



A4S

CFO LEADERSHIP NETWORK

ESSENTIAL GUIDE TO MANAGEMENT INFORMATION

ILLUSTRATIVE EXAMPLE:
APPLYING THE FRAMEWORK



THE PRINCE OF WALES'S
CHARITABLE FUND



GROWTH plc



ILLUSTRATIVE EXAMPLE: APPLYING THE FRAMEWORK

STEP BY STEP

The processes and principles presented on pages 14 to 27 of the **A4S Essential Guide to Management Information** are designed to be integrated into existing management information (MI) processes. However, some principles are easier to demonstrate with the use of practical examples. We have developed two illustrative examples of organizations, with different strategic-level objectives, applying the integrated management information (IMI) framework.



Shareholder value driven, Europe-based, global insurance company



Societal value (purpose) driven, USA-based materials company

THE FIRST STEP

In order to develop their MI frameworks, both Growth plc and Purposecorp engaged the following stakeholders and had access to the following documents.

KEY STAKEHOLDERS

Leadership: the CEO and CFO presented the strategy, goals and strategic initiatives, which were then approved by the board.

Project team: a multidisciplinary team from across the business, including finance and sustainability specialists.

Investment Committee: the board-level Investment Committee signed off significant investments and expect to receive progress reports.

Specialists: internal and external specialists were used to validate complex initiatives with a large scope.

External stakeholders: the project team engaged with external stakeholders to gain additional perspectives.

DOCUMENTATION

Both organizations have undertaken horizon scanning. They have access to:

The strategy document: produced as a result of the strategic planning process.

Desktop research: which identifies some key long-term market trends from a variety of sources including universities, NGOs and consultancies.

Surveys: which incorporate the views of the supply chain, customer base, partner organizations and internal stakeholders.

Notes from interviews: conducted with experts and cross-functional representatives.

Illustrative example - Growth plc

Both Growth plc and Purposecorp are fictitious examples and do not reflect any real company. Any similarities are coincidental.

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GROWTH PLC: WHO WE ARE

Growth plc is a global insurance company, headquartered in Europe, which offers competitively priced products directly to the consumer. Our core products are home insurance and car insurance, which are sold to consumers through online comparison sites and directly. We are a publicly listed company.

CORPORATE STRATEGY

Our corporate strategy focuses on opportunities for maximizing shareholder value. The key strategic objectives set during the strategic planning phase are:

- i. Efficiency in core business with focus on cost reduction
- ii. Continued growth of domestic core business
- iii. New products for core business



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FORMER APPROACH

A simple analysis of our business model would show that we are cost leaders. Our products are among the cheapest available – through innovation and technology, we are able to keep costs low. Under a traditional MI framework, only financial and operational KPIs would be monitored. This limited our capacity for effective decision making.

INTEGRATED APPROACH

We want to use the six capitals as the basis for our analysis. Using the **six capitals approach** helps us to identify material value drivers. As well as this, the six capitals help our management accountants to communicate to the business in a more effective way, particularly within finance and to the board. Using a long-term, **multicapital** view, we analyse our business model and value creation process. Each capital is considered from a value creation and a value destruction perspective to list the material factors that need to be measured in order to maximize value across all six capitals. For illustrative purposes, here is an example of the high-level analysis for one of our strategic objectives:

Strategic objective	i. Efficiency in core business with a focus on cost reduction	
	Examples of value creation	Examples of value destruction
Human capital	<ul style="list-style-type: none"> Necessary skills for efficiency 	<ul style="list-style-type: none"> Lack of employee engagement Employee fear of automation Poor mental health affecting productivity
Natural capital	<ul style="list-style-type: none"> Low-impact pricing incentives, eg reduced premiums for low-emission vehicles 	<ul style="list-style-type: none"> Increased claims due to higher risk of extreme weather events (the dependency on natural capital will impact financial value)
Social capital	<ul style="list-style-type: none"> Affordability of products Smooth customer experience Customer retention and advocacy Customer peace of mind from product effectiveness 	<ul style="list-style-type: none"> Data privacy breach Cover expectation gap (given low cost premiums) Misselling or unfair treatment of customers Erosion of trust
Manufactured capital	<ul style="list-style-type: none"> User-friendly online platform 	<ul style="list-style-type: none"> Poor website performance
Intellectual capital	<ul style="list-style-type: none"> Effective risk modelling approach (including climate risk model) Research to support long-term investment approach 	<ul style="list-style-type: none"> Risk modelling approach not accounting for rise in extreme weather events
Financial capital	<ul style="list-style-type: none"> Increase in revenue and investment gains Reduction in costs 	<ul style="list-style-type: none"> Insufficient reinsurance Payment of false or overstated claims Inefficient operations



Click here to find out more about:

- Natural Capital Protocol**
- Social and Human Capital Protocol**

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INTERDEPENDENCIES

We recognize that there are interdependencies between the factors we have identified. For example, to avoid the value destroying effect of poor mental health in the workplace, an investment of financial capital may be needed. This is likely to be short-term value destruction (a financial cost) that will yield long-term value creation of financial and human capital. A simple assessment of dependencies has been presented to illustrate this in the adjacent table.

TRADE OFFS

It can be challenging to assess the trade offs of creation and destruction across the different capitals. We use a monetization methodology where possible to provide a unit for comparison to allow decision makers to compare between the different capitals.

Interdependencies have been noted in brackets using the initial letter of each of the capitals.

Strategic objective	i. Efficiency in core business with a focus on cost reduction	
	Value creation	Value destruction
Human capital (H)	<ul style="list-style-type: none"> Necessary skills for efficiency (S, I, F) 	<ul style="list-style-type: none"> Lack of employee engagement (S, F) Employee fear of automation (M, I, F) Poor mental health affecting productivity (S, F)
Natural capital (N)	<ul style="list-style-type: none"> Low-impact pricing incentives, eg reduced premiums for low-emission vehicles (H, S, I, F) 	<ul style="list-style-type: none"> Increased claims due to higher risk of extreme weather events (F)
Social capital (S)	<ul style="list-style-type: none"> Affordability of products (F) Smooth customer experience (H, F) Customer retention and advocacy (H, F) Customer peace of mind from product effectiveness (H, I, F) 	<ul style="list-style-type: none"> Data privacy breach (H, F) Cover expectation gap (F, I) Misselling or unfair treatment of customers (H, I, F) Erosion of trust (H, F)
Manufactured capital (M)	<ul style="list-style-type: none"> User-friendly online platform (S, I, F) 	<ul style="list-style-type: none"> Poor website performance (N, S, F)
Intellectual capital (I)	<ul style="list-style-type: none"> Effective risk modelling approach (H, N, S, M, F) Research to support long-term investment approach (H, S, F) 	<ul style="list-style-type: none"> Risk modelling approach not accounting for rise in extreme weather events (H, N, M, F)
Financial capital (F)	<ul style="list-style-type: none"> Increase in revenue and investment gains (H, N, S, M, I) Reduction in costs (H, N, S, M, I) 	<ul style="list-style-type: none"> Insufficient reinsurance (H, N, I) Payment of false or overstated claims (H, I) Inefficient operations (H, S, I, M)



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DEFINE INFORMATION REQUIREMENTS OF USERS

Our project team:

1. Identifies the users that will require information or reports.
2. Prepares multicapital sample data sets, reports and user interfaces to demonstrate potential options.
3. Conducts interviews with key representatives at each level of seniority, alongside a targeted online survey, to understand user requirements.
4. Aligns the factors from the value creation analysis to the user/ stakeholder group.

By considering the needs of our internal users of information, we are able to rationalize and control the demand for information. This helps us to identify the most efficient method of production and produce useful information for decision making. The key requirements that came out of our engagement with specific groups are listed in the table.

User	Requirements
Board and executive management	<p>Reports should:</p> <ul style="list-style-type: none"> • Contain all the information necessary to facilitate decision making at board and executive level • Contain targets and measures linked to the strategic objectives, with a focus on outcomes • Include customized analysis • Provide a balanced view of performance against targets and the outlook for the business
Business unit/division/ regional scorecard	<p>Reports should:</p> <ul style="list-style-type: none"> • Show a balanced view of performance • Include multicapital metrics and information relating to outcomes • Combine standard reporting requirements and customized analysis • Contain much of the information sent to the board and executive management, with more detailed underlying information
Local/team scorecards	<p>Reports should have specific scorecards and standard metrics to measure their performance. We minimize the need for customized analysis to make MI production more efficient.</p>
Individual objectives	<p>Employees will require access to performance metrics that assess their individual performance. They may also be interested in understanding the wider performance of the company, which will be available via self service.</p>



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STANDARDS

We want to gain efficiency in the reporting framework by utilizing the work already done on external reporting. Some of the metrics we report externally are also useful for our management decision making. We also selected metrics and standards that are valuable for comparison against industry and peer companies. Metrics that are not relevant for the decision maker are not included in our MI, even if they are mandated by external reporting standards.

In practice, this means that we can use some of the data collection processes and controls that are already in place. We have kept the MI flexible to allow for amendments as information requirements evolve.

We have mapped our existing reporting commitments to our capitals analysis, set out in the following table.

Current external reporting	What is it?	Relevant capitals
International Financial Reporting Standards (IFRS)	International accounting standard	Financial, Manufactured
Task Force on Climate-related Financial Disclosures (TCFD)	Climate-related financial disclosure for investors	Financial, Natural
Sustainability Accounting Standards Board (SASB)	Independent sustainability reporting standards body	Human, Natural, Social, Manufactured, Intellectual and Financial
Sustainability report	Reporting the company's environmental and social performance and impacts under the Global Reporting Initiative (GRI) Standards and European Union Non-financial Reporting Directive	Human, Natural and Social
Solvency II	Reporting for EU insurance companies on minimal levels of financial capital that must be held to reduce the risk of insolvency	Financial, Intellectual



 For more details on **sustainability standards**, [click here](#)

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AGREE KPIS/PERFORMANCE MEASURES

We found that some of the value drivers could be measured directly and relatively simply. For others, we had to identify proxy indicators to help us to measure the performance of the underlying value driver. Some of our selected indicators, along with the associated monetization methodology, where applicable, are presented below:

	Value driver	Example KPIs	Relevance	Growth plc's monetization methodology	Resources used
Human capital (H)	Necessary skills for efficiency (S, I, F)	Human capital stock and flow	The value of our human capital is dependent on the expected future earnings of our employees, which in turn is dependent on their skills.	Human capital = sum of expected future earnings x adjustments for time at Growth plc x discount factor	A4S Essential Guide to Social and Human Capital Accounting
		Employee training outputs and outcomes	The outputs are the numbers who attend relevant training. The outcomes are measured through subsequent related activities, eg average call centre call times (for indications of increased efficiency) and sample recordings (to ensure impact on quality is not detrimental).	Not monetized	
	Lack of employee engagement (S, F)	Employee engagement	The monetization of employee engagement comes from an employee engagement survey. This gives us a "proportion of staff engaged". We can use this proportion to assign the proportion of lost hours (absenteeism and presenteeism) that were due to lack of engagement.	Employee engagement = avoided expense (employee cost) of days lost to absenteeism and presenteeism due to engagement x proportion of staff classified as 'engaged' (adjusted for regional benchmarks)	
Natural capital (N)	Increased claims due to higher risk of extreme weather events (M, F)	Scenario analysis of weather patterns, tracking of extreme weather-related claims	The current cost to our business of all claims which relate to extreme weather. This is then extrapolated, using climate scenarios, to predict the financial impact for the next 20 years.	Financial impacts of extreme weather, current and predicted	TCFD Technical Supplement on Scenario Analysis



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AGREE KPIS/PERFORMANCE MEASURES (CONTINUED)

	Value driver	Example KPIs	Relevance	Growth plc's monetization methodology	Resources used
Social capital (S)	Smooth customer experience (F)	Customer satisfaction, number of rejected claims, complaints registered	Customer satisfaction is a strong indicator of the performance of our staff, and an indicator of the level of repeat customers and ultimately revenue.	Not monetized	A4S Essential Guide to Social and Human Capital Accounting Social and Human Capital Protocol SASB
	Erosion of trust (H, F)	Brand perception surveys	Brand perception surveys have been carried out by the marketing team. The surveys reach out to customers to understand the strength of our brand.	Brand perception studies (not monetized)	
Manufactured capital (M)	User-friendly online platform (S, I, F)	Website traffic, sales from online vs phone	The online platform is crucial to our success and core to our strategy. The ease of use and completion of sales through the platform are both strong indicators of financial performance.	Not monetized	
Intellectual capital (I)	Effective risk modelling approach (H, N, S, M, F)	Risk modelling vs actual analysis	An effective risk modelling approach will mitigate risk of mispricing our premiums and having an increased financial outflow due to additional claims.	Predicted loss versus actual loss	World Intellectual Capital Initiative
Financial capital (F)	Increase in revenue and investment gains (H, N, S, M, I)	Revenue	The income generated from our operating and investment activities indicates the continued growth of our business and success of our new products, which are linked to our key strategic objectives.	Revenue	IFRS
	Reduction in costs (H, N, S, M, I)	Cost of sales	The reduction in costs demonstrates the progress of our strategic objective to enhance efficiency in core business with focus on cost reduction.	Cost of sales	



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PROVIDING THE RIGHT INFORMATION TO THE RIGHT PEOPLE

At this stage, we have looked at the metrics and KPIs that we use in our MI framework. The next step is to work with decision makers to ensure they are getting the information that they need. We will ask for feedback and continuously improve our processes to ensure that the MI we deliver is driving decisions and actions.

ONGOING MONITORING

As part of our ongoing monitoring we are asking the following questions about the MI framework:

- Are the systems and processes fit for purpose or do we need to upgrade?
- Are decision makers happy with the information they are receiving?
- Do the decision makers have the skills to be able to use the information to best effect?
- Are any of our monetization methodologies being challenged and can we improve them?

We can then use the answers to these questions to plan our next steps in improving the MI framework.

Click here to see how **Purposecorp** implemented its MI framework in using a purpose-driven strategy.

Click here to return to the **A4S Essential Guide to Management Information**





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