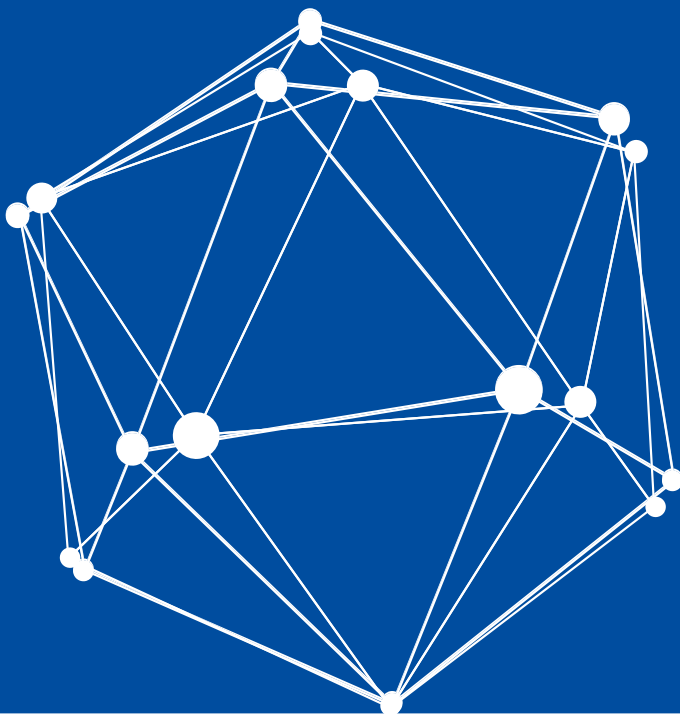


Business Model Representation in Integrated Reporting: *Best Practices and Guidelines*

Foreword by Richard Howitt, CEO, International Integrated Reporting Council (IIRC)



N I B R
*Network Italiano
Business Reporting*

Italian Network for Business Reporting NIBR

The **Italian Network for Business Reporting** (Network Italiano Business Reporting - **NIBR** - www.nibr.it) who set up a multistakeholder Working Group and promoted the publication of this Handbook, represents the official Italian jurisdiction of the "World Intellectual Capital/Assets Initiative" (WICI) Global Network, (www.wici-global.com).

NIBR is composed of Italian key players in the field of reporting, companies, professionals, market actors, universities.

NIBR intends to be the reference point in Italy and possibly internationally for companies and all types of organizations that aim to undertake a managerial and cultural growth in their Business and Integrated Reporting, with particular reference to the measurement and representation of their intangibles and their unique value creation processes.

NIBR has already published a Handbook on Integrated Thinking and a set of Guidelines for Integrated Reporting of SMEs.

NIBR has also actively participated in the preparation of the "WICI Intangibles Reporting Framework" which has been released by WICI in September 2016 (freely available on www.wici-global.com).

We would like to take this opportunity to thank all the companies and the people who were so kind to share their experiences and models with us during the research phase for these Guidelines.

Business Model Representation in Integrated Reporting: *Best Practices and Guidelines*

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Foreword

As business models become increasingly dynamic, responding to technological advancements, globalization, even climate change, it is no longer the case that defining your business model publicly is exceptional. In fact, nowadays, it is quickly becoming the norm.

Stakeholders are demanding an insight into how an organization will face such changes to the way business is done globally and turn them into opportunities.

This poses challenges. During a recent <IR> Training Course for an international business, everyone in the room was asked to write down what they thought their business model was. We didn't get the same answer once. Everyone had written something that reflected their take on the business, linked to the role they play in it. What was missing, was integrated thinking.

Understanding the organization's value creation process as a whole and articulating it clearly enables everyone internally to understand the role they play.

Externally it allows shareholders, those in the supply chain, and other stakeholders, to understand how a company can deliver value in the short, medium and long term.

The business model is a vital aspect of the value creation process, it is the cog that turns the relationships and resources the business uses and affects into outputs and outcomes.

Understandably, shareholders are increasingly interested in understanding the details of the value creation process, beyond the financial and manufactured inputs and outputs. They are looking for real insights into the other aspects that affect the business – natural, human, intellectual, social and relationship factors. Companies cannot be all things to all people.

Through articulating your business model, you are offering credibility and building trust. It is about telling your unique story of value creation and this goes to the heart of what integrated reporting is.

Often, the most daunting thing about integrated reporting is how to start. But from the thousands of conversations I have had with companies in the past, they always tell me that getting started is the biggest hurdle. Once you embark on the

journey, the benefits that arise from the breaking down of silos, the new understanding of strategy, better relationships with stakeholders, and in designing a clear business model, dramatically outweigh any challenges implementation holds. Do not let the perfect be the enemy of the good – this is a journey and no one's first integrated report is going to be perfect.

I urge you to read guidance documents such as this and apply them to your own way of thinking and working.

As the EU Non-financial Reporting Directive comes into effect across Europe I encourage you to be ahead of the curve, adopting integrated reporting, to meet the Directive's requirements. The Directive is clear on the importance of integrating financial and non-financial information and as the evidence of the benefits of integration develop, the expectation in business to communicate a holistic story of value creation will only intensify.

My thanks to everyone at the Network Italiano for Business Reporting for all they do in leading, supporting and guiding companies as the demand for integrated reporting grows.

We have worked closely with Italian businesses over many years, as we developed, tested and implemented the <IR> Framework. They have embraced integrated thinking and recognized it as a crucial development to how strategies are developed, businesses are run, and shareholders are communicated with.

I urge you to look over the case studies profiled in this report and take inspiration from their endeavours.

There is a big picture to our work, after all, this has never just been about a report. Integrated reporting – articulating your business model – it is about the way business is done, the way we work internally and externally. How we build trust. If every business takes up this approach then our markets will be all the stronger for it.

Richard Howitt

Chief Executive Officer

International Integrated Reporting Council

1.

The importance of reporting the business model: the value added to the company

The importance of representing the business model (BM) in reports arises from the belief that the company's lifespan and its activities are based directly on the exchange between internal resources, external markets and society at large.

To represent, describe and explain the business model in an effective way is, for the company, **an opportunity to make its value creation model, i.e. its approach to the coordination and interrelationship of resources, "visible" in the form of a more or less complex scheme.** It also constitutes a way to assert the full self-awareness of this concept. The underlying logic is one which considers all the resources which participate in the "making" of the enterprise. Basically, the primary objective of business model representation is to provide visibility to the unique way in which the business coordinates resources in order to achieve corporate objectives¹.

With this in mind, an adequate representation of the business model is a critical element for the

company. By sharing it, all business relationships are made clear and all stakeholders become aware of their "role" within that system and of the contribution they provide².

Presenting the business model is the most important **way to share the company's "corporate philosophy and structure" to strengthen the relationship with its stakeholders and the resources involved in business activities.** In practical terms, this allows the company to align the macro business objectives with external partners and resources, as well as to coordinate with each other.

The capitals of the <IR> Framework are made up of stocks whose value can be increased, decreased, or transformed. The business model is the driver of changes in the capital stocks used and affected by the organization. In other words, the way in which a business model works constitutes one of the major engines for value creation.

1 | Chesbrough, H. (2007) "Business model innovation: it's not just about technology anymore", *Strategy & Leadership*, 35 (6), pp. 12-17; Zott, C., Amit, R. (2010) "Business Model Design: An Activity System Perspective", *Long Range Planning*, 43 (2-3), pp. 216-226.

2 | In this respect, information required by "Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups" confirms the relevance of an adequate business model information in corporate reporting.

Internally, the value of the business model is that it provides managers with a strong viewpoint used to guide their managerial efforts toward value creation; it is not simply a matter of how the Board views 'how we create value'. If management is aware and committed, this in turn will be of value to providers of financial capital. In this respect, one of the advantages of effective business model representation lies in the possibility of orienting internal resources more effectively towards the goals of the company, highlighting how they are related to external resources, and providing a working basis in terms of organization and objectives. The practical implication of this approach is the ability to improve internal organizational awareness, in order to create a climate of active participation to the corporate journey.

Thus, the business model helps the organization understand one of the fundamental drivers of its value creation process in an integrated, shared way which will bring clarity and insight

to that very organization. It should help the organization consider how it creates value now, how it might create value in the future, and the resiliency of the business model to competitors' challenges and long-term environmental factors (e.g. technology and market changes).

The content of these guidelines aims to provide guidance and help organizations in the provision of information on their business model in the <IR>. The hope of the authors is that these suggestions may, to some extent, support organizations as they face the informative issues relating to this important communication facet of business value creation, which is in line with the perspective of business models embraced by the IIRC in its <IR> Framework. The authors do not intend to define any type of requirements related to <IR>.

2.

Objectives of the communication of the BM in <IR>

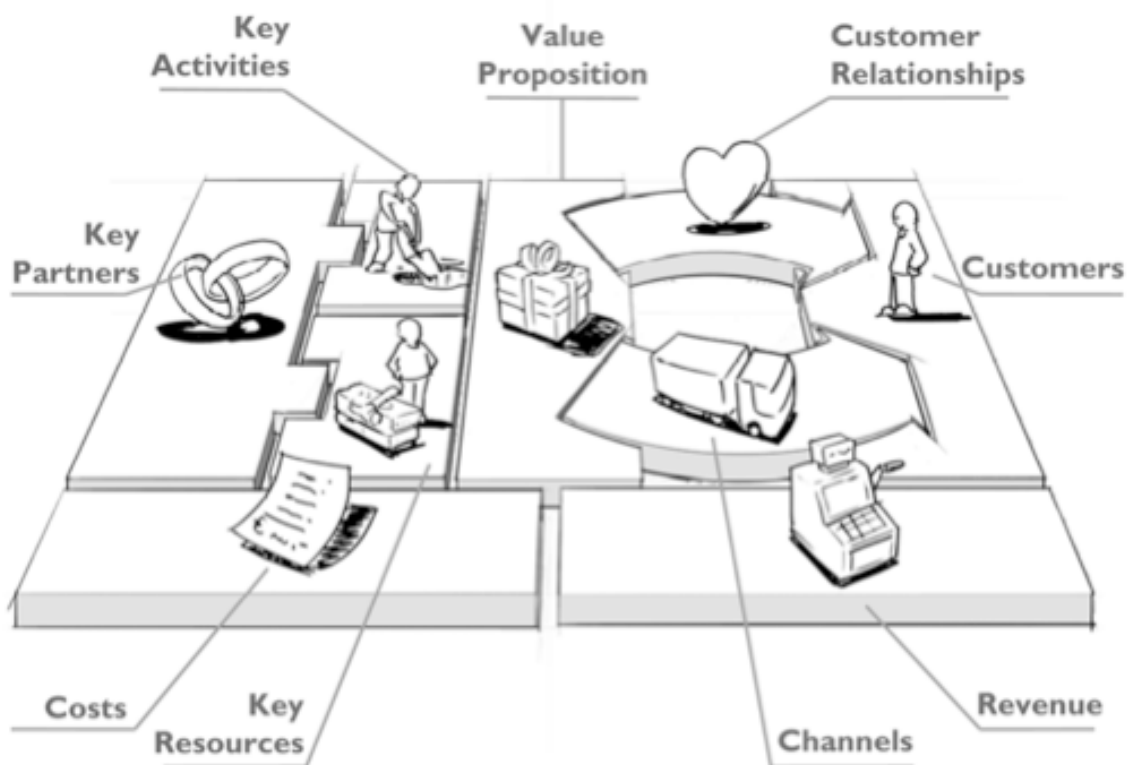
To understand the objectives of an articulated, descriptive communication (narrative) of the BM in Integrated Reporting and what its most effective mode may be, first you need to ask yourself a crucial question: what is the business model of a company?

According to Osterwalder and Pigneur (2010), creators of the Business Model Canvas methodology (see box below), a business model describes the rationale according to which an organization creates, delivers and captures value.

In fact, there is no universally accepted definition of business model. In the context of the Framework IIRC here considered for our purposes, the **business model is the system chosen to organize inputs, business activities (processes), outputs and outcomes, with the objective of creating value in the short, medium and long term.**

Il Business Model Canvas

The Business Model Canvas is a strategic tool that uses visual language to create and develop innovative business models: it represents the way a company creates, distributes and captures value.



The model is made of nine elements:

- 1) *Customers*: customer segments to serve;
- 2) *Value Proposition*: the value of products/services offered;
- 3) *Channels*: distribution channels and contacts with customers;
- 4) *Customer Relationships*: relationships established with customers;
- 5) *Revenue*: stream of revenues generated from the selling of products/services;
- 6) *Key Resources*: fundamental resources needed for the functioning of the company;
- 7) *Key Activities*: core activities for the functioning of the company business model;
- 8) *Key Partnerships*: core partners for alliances;
- 9) *Costs*: cost structure and costs to be sustained.

Osterwalder A., Pigneur Y. (2010) *Business Model Generation*, Wiley.

2. Objectives of the communication of the BM in <IR>

The representation of the IIRC Framework BM proposes a distinction between the information suggested by the business model and other essentials such as external factors or context; capital; governance; governance systems for stakeholder relationships; strategy and resource allocation; opportunities and risks; performance; and future prospects. In addition, it addresses the close link between all the elements included within the eco-system that extends beyond the corporate boundaries of the organization.

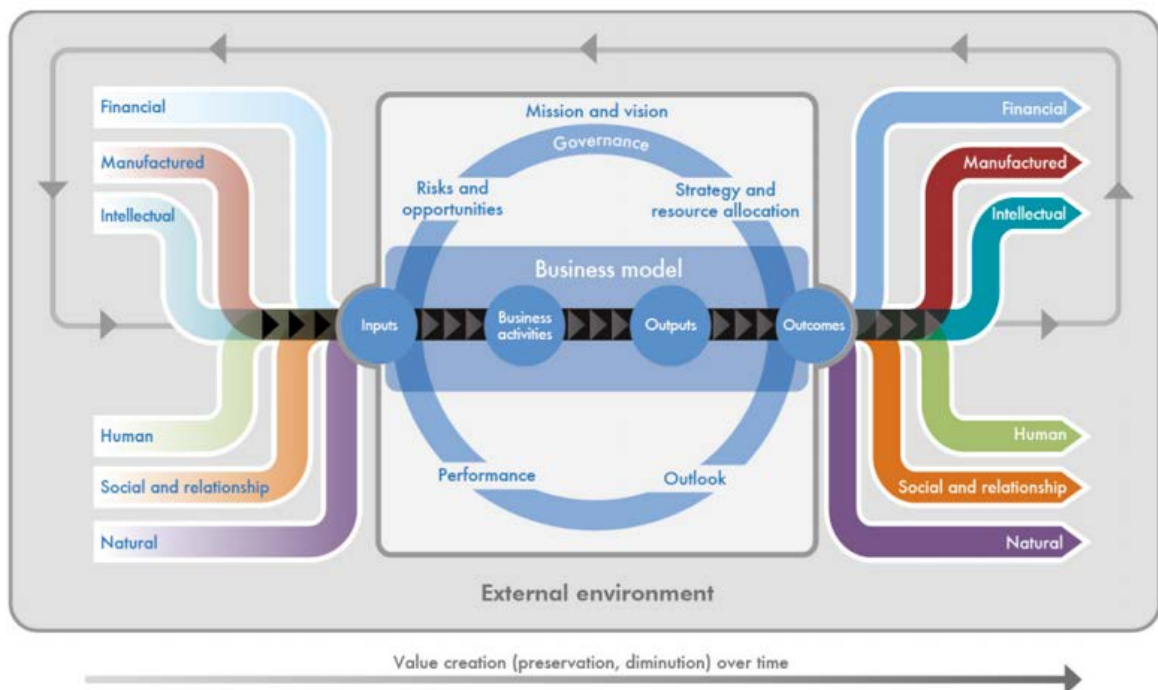
In this system, the business model deals with capitals, which form are drawn on as inputs and then converted into outputs (products,

services, sub-products, waste materials) through corporate activities. Both activities and outputs lead to outcomes in terms of effects on capitals. In this “virtuous circle”, it is essential that the business model is able to adapt to changes in order to contribute to the long-term vitality of the business and to constitute itself the source of creation and regeneration of long-term value.

As shown in Figure 1, according to the IIRC, the business model is the core of the company and includes the fundamentals of its business activities.

Figure 1

Positioning Business Model into the value creation model of <IR> framework



Based on the given, widely-shared definition, a strong link between the business model and corporate strategy is addressed. A business model, in fact, connects the most delicate aspects of the strategy, namely:

- key resources available,
- core business activities which these resources make possible,
- structure,
- products, and
- external factors.

Therefore, a business model is nothing but a reflection of the strategic choices made by the organization. In other words, if the strategy says “what to do” the business model explains “how to do it”, moving the discussion from the abstract to the concrete, thus encouraging dialogue between actors of the company and the creation of a shared language.

Most schools of thought support the existence of a close relationship between strategy and business model. According to some, the business model implements the business strategies. Others identify the business model as “a reflection of the company’s strategy”. A similar definition has been proposed by those who claim that “the business model reflects the assumptions of what consumers want, how entrepreneurs can meet these needs in order to eventually be repaid for being able to do that.” In a nutshell, the literature on strategy outlines three main areas to study the business model: the business model as a source of creation of value, the business model as a function of the company’s performance and, ultimately, the business model as a vehicle for competitive advantage.

The business model thus allows the entrepreneur to:

- conceive of the company as an interrelated set of strategic choices;
- look for a complementary relationship between the elements through a unique combination;
- develop a set of activities around a logical framework.

Considering the business model within a wider narrative, it has a central role in facilitating a better understanding of organizational aspects such as:

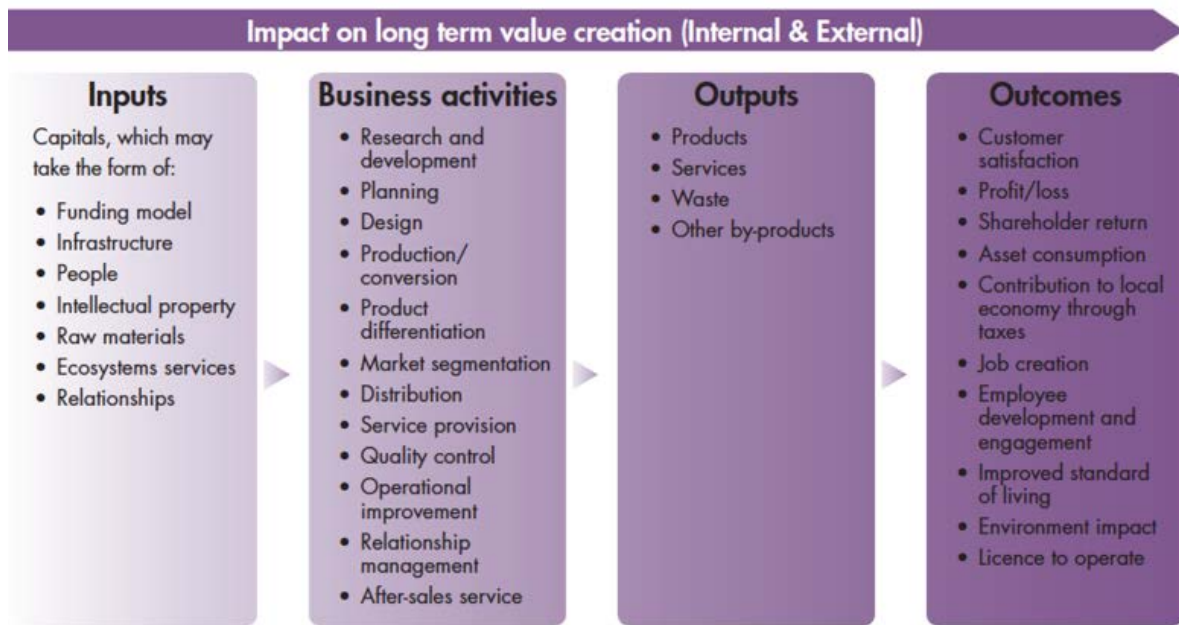
- What are the impacts of key external factors upon the organization?
- What does the organization do to create value for customers and other stakeholders, and thereby for providers of financial capital?
- What are the organization’s desired outcomes?
- What does the organization rely on in terms of the capitals?
- What is the organization’s positioning in the value chain and the markets in which it operates?

Figure 2 provides practical guidance as to how business model disclosures can be organized according to its components: inputs, business activities, outputs and outcomes. The topics within this disclosure map are not intended to be fixed. Indeed, their exact placement may vary from organization to organization. Of greater importance is that the discussion presents material topics in a manner appropriate to the organization’s circumstances and flow of capitals.

2. Objectives of the communication of the BM in <IR>

Figure 2

Business Model Disclosure Map (source: Business Model Background Paper for <IR>)



Furthermore, another significant element to be considered is the map's ability to provide the business model disclosure within the integrated report according to what is stated in the IIRC Framework. Paragraph 3A on "Strategic focus and future orientation" states that "an

integrated report should provide insight into the organization's strategy, and how it relates to organization's ability to create value in the short, medium and long term and to its use of and effects on the capitals."

3.

Value creation components through BM

As Figures 1 and 2 show, the business model includes the following fundamental value creation components: inputs, business activities, outputs and outcomes. In the following paragraphs, each of these elements will be detailed, evaluating possible representation and description methods.

Boxes will be provided demonstrating the *best practices* on how to report specific sections of the Integrated Report.

Inputs

By listing and analyzing them, the company discloses the most important inputs provided by the capitals relevant to its business model. The company should also show how they relate to each other and how they connect to opportunities, risks, strategies and performance. It is worthwhile to remember here that “...not all capitals are equally relevant or applicable to all organizations. While most organizations interact with all capitals to some extent, these interactions might be relatively minor or so indirect that they are not sufficiently important to include in the integrated report.” (<IR> Framework, 2.16). Thus, organizations draw upon the capitals which are material to value creation.

The <IR> Framework provides a categorization of “the six capitals” as reported in the table below. This categorization is a guideline to ensure that all the capitals an organization uses or affects are considered, while also acting as a part of the theoretical underpinning for the concept

of value creation. In this respect, organizations may categorize their capitals differently than the Framework and focus on those capitals which are material to its value creation in particular (see <IR> Framework, 2.17-2.19).

In order to most suitably disclose the use of **financial capital**, the company may provide a representation of its sources of funding and the actions taken to manage them properly in creating value. This information, if relevant, helps develop a full understanding of the business model.

Compared to **manufactured capital**, companies should be able to explain how structures, equipment and other infrastructure components affect their operational efficiency and effectiveness in terms of productivity, cost savings, increased safety and environmental protection. Companies might also explain, where relevant, the dependence on external infrastructure (public goods or third-party resources). In particular, if the existence

3. Value creation components through BM | Inputs

of such external infrastructure is essential for the long-term success of business model, this should be emphasized.

Employees increasingly represent a company's most important asset, in terms of knowledge and expertise. The importance of *human capital* in the organization can be reflected in a detailed description of the staff's key skills and experience and the way in which the company maintains essential skill levels, for example, through training programs and development.

Trademarks, patents, copyrights and other forms of intellectual property can be the lifeblood of an organization. Since many forms of *intellectual and organizational capital*, including intangibles related to knowledge and those related to organizational issues, are generally not included in the Annual Report, it is important to explain its ability to create value in the descriptive context of Business Model inputs.

Capitals defined^(*)

Financial Capital.

The set of funds that is:

- at the disposal of an organization for the production of goods or for the provision of services;
- obtained through financing, including debt, equity or grants, or generated through operations or investments.

Manufactured Capital.

Physical objects produced (as distinguished from natural physical objects) that are available to an organization for use in the production of goods or the provision of services, including:

- buildings;
- equipment;
- infrastructure (such as roads, ports, bridges, water and waste treatment plants).

Physical capital is often created by one or more outside organizations, it also includes the activities carried out by the organization itself but for their own use.

Human Capital

The skills, abilities and experience of people, their motivations to innovate, including:

- alignment and support of the company's governance framework, the approach to risk management, and ethical values, such as the recognition of human rights;
- the ability to understand, develop and implement the strategy of an organization;
- loyalty and motivation in improving processes, goods and services, including the ability to lead, manage and collaborate.

Intellectual-organizational Capital.

Intangible assets based on knowledge, including:

- intellectual property, such as patents, copyrights, software, licenses and other rights;
- "organizational capital" as tacit knowledge, operating systems, procedures and protocols;
- intangibles associated with the brand and the reputation that the company has developed.

Natural Capital.

All renewable and non-renewable environmental resources that provide goods and services in support of the current and future prosperity of an organization. The activities of an organization influence, positively or negatively, natural capital.

Natural capital includes:

- air, water, land, forests and minerals;
- biodiversity and ecosystem health.

Social and Relational Capital.

The institutions and the relationships established with and between every community, stakeholder group and other networks (and the ability to share information) to improve individual and collective wellbeing. Social and relational capital includes:

- shared norms, values and behaviors;
- key reports, and the confidence and willingness to engage that an organization has developed and strives to build and maintain with customers, suppliers, business partners, local communities, legislators, regulators, policy makers and other external stakeholders;
- the company's ability to operate in a given social context.

(*) Source: IIRC, The International <IR> Framework, 2013

3. Value creation components through BM | Inputs

Most business models require a network of relations to be successful, along the 'supply chain' or more generally with any stakeholder. It is therefore necessary that the company perform an additional analysis of the **social and relational capital** aimed at presenting the network of partnerships and relationships with stakeholders upon which the company's strategy and management is based, as well as programs aimed at developing and improving these interactions.

Many companies are able to ensure production continuity through the adequate use of raw materials. The physiological limits of the planet, however, could make the business vulnerable to

the changes in the natural resources available, some of which can be sudden and irreversible. Even ecosystem services (such as natural water purification, the nutrient cycling, pollination and carbon storage) or processes that take place within the natural ecosystem can bring about major risks or opportunities. Adequate representation of the **natural capital**, therefore, is a description of the main natural resources and ecosystem services upon which the organization is based, in addition to activities that the company intends to implement to improve or reduce critical supplies or ecosystem services or for environmental remediation.

Box (1)

The impact of initiatives on financial, manufactured and human capital at TRUWORTHS

Truworhts operates in the fashion retail industry. Compared to financial capital, in <IR> strategic objectives, manufactured and human capital are clearly highlighted as are the related, implemented initiatives that have the most impact on their quality and consistency.

Enablers of strategic distinction

		Material issue	Capital of value creation
Financial management 	<ul style="list-style-type: none"> • Effective management of cash and capital • Grow shareholder wealth and returns • Invest for organic growth • Highly cash generative • Return excess funds to shareholders through dividends and share buy-backs • Pursue strategic acquisitions 	Delivering sustained financial performance	Financial capital
Systems 	<ul style="list-style-type: none"> • Operate best-of-breed IT systems • Modelling performed using historical data going back many years 	Adopting leading information technology systems	Manufactured capital
Employees	<ul style="list-style-type: none"> • Provide a stimulating work environment which enables employees to be creative and energised • Attract, develop and retain top industry talent • Create a values-driven culture • Reward individual and team performance 	Employer of choice	Human capital

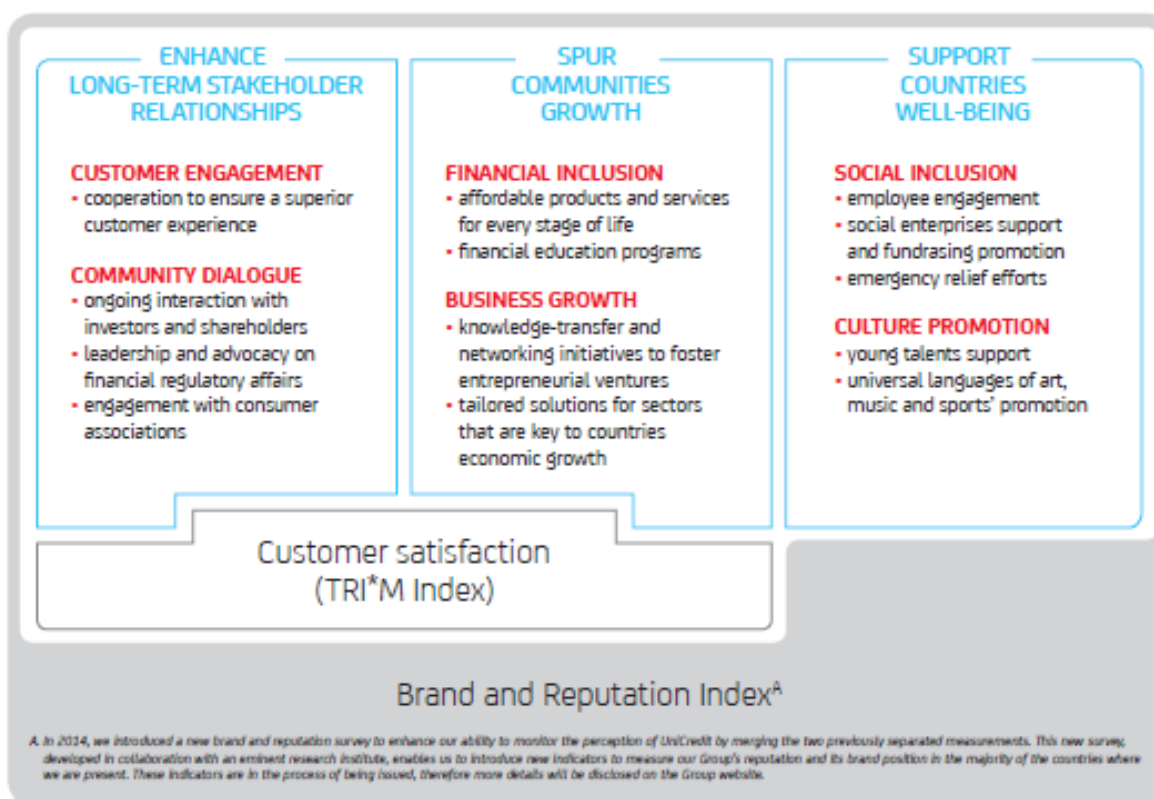
Source: Truworhts, Integrated Report 2014, p.11.

Box (2)

Social and relational capital at UNICREDIT bank

In its <IR>, UniCredit highlights the network of its relations with the various stakeholders (customers, shareholders and lenders, employees, domestic associations, etc.) as well as initiatives that Unicredit intends to promote in order to develop them further.

Our social and relationship capital



Source: Unicredit, 2014 Integrated Report, p. 59.

3. Value creation components through BM

Box (3)

Capitals and value creation at ENI (oil and gas)

Natural capital is particularly important for a company like ENI and it is specifically considered in the corporate <IR>. In the discussion of each capitals, the report highlights the actions taken by the company on each capitals and the results achieved in terms of value creation for ENI and its stakeholders.

	stock of capital	Eni's main actions	value creation for Eni	value creation for Eni's stakeholders
financial capital	<ul style="list-style-type: none"> Financial structure Liquidity reserves 	<ul style="list-style-type: none"> Cash flow from operations Bank loans Bonds Maintaining strategic liquidity Hedging Dividends Working capital optimization 	<ul style="list-style-type: none"> Going concern Lower cost of capital Reduction of working capital Leverage optimization M&A opportunities Mitigation of market volatility Creditworthiness 	<ul style="list-style-type: none"> Yields Share price appreciation Social and economical growth Satellite activities
natural capital	<ul style="list-style-type: none"> Oil and gas reserves Water Biodiversity and ecosystems Air Soil 	<ul style="list-style-type: none"> Exploration, production, transporting, refining and distributing hydrocarbons Investment in new businesses (biorefinery, Green Chemistry, car sharing) Investment in technological and process upgrade Remediation activities 	<ul style="list-style-type: none"> Hydrocarbon reserves growth Opex reduction Mitigation of operational risk (asset integrity) Reputation License to operate Stakeholders' recognition 	<ul style="list-style-type: none"> Reduction of gas flared Reduction of oil spill Reduction of blow out risk Preservation of biodiversity Green products Containment of water consumption (re-injection and water reuse) Energy efficiency

Source: Eni, Integrated Annual Report 2014, p.17.

Activities (processes)

In the business model proposed in the IIRC framework, **business activities** are centrally located and usually involve the process of transforming inputs into outputs. In particular, it explains the planning, design and manufacture of products or the use of specialized *know-how* in providing services. In order to foster understanding of the underlying reasons why the business model contributes to the creation of value in the medium/long term, it is important to explain the actions taken to increase effectiveness

and operational efficiency in order to improve the performance of high value-added processes.

The company should describe what activities contribute significantly to the differentiation of the product system provided and, following a causal logic, what drivers determine its competitive uniqueness. In this regard, some examples are discernible in the development of human capital, in the choice of distribution channels, in the definition of marketing policies,

in the segmentation of the market and, as a result, in the composition of the business portfolio. In fact, the **narrative (description) of the business model may help the user of the integrated report acquire a more complete understanding of revenue sources and value-added activities.**

For example, in addition to the turnover attributable to the sale of products and/or services, it may be important to present the turnover resulting from the extension of a guarantee or the adoption of a reticular organizational structure that requires the customer pay a fee. Another determinant of uniqueness often lies in the appetite for innovation which, in most cases, is a hallmark of the company’s values and cultural system. Even the exploration and/or exploitation of environmentally friendly technologies or the replacement of a given input to improve operational efficiency are priority themes to be communicated in order to clarify the activities performed by the organization as they relate to its long-term survival. Innovation culture could

be adequately explained in order to clarify the degree of flexibility of the business model and, therefore, its abilities to adapt to change and the arrival of new competitive challenges.

Within the description of business activities, interconnections with capitals are critical. Upon closer inspection, the organization could promptly illustrate the link that exists between one or more capitals employed and the business activities carried out. In this sense, a matrix could be a valuable aid to map the impact of each type of capital used for the development of one or more business activities. In addition to the determination of a “snapshot” of the existing connectivity between inputs and business activities, it is necessary to quantify the amount of capital “consumed.” The enhancement of the consumption of inputs could be done through the adoption of a key performance indicators (KPI) dashboard, duly selected to measure quantitative and monetary dimensions:

	A1	A2	A3	...
Financial Capital*	x			
Manufactured Capital*		x	x	
Intellectual Capital*				
Human Capital*		x	x	
Natural Capital*		x		
Social and Relational Capital*			x	

* | Detailed in its main components A1, A2, A3,..= Business activities (name and brief description)

An “X” signals the presence of in-line capital impact compared to the activity in the column. In a deeper analysis, a judgment indicating “A” (high), “M” (medium), “B” (bass) supported by the presence of some relevant indicators could be

made explicit. The impact (X) must be added to the capitals which are crucial for a certain activity. (i.e. Natural Capital for the water departments of Nestle or Danone)

3. Value creation components through BM | Activities

Box (4)

The disclosure of activities at Aspiag Service S.r.l. Despar Nordest

For each of the six capitals categories identified by the food distribution/supermarket company Aspiag, specific activities coordinated as part of the company's internal processes are identified in relation to individual business functions. Note the careful explanation of the activities and related flows. For example, organizational capital is associated with the activity called "category management", which is recognized by the company as an innovative element resulting from BM reformulation and from a careful distinction between the product and its value creation process.



In carrying out its activities, the Company generates, absorbs and transforms a complex series of capitals which "collaborate" in an interconnected manner, thanks to the organizational structure, in order to substantiate to the value creation processes.

The value creation process is a cycle where capitals - increased, reduced, transferred through the activities and the company's outputs - at the end of the period become the capitals available for the business model in the subsequent period.

Source: Aspiag Service S.r.l. Despar Nordest Integrated Report 2014, p. 40.

Outputs

In the IIRC framework, outputs are the third value creation component in the business model. Each organization is expected to clearly demonstrate its own product system, in terms of manufactured products and/or services provided. The narrative should be comprehensive and include an exploration of waste and by-products, where these help the reader better understand the business model.

One key point is the connectivity between outputs and business activities. Even in this case, the development of a matrix allows links that may exist between the above elements of the business model to be highlighted. In addition, the definition of a KPI dashboard for one or more outputs could allow for the valorization of the consumption (in quantitative and monetary terms) of relevant capital for each activity:

BUSINESS ACTIVITIES	OUTPUT	BUSINESS ACTIVITY KPIs
A1		
A1		
A1		
...		
...		

Box (5)

The description of outputs and links with the six capitals at Aspiag Service Srl Despar Nordest

For Aspiag Service (see Figure of the Box 5) and in relation to the six capitals, the outputs described are shown in terms of products, services, sub-products and waste generated by the company and defined in the BM section, generally understood as “direct effects, not uncommonly in physical nature, of business operations “ (p. 41).

3. Value creation components through BM | Outputs

Box (6)

The description of activities at Barclays Africa Group Limited

Banking company Barclays Africa Group Limited dedicates a large part of its business model in <IR> to the description of its activities and processes, providing a description of their meaning, risk, impact on the balance sheet, money flows and the impact on the income statement for each of them. The connection to the six capitals is deferred to another part of the report (p. 14).





Activities	What this means	Risk	Balance sheet impact	Flow of money	Income statement impact
A safe place to save, invest and manage cash	Managing shareholder funds	Interest rate	Deposits	Interest paid to depositors and other funders	Interest expense
	Accepting customers' and clients' deposits and raising debt	Liquidity	Debt securities in issue	Returns generated for shareholders	Fee and commission income
	Facilitating payments and investments	Operational	Shareholders' equity and preference shares	Investments made on behalf of clients	Dividends paid
	Providing investment management products and advice	Conduct			
Which in turn allows us to					
Provide funds for purchases and growth	Extending credit, taking into account customers' credit standing and our risk appetite	Credit	Loans and advances	Receive interest income from borrowers	Net interest income
		Interest rate	Provision for bad debts	Fee income relating to lending activities	Fee and commission income
		Operational			Other operating income
		Conduct			Bad debts expense

Source: Barclays Africa Group Limited, Integrated Report 2014, p. 8 (section).

Box (7)

The description of outputs and their links with the six capitals at Royal Bafokeng Platinum

Royal Bafokeng Platinum, which operates in the mining sector, devotes a large part of its business model to the description of inputs by identifying specific outputs for each capital. For example, given the nature of economic activity, special attention is paid to the outputs linked to both manufactured and natural capital.

	Inputs	Activities	Outputs
FINANCIAL CAPITAL 	<ul style="list-style-type: none"> > Cash flow generated by our operations > Equity funding > Debt funding > Efficient systems, controls and processes 	<ul style="list-style-type: none"> > Appropriate and responsible allocation of financial capital > Sale of concentrate > Financial accounting > Management accounting > Cost management and treasury system > Supply chain management 	<ul style="list-style-type: none"> > Cash flow generated by our operations > EBITDA > Headline earnings per share
MANUFACTURED CAPITAL 	<ul style="list-style-type: none"> > Mineral resources and reserves > Mining infrastructure above and below ground > Concentrator plant > Tailings and storm water dams > Mining equipment and consumables > Utilities > Mining and mineral rights > Appropriate skills 	<ul style="list-style-type: none"> > Converting resources into reserves > Mineral resource management > Mining Merensky and UG2 reefs > Process the ore in our concentrator plant > Engineering > Safety, health, environment and risk (SHER) management > Developing Styldrift I > Conducting feasibility studies for Styldrift II 	<ul style="list-style-type: none"> > Merensky and UG2 ore > PGM concentrate > Refined PGMs and base metals from concentrate supplied to refiners > Efficient water and energy use > Greenhouse gas emissions > Waste material > Mine water
HUMAN CAPITAL 	<ul style="list-style-type: none"> > People > Skills > Ability > Knowledge 	<ul style="list-style-type: none"> > Recruitment and placement > Training and development > Talent management > Performance management > Ongoing engagement with employees and organised labour > Employee relations > Remuneration > Safety and health management 	<ul style="list-style-type: none"> > Effective leaders > Skilled employees > Engaged contract workers > Stable relationship with organised labour
SOCIAL AND RELATIONSHIP CAPITAL 	<ul style="list-style-type: none"> > Doorstep and extended communities > Employees > Ethics and human rights 	<ul style="list-style-type: none"> > Implementation of social and labour plan (SIP) > Engaging with communities and other relevant stakeholders > Social impact assessments 	<ul style="list-style-type: none"> > Poverty alleviation > Infrastructure development > Enhanced community skills > Enterprise development > Better working relationships > Improved maths and science marks > Jobs

Source: Royal Bafokeng Platinum, Integrated Report 2014, p. 7 (section).

Outcomes (Impact on Capitals)

The fourth and final component contemplated in the IIRC framework regards outcomes, i.e. the impact of the consumption of inputs, in the accomplishment of business activities and the achievement of outputs. Through the value chain, the organization can show the outcomes, according to the following classification:

- internal (e.g. turnover, employee satisfaction, corporate image, etc.);
- external (e.g. customer satisfaction, levels of supplier confidence, credits /debts tax, etc.);
- positive (e.g. increase in capital as a result of value creation);
- negative (e.g. decrease of capital following the destruction of value).

It is interesting to observe that the narrative part of the impacts would ideally consider not only the effects of capitals attributable to the company's assets, but also from inputs available upstream or downstream on the value chain. Consider, for example, the depletion of natural capital and the consequent production of polluting emissions due to product manufacturing.

A common denominator shared by the previously-mentioned elements of the business model concerns the connection with the other elements of the model, in particular, with business activities, since they must describe the outputs in a satisfactorily complete manner. For this purpose, the company could initially identify outcomes unequivocally, then make a clear distinction with respect to the outputs. This distinction, although not easy and intuitive, is, however, effective in terms of improving the intelligibility of the value creation path. An operative solution to identify the links between business activities and impacts is the development and drafting of a matrix demonstrating which activity has contributed to the generation of one or more outcomes (internal/external and/or positive/negative). Together with the previously-mentioned matrix, the organization should opt for the inclusion of a KPI dashboard, in order to monitor the quantitative and monetary dimensions of each outcome.

BUSINESS ACTIVITIES	OUTCOME (INTERNAL AND EXTERNAL)	OUTCOME KPIs
A1		
A2		
A3		
...		
...		

Box (8)

Outcome description at Kumba Iron Limited

Kumba Iron Ore Limited, which operates in the mining sector, distinguishes the effects on resources and the importance the organization gives to the various outputs produced.



Source: Kumba Iron Ore Limited, Integrated Report 2014, p. 10.

Box (9)

Outcomes description at Aspiag Service S.r.l. Despar Nordest

Aspiag Service (see the figure in Box 5) distinguishes outcomes in relation to its various capitals. In particular, it is worth noting the descriptions of the impact different activities and outputs have on each type of capital, where the connections are made clear and explicit. Outcomes are defined by the company as “positive or negative consequences, external or internal to the organization” that are represented by the effects of business operations but directly connected to the dimension of the six capitals (p. 41). Furthermore, such effects are capable of having a significant influence on the company’s strategic and organizational aspects.

4.

The relevance of infographics

Infographics are an incrementally widespread communication tool through which companies may improve the efficacy of their presentations to stakeholders and, in particular, of their business model and the operation modes by which they create value at both internally and externally.

Indeed, the representation of a company business model is expressed in a simpler and more appealing manner; moreover, the Report's reader may get an immediate perception of it through infographic images based on illustrations and frames representing processes and factors meant to create value.

Some important benefits regarding a firm's communication system may be captured by infographic representations, such as:

- a more intuitive and easier understanding of the production process;
- the possibility to improve brand awareness;
- the chance to provide stakeholders with several

elements which stimulate their curiosity and which are able to lead them to further scrutinize the remaining report sections.

Indeed, infographics are an ideal way to thrill the reader, stimulating her/him to share the publication's contents, but it is mainly the model through which the firm creates value over time. However, worth highlighting a possible risk in using infographics as a mean *per se*. In this case, organizations may produce overly complex or artistic representations of their business model which move away from the way the board would describe the value creation process. To avoid this, constant attention to the intrinsic meaning to be attributed to the business model has to drive the graphic representation of it (and not *vice versa*).

Drawing on such preliminary evaluations, the following are few examples of business models represented effectively through infographics within Integrated Reports for 2014.

Box (10)

Infographics at Gold Fields (mining industry)

Gold Fields' business model representation provides a clear description of its value creation process. It is an excellent example of infographics able to identify, in a clear and easily perceivable manner, how the firm's business model allows for the transformation of inputs to outcomes through a virtuous cycle wherein each "mechanism" perfectly fits the others, ultimately increasing created value.

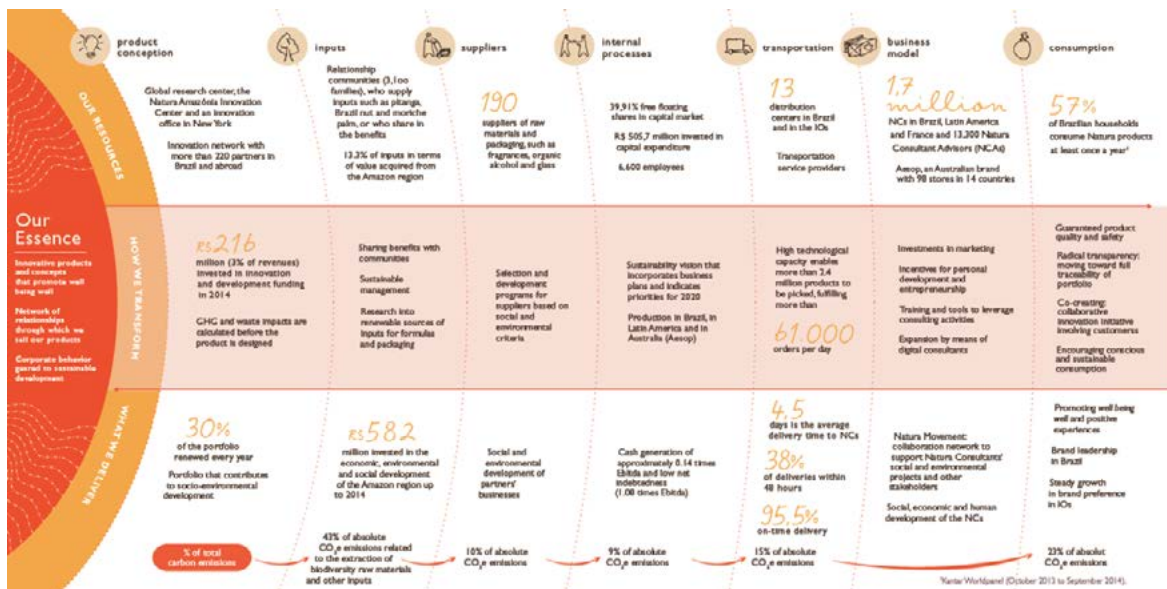


Source: Gold Fields, Integrated Report 2014, p. 10-11.

Box (12)

Infographics at Natura (cosmetics, fragrances and personal care)

The infographic representation of Natura allows for a clear understanding of the processes through which the firm implements its business model. There is a clear identification of the modes of operation through which the value chain satisfies the various stakeholders' needs, emphasizing the connections between the resources used, the way they are transformed, and the related consequences for the environment.



Source: Natura, Annual Report 2014, p.8

5.

The key players involved in the working team

As already extensively stressed, a business model is a key element through which a firm aims to provide an explanation of its business and the way it creates shared value by means of all its strategically organized activities.

Because of its complex and cross-sectional nature, **the information within the business model has to be studied, defined, and developed by a working team purposefully built and characterized by a multifunctional nature.**

The success of the initiative is tied to the capacity to give rise to an approach based on “integrated thinking”, contrarily to the traditional “Silo Mentality” concept. Indeed, it is able to improve cooperation between all different business arms with the aim of connecting the information capable of identifying all elements (capitals, inputs, activities, outputs and outcomes) and their mutual connections, thereby providing the grounds for proper business model representation.

The representative efficacy of a business model depends on the communication skills of the team

members. As they originate from various business areas and are presumably characterized by heterogeneous backgrounds, team members need to develop cross-sectional tasks, committing themselves to integrated thinking and thereby contributing to the creation of shared knowledge.

One of the first aspects that needs to be clarified is the identification of the organizational unit which will lead the business model’s information construction process for <IR>. With regard to the examined cases, such a unit has been usually selected within the CSR/sustainability area (if in existence) or within the business administration/financial area. To identify the numerous inputs and the business activities which use them, it is necessary to arrange meetings with the individuals who are responsible for the various functional areas; and, if needed, to arrange interviews with those responsible for lower-level operations. In our opinion, there is no particular relevance concerning the functional background of the group leader of the process. We believe that soft skills are the most relevant to this aim, such as dialogue capacity with all the organizational

units to understand the BM, and capabilities of involvement and mobilization towards the goal of representing the company's process of value creation by a convincing and shared path.

The economic-financial branch should be in charge of the financial quantification of inputs and outputs, designing a value allocation method to highlight the distribution of the created value.

The abovementioned procedure could also be used to identify and quantify the outcomes.

Following resource identification, it is essential to express the capital in its multiple forms, just as indicated by IIRC. Incoming and outgoing capital should be identified **only in this latter phase, in which enough information has been gathered (thanks in part to the involvement of the operatives) and the dedicated team has reached a more articulated vision/comprehension of the elements and connections at the roots of the business model.**

Internally, the team can be divided into small subgroups specializing in clearly defined elements and issues. The meetings of the entire team aim not only to gather each group's information, but also to exchange the 'best practices' used. Drawing on the experiences of the firms we interviewed on the <IR> employment, **communication and exchange between groups and among team members has a crucial impact on the development and success of the business model narrative.** Importantly, the definition of the final goal allows team members to develop a shared and well-defined vision of the project, thereby improving their level of commitment.

Another crucial aspect that needs to be considered is the **long-term strategy**: it is convenient to have at least one additional member representing the strategic area to take part in the general meetings in order to help with strategy integration within the representation of the business model.

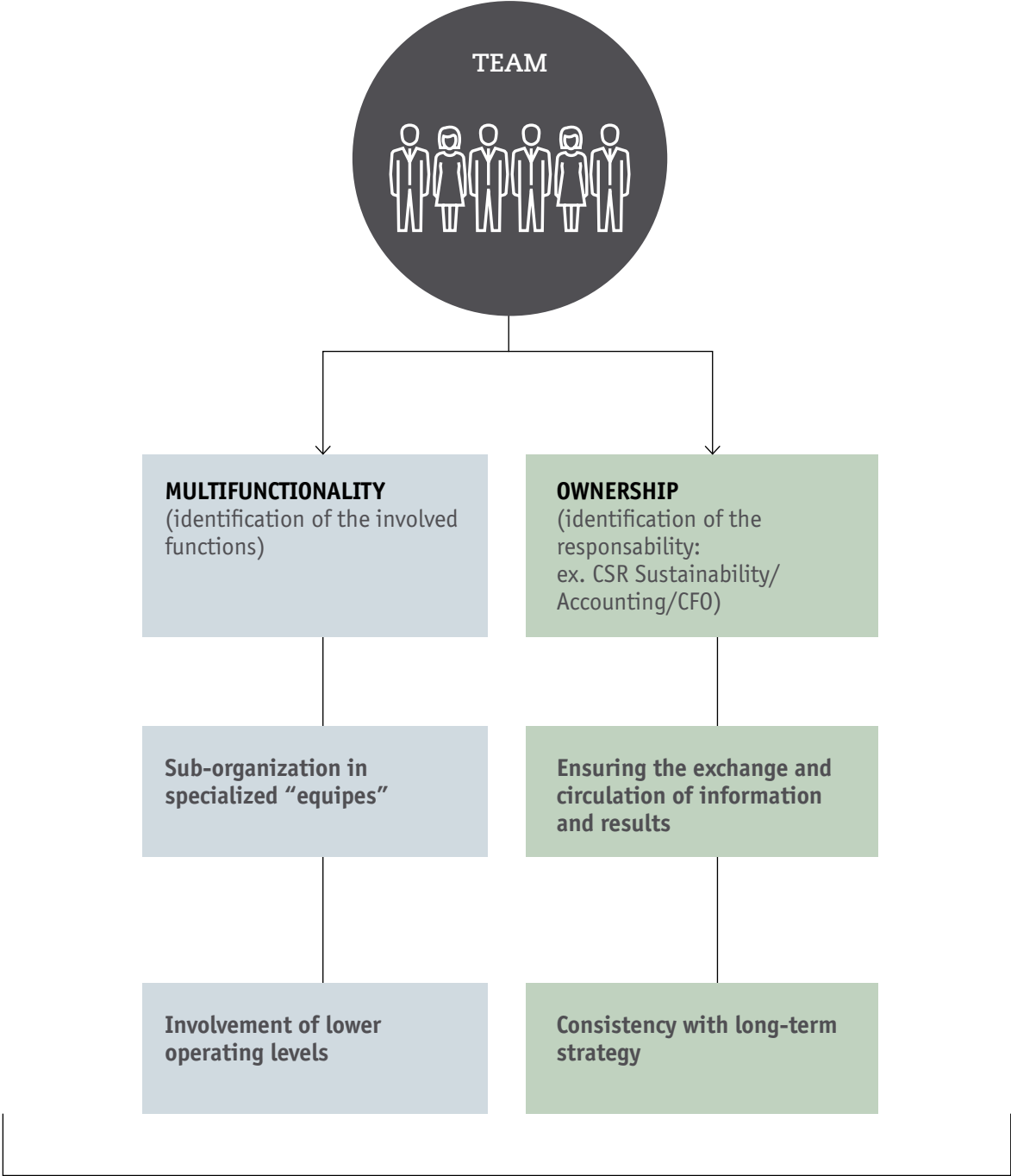
Practical Checklist

Based on previous considerations, below is a practical checklist for developing the contents of a business model in IR and the related critical issues.

Checklist for comprehensive content definition for business model representation in IR

PURPOSES OF THE BM	Which fundamental elements we would expect to arise from our representation of the business model in IR?			
INPUT/CAPITALS	Which elements of the capital are particularly relevant for the company?	Which company actions might impact capital?	What impact might such actions have on the capital?	How could capital create value for the company?
Financial Capital				
Manufactured Capital				
Intellectual Capital				
Human Capital				
Natural Capital				
Social and Relationship Capital				
BUSINESS ACTIVITIES	Which business activities identify the company? Which significantly differentiate the offer?			
	How do the specific business activities impact capital?			
	Is there a link between business activities and capital? If yes, what is it?			
	Activity 1	Activity 2	Activity 3	Activity n
Financial Capital				
Manufactured Capital				
Intellectual Capital				
Human Capital				
Natural Capital				
Social and Relationship Capital				
OUTPUT	Which products/services are realized?			
	How do business activities contribute to output realization?	Which performance indicators can be defined with respect to the business activities?		
Activity 1				
Activity 2				
Activity n				
OUTCOME	What kind of impact do the business activities have on capital? Internal/external impacts and/or positive/negative.			
	How do business activities contribute to the outcome? Internal/external and or positive/negative	Which performance indicators can be defined with respect to the outcome?		
Activity 1				
Activity 2				
Activity n				

Organizational issues for the analysis and representation of the business model in IR



Process of business model analysis and communication as part of the Integrated Thinking Journey (see ITJ Handbook NIBR)

Graphic design and paging



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