



A4S

CFO LEADERSHIP NETWORK

ESSENTIAL GUIDE TO MANAGEMENT INFORMATION

ILLUSTRATIVE EXAMPLE:
APPLYING THE FRAMEWORK



THE PRINCE OF WALES'S
CHARITABLE FUND



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 - Purposecorp

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

ILLUSTRATIVE EXAMPLE: APPLYING THE FRAMEWORK



PURPOSECORP: WHO WE ARE

Purposecorp Inc., trading as Purposecorp, is a US-listed, basic materials company. Our purpose is to promote an economy that serves all of our stakeholders, in line with the Business Roundtable's definition of the purpose of a corporation. Our strategy is driven by social, environmental and economic value. By setting our strategy against these three areas, we aim to achieve sustainable financial growth and provide value to our stakeholders. Our strategic objectives are:

Social	Environmental	Economic
S1 All of our people feel valued	EN1 We adopt a circular economy business model to use resources in a sustainable way	EC1 We are the market leader in the materials sector
S2 We make a positive impact on our communities	EN2 We work towards net zero emissions by 2030	EC2 We deliver long-term shareholder value

We want all business decisions to contribute to the realization of this strategy. Our MI framework is crucial to delivering relevant information to decision makers. The information is linked to these strategic objectives to ensure that all of our people are contributing to the same goals.



ILLUSTRATIVE EXAMPLE: APPLYING THE FRAMEWORK



OUR APPROACH (SOCIAL STRATEGIC OBJECTIVES)

We analysed how we create value during the strategy setting process. Our focus is on total value. This means we are working to create stakeholder value as well as company/shareholder value. The team responsible for the MI looked at how each strategic objective can create value for Purposecorp and society, but also how it can be destroyed by doing the wrong thing. This helps us understand which information is needed to make decisions that maximize value to society and the company. Some examples are provided below.

Social	How we create value		How we could destroy value	
	to society	to Purposecorp	to society	to Purposecorp
S1 All of our people feel valued	Providing decent work, fair compensation and a structured development framework ↓ Increases wellbeing and prospects for personal development	Providing decent work, fair compensation and a structured development framework ↓ Increases engagement of employees who are then more creative and productive ↓ Enhances competitive advantage	Providing low pay, poor working conditions and a stressful work environment ↓ Decreases wellbeing of employees	Undervaluing employees ↓ Increases employee turnover and erodes talent and succession pipeline ↓ Increases costs and decreases efficiency
S2 We make a positive impact on our communities	Employing and training up people from local and diverse communities ↓ Enhances the economy and contributes to a more equitable and sustainable society	Having a positive impact on communities ↓ Builds trust and customer loyalty	Causing pollution (eg air pollution, noise, loss of visual amenity) ↓ Decreases the health and wellbeing of communities	Having a negative impact on our communities ↓ Erodes trust and may lead to loss of business



ILLUSTRATIVE EXAMPLE: APPLYING THE FRAMEWORK



OUR APPROACH (ENVIRONMENTAL STRATEGIC OBJECTIVES)

Environmental	How we create value		How we could destroy value	
	to society	to Purposecorp	to society	to Purposecorp
EN1 We adopt a circular economy business model to use resources in a sustainable way	Adopting a circular resources model ↓ Preserves natural resources and reduces waste	Adopting a circular resources model ↓ Saves costs through better resource management and reduced waste costs	Using resources in a linear model ↓ Drains resources and increases waste	Using resources in a linear model ↓ Reduces access to resources in the future and negatively affects reputation
EN2 We work towards net zero emissions by 2030	Setting a net zero emissions target ↓ Contributes to a more stable climate which means a more stable financial system and economy	Being resilient to a changing climate ↓ Stabilizes business continuity through a changing climate	Emitting greenhouse gases ↓ Increases negative impacts on the environment, health and the economy	Lacking resilience to a changing climate ↓ Exposes us to chronic and acute impacts of climate change ↓ Increases negative impacts on operations and potential loss of business



ILLUSTRATIVE EXAMPLE: APPLYING THE FRAMEWORK



OUR APPROACH (ECONOMIC STRATEGIC OBJECTIVES)

Economic	How we create value		How we could destroy value	
	to society	to Purposecorp	to society	to Purposecorp
EC1 We are the market leader in the materials sector	Developing materials which contribute to a circular economy ↓ Provides new materials to support the transition and contributes to economic growth	Providing affordable products ↓ Gives access to a wider and more diverse customer base and grows market share	Permitting poor practices in the supply chain ↓ Impacts health and wellbeing of people and planet, and erodes customer trust	Growing too quickly ↓ Decreases ability to sustain growth and overstretches financial resources
EC2 We deliver long-term shareholder value	Embedding sustainability into core strategy ↓ Contributes to a cleaner and more equitable economy	Embedding sustainability into core strategy ↓ Enhances reputation, ensures long-term financial sustainability and attracts investors focused on the long term	Focusing exclusively on short-term profits ↓ Impacts quality of life of communities and causes environmental damage, including climate change	Ignoring transition and physical risks of climate change ↓ Exposes us to physical disruption and unanticipated costs, erodes trust and damages reputation



ILLUSTRATIVE EXAMPLE: APPLYING THE FRAMEWORK



INTERDEPENDENCIES

We recognize that there are interdependencies between the factors we have identified. Consider the following example. Some of our products may have a significant positive impact on one objective, but have a negative impact on another. For example, we produce products that help address the climate emergency, such as composites used in renewable energy production, but these have water and energy inputs, as well as potential negative social consequences. In this case, there is a trade off which needs to be made.

Many of the issues that we want to address are highly complex and dependent on many factors. It is crucial that the users of MI understand these complexities and their interdependencies. To facilitate this, we opted to use an approach which uses monetary, qualitative and quantitative measures alongside one another. We did this to ensure we did not oversimplify complex issues. We organized training for the decision makers on how to use qualitative information to best effect. The training consisted of subject matter specific information, as well as an introduction to the reasoning behind specific methodologies.



ILLUSTRATIVE EXAMPLE: APPLYING THE FRAMEWORK



DEFINE INFORMATION REQUIREMENTS OF USERS

The Purposecorp finance team:

1. Identifies the users who will require information or reports.
2. Conducts key interviews with representatives at each level alongside a targeted online survey to understand their requirements.
3. Aligns the factors from the value creation analysis to the user/stakeholder group.

We are able to rationalize and control the demand for information and produce useful MI in an efficient manner. The key requirements that came out of our engagement with users 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>



ILLUSTRATIVE EXAMPLE: APPLYING THE FRAMEWORK



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. To do this, we mapped our existing reporting commitments to our business model analysis. We also selected metrics and standards that are valuable for comparison against industry and peer companies.

In practice, this means that we can use some of the data collection processes and controls that are already in place.

FINDING THE RELEVANT METRICS

We only want to include metrics that are relevant for the decision makers in our MI, whether these metrics are mandated by reporting standards or not. The adjacent table shows examples of our existing reporting requirements and where we can use the work already ongoing to help in the preparation of MI.

External reporting commitment	What is it?	Relevance
10-K	Annual Report submitted to the US Securities and Exchange Commission (SEC) using US GAAP and Sustainability Accounting Standards Board (SASB) metrics	For financial metrics (US GAAP) and sector specific environmental and social metrics (SASB)
Sustainability report	Reporting the company's environmental and social performance and impacts under the Global Reporting Initiative (GRI) Standards	For social and environmental metrics
Task Force on Climate-related Financial Disclosures (TCFD)	Climate-related financial disclosure for investors	For climate-related metrics and information



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



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AGREE KPIS

We mapped our value-creating and destroying activities to metrics which help to monitor progress against our strategy. One of our strategic objectives has been chosen to demonstrate this. Some of our metrics have multiple purposes. Some metrics respond to information needs to understand value to society, and others help us understand value to our organization. Some demonstrate where value is being created and others demonstrate where value is being destroyed. The table below presents some example metrics/information to show how they link to our strategy.

	How we create value		How we could destroy value	
Social	to society	to Purposecorp	to society	to Purposecorp
S1 All of our people feel valued	Providing decent work, fair compensation and a structured development framework ↓ Increases wellbeing and prospects for personal development	Providing decent work, fair compensation and a structured development framework ↓ Increases engagement of employees who are then more creative and productive ↓ Enhances competitive advantage	Providing low pay, poor working conditions and a stressful work environment ↓ Decreases wellbeing of employees	Undervaluing employees ↓ Increases employee turnover and erodes talent and succession pipeline ↓ Increases costs and decreases efficiency
Example relevant metric/information	<ul style="list-style-type: none"> Number and types of jobs created Proportion of employees receiving a living wage, based on location Proportion of tier 1 suppliers with living wage clauses in their contracts Proportion of full-time contract requests approved Proportion of employees accessing wellbeing assets, eg onsite gym facilities 	<ul style="list-style-type: none"> New employee hires and employee turnover Findings from employee engagement survey Productivity levels 	<ul style="list-style-type: none"> Employee sick leave days by role and level Health and safety records Findings from employee engagement survey CEO pay ratio Analysis of recruitment, promotions and pay grade by gender and ethnic diversity 	<ul style="list-style-type: none"> Health and safety, eg total recordable incident rate (TRIR) Employee retention rate by role and level Findings from exit interviews Findings from internal succession plan review Analysis of recruitment, promotions and pay grade by gender and ethnic diversity



Splitting each strategic objective into value creation and destruction as above helps us to create an information set of our performance against the objective. Presenting the information as value creation or destruction helps the decision maker to understand why this information is given to them and enables them to reconcile their day-to-day decisions with the strategic objectives of the organization.

ILLUSTRATIVE EXAMPLE: APPLYING THE FRAMEWORK



AGREE KPIS (CONTINUED)

In order to provide transparency to decision makers, we list any assumptions and calculation methodologies in our MI handbook. When defining each performance measure, we consider what the ultimate use of the measure will be. This will determine how much confidence we need in the measure and how complex we want to make the methodology. For example, the number and type of jobs created will be used internally to understand our contribution to society. The most material contribution we have is through our training scheme, so we put focus on the number of training/internship positions converted to permanent positions.

Our CEO pay ratio calculation will be used for internal decisions and released externally, so needs a much higher level of robustness. We calculate both median remuneration against the CEO's remuneration as required by law ('CEO pay ratio'), but also the ratio of lowest paid to highest paid. This allows us to make more informed decisions on remuneration.

An extract of the handbook for strategic objective S1 can be found in the following table.

Performance measure	Definition	Assumptions	Calculation methodology
Number and types of jobs created	The number of training/internship positions converted to permanent positions.	Only employees directly employed are included. These are counted from the first day of their new employment contract. Both full and part-time roles are included.	Number of jobs created = number of training/internship positions converted to a full or part-time permanent position during the month.
CEO pay ratio	The ratio of the CEO's remuneration to the median worker's remuneration. The ratio of the CEO's remuneration to the lowest paid worker's remuneration.	The median/lowest paid worker's remuneration is the full-time equivalent of the median/lowest total annual remuneration, including salary/wages, overtime, pension and bonus paid. The CEO's remuneration is their full-time equivalent total annual remuneration, including salary, incentives, grant date fair value of equity, changes in pension value, nonqualified deferred compensation earnings, and any additional compensation.	The ratio of the salary of the CEO and the median and lowest paid worker.



ILLUSTRATIVE EXAMPLE: APPLYING THE FRAMEWORK



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?

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

Click here to see how **Growth plc** has implemented its MI framework in using a shareholder value driven strategy.

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





ACCOUNTING FOR SUSTAINABILITY

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