Integrated Thinking Principles: 
Supporting Holistic Decision-Making

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Integrated thinking unites the constituent parts of an organization. It focuses the whole organization on the mutually reinforcing endeavour of value creation for the enterprise and value creation for key stakeholders. It supports stronger governance and better management, underpinned by integrated decision-making and a holistic approach to resource allocation. It balances short-term performance needs with a longer-term approach to value creation and preservation.

The Integrated Thinking Principles (‘Principles’) provide a structured approach, rooted in the International Integrated Reporting Framework — or <IR> Framework — to embed integrated thinking into an organization year-round. They help unlock the full intrinsic value of an organization’s intangibles and communicate this to investors through an integrated report, based on the <IR> Framework and international financial and sustainability accounting standards. This, in turn, may lead to better assessments by providers of financial capital of how an organization creates, preserves or erodes value over time. It can also support a stronger weighted average cost of capital (WACC) and more robust forecasts of future cash flows, which may lead to higher market capitalization.1

The business model, as the core of enterprise value creation, sits at the centre of the Principles. It transforms input resources through business activities into outputs and outcomes, achieving an organization’s purpose and delivering its strategy. Integrated thinking also helps align these outcomes with the distinct contribution an organization can make to the delivery of the Sustainable Development Goals (SDGs).

Six Principles surround the business model, encompassing the key activities overseen by the board and managed by the senior management team:

- PURPOSE
- RISKS & OPPORTUNITIES
- GOVERNANCE
- STRATEGY
- CULTURE
- PERFORMANCE

These six Principles, which align with the architecture of the TCFD Recommendations, provide a structured approach for considering how to create the right environment within an organization, as well as for reviewing what can, at times, go wrong.

They are interconnected, offering a comprehensive leadership and management philosophy and a gauge by which an organization can evaluate how effectively integrated thinking is already being practised, as well as identify areas for improvement. Embracing the Principles can lead to improved decision-making, including addressing trade-offs in resource allocation to create or preserve capital over time.

Other benefits include a deeper understanding and response to factors shaping value creation over various time horizons, sharper strategic execution, stronger corporate governance, resilient corporate culture, and achieving the organization’s purpose. The Principles also provide a basis on which to create an annual integrated report and fulfil disclosures associated with the TCFD Recommendations and the future CSR Directive.

Feedback from those practising integrated thinking indicates the business benefits outweigh the time and effort required to embed it across the organization.

The Principles will be supplemented by a detailed methodological guide on how to embed them into the day-to-day processes and practices of an organization, which the Value Reporting Foundation intends to publish in Q2 2022.
Introduction

The Integrated Thinking Principles (‘Principles’) represent a leadership and management philosophy focused on value creation over time for the enterprise and its key stakeholders. The Principles are rooted in the concept of integrated thinking, which leads to integrated decision-making and encourages the different parts of an organization to work collectively and create value over time across the variety of resources and relationships available to them. These include not only financial capital but also manufactured, intellectual, human, social and relationship, and the natural capital which forms the bedrock of all economic productivity. Integrated thinking also supports the alignment of this value creation with the distinct contribution an organization can make to the SDGs.

The Principles provide a structured approach to help define board and executive processes for assessing their Purpose, Strategy, Risks & Opportunities, Culture, Governance and Performance. This structure, which aligns with the architecture of the TCFD recommendations, will be equally helpful to boards which are already covering these areas and want to benchmark their activities, and to those boards which have a further distance to travel in embedding integrated thinking and want a holistic and coherent structure with which to begin. Integrated thinking has been successfully implemented in many organizations around the world across a wide variety of sectors. The Value Reporting Foundation’s thought leadership on integrated thinking and expanding library of case studies illuminate the benefits of integrated thinking.

The Principles are rooted in the <IR> Framework, which provides the conceptual basis for integrated thinking. There are six interconnected Principles and three levels to each: the first level challenges the board and CEO to question how widely each of the six Principles has been adopted across their organization; the second level provides the senior leadership team with a litmus test to gauge how deeply these Principles have been embedded into day-to-day operations; the third level consists of management tools, practices and processes to bring integrated thinking to life. Case studies from the Value Reporting Foundation’s Integrated Thinking and Strategy Group illustrate the benefits from practical application of the Principles across the second and third levels.

Integrated thinking, like integrated reporting, develops and improves over time. We encourage you to be curious about the six Principles, excited about the benefits they will yield and restless to instill this leadership and management philosophy into your organization.
Rationale

The Principles provide leadership and management teams of all organizations, whether private sector or public sector, a multinational corporation or an SME, with a North Star by which to chart a course focused on creating and preserving value over time and minimizing value erosion. The Principles are designed to help senior teams better understand how their actions and activities – and the decision-making which underpins both – contribute towards the creation of intangible value, which forms an increasingly large component of enterprise value. The Principles are founded on the idea that an organization can only truly create value over time for its key stakeholders across the various capitals if the following six areas are addressed through its business model:

- PURPOSE
- RISKS & OPPORTUNITIES
- GOVERNANCE
- STRATEGY
- CULTURE
- PERFORMANCE

These six Principles will help the leadership and management teams of an organization navigate the trade-offs needed when managing the resources and relationships that are inputs to their business model, recognizing that value creation over time in one capital may come at the expense of value erosion in another capital. For example, when an organization improves its human capital through employee training, the related training costs reduce its financial capital in the short term but enhance the value of the organization’s human capital in the longer term.

Each of these six Principles is explored across three levels: in the first level by a searching question to be addressed by the leadership and management teams, encouraging them to think and act in an integrated manner. Each question is further expanded through the consideration of a series of related statements, which constitute the second level of the Principles. The third level of the Principles is a series of management tools, practices and processes which support integrated thinking across the six Principles, helping in the journey towards sustainable value creation for the enterprise and its key stakeholders. The second and third level of the Principles are illustrated by case studies from the Value Reporting Foundation’s Integrated Thinking and Strategy Group.
The Principles are closely aligned with both the iFR Framework and the process of integrated reporting by an organization.

Their intended audience is the executive team and senior leadership of an organization, such as the board, CEO, CFO and senior management team. They may lead the corporate centre, a regional or country entity, an operating unit, or a site; they will be responsible for significant decision-making, such as entry into a new market, the launch of a new product or the location of a new factory. The Principles will work best, however, when they are embraced across the organization and they resonate with every employee, as well as with business partners and broader stakeholders.

The Principles, as a leadership and management philosophy, should be instilled in the company culture and inform all decisions taken by an organization which contribute towards value creation over time for the enterprise and its key stakeholders. They also provide a mechanism for linking the achievement of the targets associated with KPIs and incentive structures.

These prototype Principles will be hosted on the Value Reporting Foundation's integrated thinking webpage for the first six months of 2022. During this period, stakeholders will be encouraged to download the Principles and provide feedback on them via a questionnaire, which will include both structured and open questions. Our ambition is to finalize the Principles by Q2 2022 and launch a Getting Started Guide at the same time.
An organization is depicted here as a planet orbiting the solar system of its external environment.

The business model is at the core of an organization, which is its system of transforming inputs, through its business activities, into outputs and outcomes. These inputs, outputs and outcomes are all shaped by the forces of the external environment.

The six Principles which surround the business model encourage the different parts of an organization to work collectively, enhancing decision making and deepening their understanding of how their activities impact the various capitals.

The Principles lead to a better comprehension of how an organization creates tangible and intangible value, which constitute value creation for the enterprise and its key stakeholders.

Figure 1. How the Integrated Thinking Principles support value creation
**Structure**

The Principles are structured on three levels:

<table>
<thead>
<tr>
<th>Level 1: The Principles</th>
<th>Whom?</th>
<th>Board of Directors, CEOs and other C-suite</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>What?</td>
<td>The business model is of central importance, as it underpins integrated thinking and enables value creation over time. The six Principles are applied directly to the business model, and in Level 1 are illustrated with a question by which the leadership team can gauge how effectively and meaningfully integrated thinking has been embedded into their organization.</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th>Level 2: Assessment</th>
<th>Whom?</th>
<th>Senior management</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>What?</td>
<td>The second level of each of the six Principles involves a series of statements further exploring the question from the first level. These statements enable the leadership team to continue their assessment of the extent of integrated thinking within their organization. Adoption of the Principles is an iterative process and it is envisaged that these statements would be revisited periodically to gauge progress towards greater integrated thinking maturity. Hyperlinks connect this level and Level 3 with case studies from the Integrated Thinking and Strategy Group, highlighting inspiring examples of the practical application of each of the six Principles.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Level 3: Operationalizing the Principles</th>
<th>Whom?</th>
<th>Senior management</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>What?</td>
<td>The third level drills down into the second level and is a process-based integrated thinking methodology. This level describes the key business processes and critical activities associated with implementing and operationalizing each of the six Principles. This level represents management tools, practices and processes that can inform decision-making and enable a formal assessment of the maturity of integrated thinking. It is likely that these will be embedded into an organization over a multi-year timeframe, with this level of the Principles facilitating an annual evaluation of integrated thinking and serving as a source of future development activities.</td>
</tr>
</tbody>
</table>
Level 1: The Principles

Business Model
Creating value today,
sustaining value tomorrow*
PURPOSE
How do we make a unique contribution to the needs of society and why do we exist?

STRATEGY
How does our organization seize opportunities, mitigate risks and maximize the resources available to us to meet the needs of our customers through the products we make and the services we provide, whilst generating a financial surplus?

Business Model
Creating value today, sustaining value tomorrow*
Level 1: The Principles

RISKS & OPPORTUNITIES
How do we assess the impact of the external environment on our business model, operations and strategy, and vice-versa?

CULTURE
How do we identify our key stakeholders, and how do we embed a culture that earns their trust and aligns with our core values?

Business Model
Creating value today, sustaining value tomorrow*
GOVERNANCE
How does our Board make a distinctive contribution to value creation for the enterprise and its key stakeholders? How is our strategy execution enabled by our organizational structure, cross-functional teaming, decision-making processes, and risk and opportunity management processes?

PERFORMANCE
How do we measure and communicate the enterprise value we have created for our investors and the value we have created for our other key stakeholders?

Level 1: The Principles

Business Model
Creating value today, sustaining value tomorrow*
Level 2: Assessment

**PURPOSE**
Our *organizational purpose* is unique and clearly articulated. It is brought to life in the interactions of our leadership, management, staff, customers, suppliers, host governments and local communities.

**STRATEGY**
We scan the horizon for strategic opportunities. We have identified our strategic objectives and gauged how their achievement will enable us to achieve our purpose and contribute to the SDGs.

Our sustainability priorities are aligned with our business strategy. We understand how the *material issues* associated with our business model affect our ability to execute our strategy.

We understand how our products and services meet our customers’ needs.

We consider how our strategic actions affect our broader stakeholders.

We generate competitive advantage through our *innovation*, unique insights and perspectives, and our ability to bring our products and services to market in an effective and efficient way, whilst also generating a financial surplus.

*Business Model*
Creating value today, sustaining value tomorrow*
Level 2: Assessment

RISKS & OPPORTUNITIES
We routinely assess the impact of the external environment against the robustness of our business model and our operations, and our ability to execute our strategy, deliver our strategic objectives and create value over time. We also routinely assess the impact of our business model, operations and strategy against the external environment.

CULTURE
Our conduct and how we do things are consistent with our purpose.

Our organizational culture aligns with our business partners and broader stakeholders. We recognize the critical interdependency between enterprise value creation and value creation for our investors and other key stakeholders.
GOVERNANCE

Our Board’s objectives and critical success factors are clearly defined.

Our leadership, organizational structures, cross-functional teaming and decision-making processes support our Board and management team in executing our strategy and delivering our strategic objectives.

We recognize that value creation for one type of capital may create, preserve or erode value creation across another type of capital.

Our governance structures and processes support the decision-making which enables us to navigate the necessary trade-offs between the capitals.

PERFORMANCE

Our KPIs and management information measure how well we are delivering against our strategic objectives. They also measure the value we are creating, preserving or eroding across the capitals which are material to our business model.

We measure and report our contribution to the SDGs.

Our incentive structures are aligned with enterprise value creation and value creation for other key stakeholders.

Our integrated report communicates the short- and long-term enterprise value we have created, preserved or eroded for our investors and the value we have created for other key stakeholders.

Our integrated report describes its basis of preparation and presentation.
Level 3: Operationalizing the Principles
key business processes and critical activities

PURPOSE
☐ Our organizational purpose is motivational and the North Star for how we conduct our business.
☐ Our Board routinely reviews whether our company’s decision-making and resource allocation are consistent with our purpose.
☐ Our purpose is as relevant on the shop floor as it is in the Boardroom, as well as amongst our key external business partners and broader stakeholders.

STRATEGY
☐ The executive team identifies future opportunities for our organization during our strategic planning process.
☐ Our strategy and strategic objectives are clearly defined, forward-looking and responsive to longer-term drivers of value creation, such as technological, societal and climate change.
☐ Our strategy and strategic objectives are aligned with the distinct contribution our organization can make to the SDGs.
☐ Our sustainability priorities have been identified through an objective process and reinforce our business strategy.

☐ The executive team regularly assesses whether the achievement of our strategic objectives is helping us achieve our purpose.
☐ We undertake a periodic assessment of our material issues and have assessed how these may affect our ability to execute our strategy.
☐ The strategic opportunities presented by our operating environment, including in our supply chain and broader value chain, are regularly assessed by the executive team.
☐ We invest in innovative products and services and nurture a culture of innovation through our purpose and values.
☐ We manage our operations efficiently, taking account of all our dependencies and impacts on our material capitals.
RISKS & OPPORTUNITIES

- We have identified the material external issues which create risks and opportunities for our business model, operations and strategy, such as trading conditions, the availability of resources, societal changes and climate change.

- The executive team completes a regular cross-functional assessment of all of these material issues and how they are affecting our ability to create or preserve value across the resources and relationships of our business model.

- The executive team models the impact of these risks and opportunities, such as climate change scenarios and technological and societal changes, on our future performance.

- The executive team recalibrates our business model and strategic objectives based on the insights yielded by these processes.

CULTURE

- The executive team assesses how effectively we live our values via an annual employee survey and regular pulse surveys, course-correcting any discrepancies.

- The executive team enforces policies on ethical behaviour and transparent reporting, taking action if such policies are breached.

- Our key stakeholders have been identified through an objective assessment exercise, which we revisit periodically.

- The executive team assesses the degree of alignment of our corporate culture and that of our key suppliers and customers when making significant procurement and sales decisions.

- The executive team has identified our business model’s key stakeholders as part of our stakeholder engagement and materiality assessment processes.

- Our materiality assessment identifies those matters with the greatest positive or negative potential to impact enterprise value creation and value creation for our investors and other key stakeholders.

Business Model

Creating value today, sustaining value tomorrow*
GOVERNANCE

- The diversity of skills and experiences of our Board enables them to guide the senior management team and also to hold them to account for the delivery of our strategy.
- We measure and report our progress in delivering our critical success factors through our financial and sustainability-related KPIs.
- Strategic opportunities are assessed with the same degree of rigour as strategic risks.
- The Board’s decision-making processes assess value creation, preservation and erosion across all the capitals which are material to the decision being taken.

- The Board ensures that the company’s incentive structures are aligned with long-term enterprise value creation, including, where practicable, long-term value creation for our external business partners and broader stakeholders too.
- Our teams work collectively to deliver our strategic objectives and we actively break down functional siloes where these exist.
- The Board regularly reviews its governance structures and processes and identifies opportunities to improve them.
- Our integrated report is reasonably assured.

PERFORMANCE

- We measure our progress towards the delivery of our strategic objectives using KPIs and discuss this during our regular leadership team meetings.
- Using KPIs, we measure the value we have created, preserved or eroded over time across our material capitals.
- We have identified the SDGs to which we make the most material contribution; we measure our contribution and communicate this to our stakeholders.
- We report all these KPIs internally and draw on them in decision-making and resource allocation.

- Our management systems collect this performance information, with appropriate controls in place to ensure its quality and integrity.
- The quality, relevance and reliability of the information by which we manage the business are formally assessed.
- We prepare an annual integrated report in accordance with the <IR> Framework, measuring and communicating our outputs and outcomes.
- Our integrated report includes a description of the materiality determination process, reporting boundary and frameworks and methods used to quantify or evaluate material matters.

Level 3: Operationalizing the Principles

key business processes and critical activities
The Business Model from the International <IR> Framework

Figure 2. Process through which value is created, preserved or eroded. International <IR> Framework (January 2021), p. 22.
Glossary

Business model
An organization’s business model is its system of transforming inputs, through its business activities, into outputs and outcomes that aims to fulfill the organization’s strategic purposes and create value over the short, medium and long term.

Business partners
Tier-one suppliers and customers with whom an organization does regular business.

Business processes
A business process emphasizes how work is done rather than what is done. It is also a structuring of activities across time and place to transform inputs (such as knowledge, people and materials) into outputs for customers and outcomes for other stakeholders. Business objectives, business processes and outcomes all have associated critical success factors and business risks. Business processes contain process-level objectives, business risks and KPIs.

Capitals
Stocks of value on which all organizations depend for their success as inputs to their business model, and which are increased, decreased or transformed through the organization’s business activities and outputs. The capitals are categorized in the <IR> Framework as financial, manufactured, intellectual, human, social and relationship, and natural.

Creating value today, sustaining value tomorrow
The Brundtland Report laid the foundation stone of the international sustainability movement in 1987, when it defined sustainable development as, ‘development that meets the needs of the present without compromising the ability of future generations to meet their own needs’.

Critical success factors
The minimum-level activities within business processes (specifying how the capitals are used) that must be performed well for a business to be successful, activities using key resources in pursuit of opportunities.

Customers
Also includes clients for Financial Services and Professional Services. ‘Customers’ is also used as a proxy for not-for-profit organizations, such as universities and healthcare trusts, which are meeting the needs of their students and patients via the services they provide.

Efficient
Managing the organization’s operations in a manner which takes account of the interdependencies of the capitals and the trade-offs which may be necessary between them in order to manage operations in a sustainable manner. An efficient operation, for example, is not necessarily one which is managed at the lowest financial cost relative to the volume of production or rate of productivity if this 1) has a materially detrimental impact on an organization’s natural capital impacts or 2) leads to employee burnout and high rates of voluntary attrition.

Enterprise value
‘Market capitalisation plus net debt, where market capitalisation is determined by the market via the company’s share price, which is in turn informed by its financial and/or operational performance. Enterprise value is therefore influenced by factors such as revenue, costs, assets, liabilities, cost of capital, and risk profile.’ Reporting on enterprise value: Illustrated with a prototype climate-related financial disclosure standard (CDP, CDSB, GRI, IIRC & SASB, December 2020), Appendix 4, p. 38.

Intangibles
‘Intangibles are non-physical resources which, either alone or in conjunction with other tangible or intangible resources, can generate a positive or a negative effect on the value of the organization in the short, medium and long term.’ WICI Intangibles Reporting Framework (2016), p.13.

Integrated thinking
‘Integrated thinking is the active consideration by an organization of the relationships between its various operating and functional units and the capitals that the organization uses or affects. Integrated thinking leads to integrated decision-making and actions that consider the creation, preservation or erosion of value over the short, medium and long term. Integrated thinking takes into account the connectivity and interdependencies between the range of factors that affect an organization’s ability to create value over time, including:

• The capitals that the organization uses or affects, and the critical interdependencies, including trade-offs, between them
• The capacity of the organization to respond to key stakeholders’ legitimate needs and interests
• How the organization tailors its business model and strategy to respond to its external environment and the risks and opportunities it faces
• The organization’s activities, performance (financial and other) and outcomes in terms of the capitals – past, present and future.’ International <IR> Framework (January 2021), Preface, p. 3.

Investors
Includes shareholders, providers of debt, bond holders, private equity investment, family-owned businesses etc.

Key Performance Indicators (KPIs)
The financial and sustainability-related quantitative measurements that are collected by the organization, either continuously or periodically, and used by management to evaluate the extent of progress towards meeting the entity’s defined strategic objectives.

Key stakeholders (other than investors)
Employees, customers/clients, suppliers, local communities, NGOs (such as environmental groups) and host governments.
Management Information (MI)
The broad set of management information by which the executive committee and other senior leaders make decisions, such as the management accounts, monthly management pack, key performance indicators, ‘flash’ results and daily updates (e.g. on sales performance), and decision-making ‘hurdles’ or ‘gates’ for CapEx or OpEx investments, new products and services etc.

Purpose
EY and Harvard Business Review define purpose as ‘an aspirational reason for being which inspires and provides a call to action for an organization and its partners and stakeholders and provides benefit to local and global society.’ The Business Case for Purpose (Harvard Business Review, 2015), p. 1.

The British Academy’s ‘Future of the Corporation’ programme defines the social responsibility of business as: ‘to create profitable solutions for the problems of people and planet, while not profiting from creating problems for either’. Policy & Practice for Purposeful Business: the final report of the Future of the Corporation programme (British Academy, September 2021), p. 14.

‘Why does our purpose matter? Our purpose sets out our primary reason for existence and guides the evolution of our strategy at the intersection between what society needs and where we can specifically and uniquely contribute’. The Crown Estate’s Integrated Annual Report and Accounts 2020/21, p. 4.

SDGs
The 17 UN Sustainable Development Goals, also known as the Global Goals. There are 169 targets associated with these goals that all UN Member States have agreed to work towards achieving by 2030.

Strategy
‘Strategic objectives together with the strategies to achieve them.’ International <IR> Framework (January 2021), p. 54.

TCFD
Taskforce on Climate-Related Financial Disclosures.

Value creation, preservation or erosion
Value may be created, preserved or eroded over time by an organization. Value includes financial value creation, as measured by traditional management accounting practices, national and international financial accounting standards, and shareholder metrics. It also encompasses the other five capitals of the <IR> Framework – manufactured, human, social and relationship, intellectual and natural – and the outcomes an organization’s business model may have on these.

WACC
Weighted average cost of capital, which measures a company’s cost to borrow money from investors or debt providers.
Footnotes

1. See The Economic Consequences Associated with Integrated Report Quality: Capital Market and Real Effects Mary Barth, Steven Cahan, Lily Chen and Elmar Venter (April 2017); Closing the gap: The role of integrated reporting in communicating a company’s value creation to investors (November 2020).

2. This model of enterprise value creation is closely aligned with the business model diagram on page 22 of the International <IR> Framework.

* ‘Creating value today, sustaining value tomorrow’ is aligned with the role of the business model in creating value over the short term, medium term and long term from the International <IR> Framework in paragraph 1.6 on p. 10.
The Value Reporting Foundation is a global nonprofit organization that offers a comprehensive suite of resources designed to help businesses and investors develop a shared understanding of enterprise value — how it is created, preserved or eroded over time. The resources — including the Integrated Thinking Principles, the Integrated Reporting Framework and SASB Standards — can be used alone or in combination, depending on business needs. These tools, already adopted in over 70 countries, comprise the 21st century market infrastructure needed to develop, manage and communicate strategy that creates long-term value and drives improved performance.