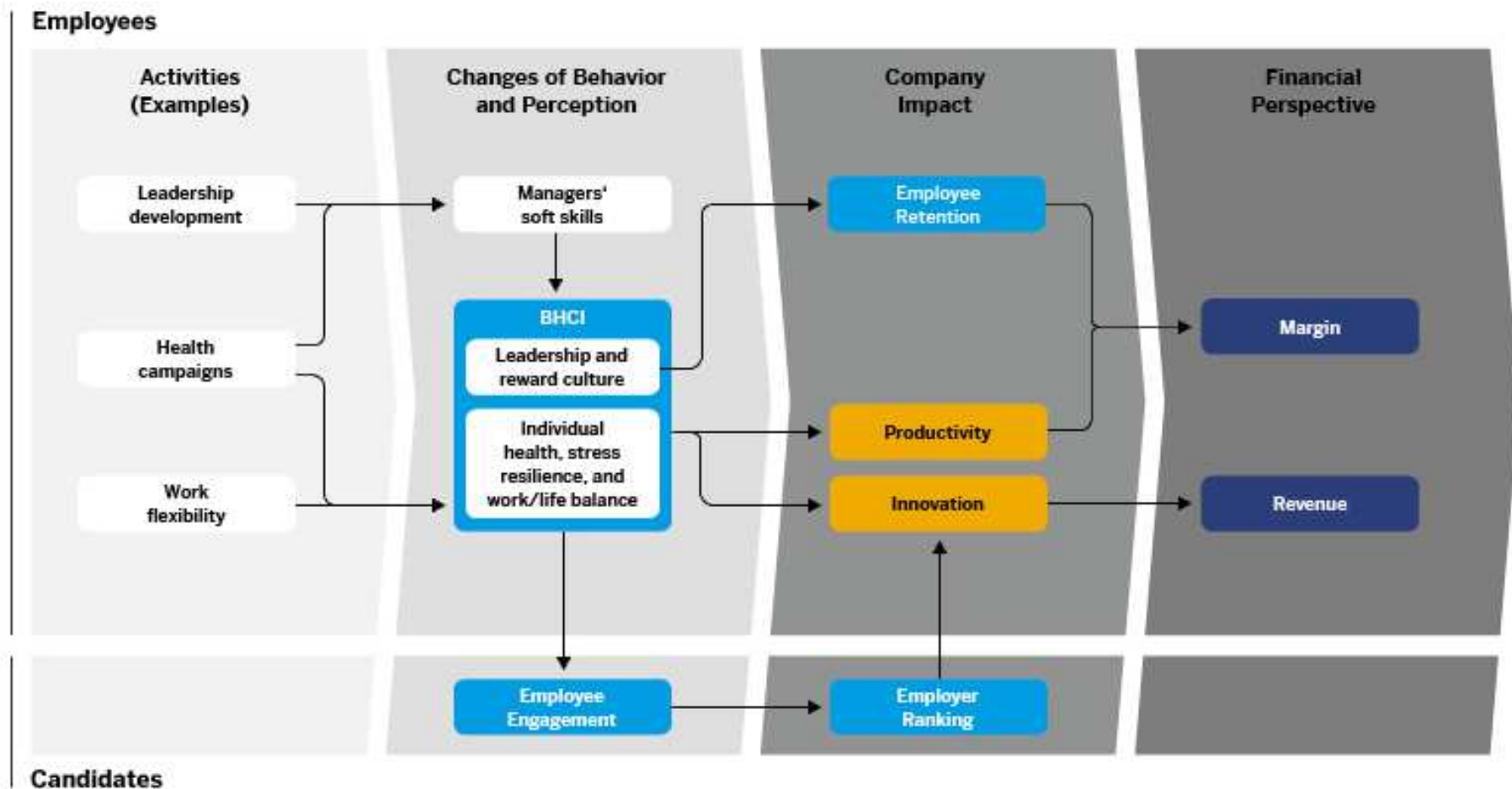
People with a disability represent at least 2.4 per cent of our workforce (based on self-disclosure in an employee survey).



✓ EXCEEDED

3.1 per cent of employees surveyed identified themselves as having a disability. See p. 35 for details.

The financial impact of each non-financial strategy is determined by firstly mapping its interactions enabling management to understand the dynamics of value creation in the business. Further information is provided on why company believes there is a connection between each performance measure



- IIRC does not provide a specific guidance on KPIs
- Need for emphasizing the value creation process of each company
- HOWEVER, we note that there are difficulties by companies to understand how to report information (especially in countries not used to principles-based logic)
- In order to facilitate also the emergence of shared KPIs, initiatives have been undertaken by IIRC in order to enhance the dialogue amongst companies and sectors (e.g. Corporate Reporting Dialogue, Insurance and Banking Networks, specific MoUs)

International
Integrated Reporting
Council



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