

**VALUE
REPORTING
FOUNDATION**
INTEGRATED
THINKING
PRINCIPLES

Integrated thinking in action A Spotlight on Leonardo

Case study



Case studies from the

Value Reporting Foundation

The Integrated Thinking and Strategy Group (a special interest group of the Value Reporting Foundation Business Network) brings together some of the world's most innovative companies so that they can collaborate, learn from each other, challenge each other's thinking and share leading practices between themselves and those who follow them.

Integrated thinking is engrained in the discipline of making a deliberate and coordinated effort to connect the organization's strategy, governance, performance and prospects. It is the active consideration by an organization of the relationships between its various operating and functional units and stores of value – which the Value Reporting Foundation refers to as 'capitals' in the International <IR> Framework – that the organization uses or effects to create value over the short, medium and long term.

It is used by businesses to improve decision-making, accountability and communication. It is therefore essential to the development of strategy and provides a valuable connection to the board.

The project aims to assess how integrated thinking is embedded within organizations through a series of interviews to understand:

- What led the organization to embed integrated thinking
- How they used integrated thinking to shape their strategy
- How integrated thinking has helped them deploy their strategy
- What the benefits have been.





INTEGRATED THINKING PRINCIPLES

Overview

30-second snapshot into integrated thinking at Leonardo

Leonardo is one of the world's major players in aerospace, defence and security technology. Headquartered in Italy, the organization has over 49,000 employees and a significant industrial presence in Italy, the United Kingdom, the United States and Poland.

Integrated thinking has supported Leonardo in fostering integration between financial and non-financial aspects of the business to improve sustainability. It has been key to developing Leonardo's holistic understanding of their business and delivering on their purpose, to "Contribute to the world's progress and safety by delivering meaningful and innovative technological solutions."





Deep dive into integrated thinking at Leonardo

10 minute read



We focused on strengthening our governance by creating a sustainability committee at board level that would enable the full integration of sustainability topics within our industrial plan. This process led us with ease to undertake the journey to develop an integrated strategy.

Manuel Liotta
Head of ESG & integrated reporting

What led Leonardo to embed integrated thinking?

Since 2014, environmental, social and governance (ESG) topics had become more and more urgent for the shareholders of Leonardo. This external pressure became an important driver for the company, which started using integrated thinking as a tool for integrating pre/non-financial and financial information, looking to all the capitals at the centre of its corporate strategy to create long-term sustainability and value creation.

How did Leonardo approach integrated thinking?

Given the importance of setting the right tone from the top, in 2016 Leonardo transformed its corporate governance model, placing a greater emphasis on sustainability issues with specific tasks assigned to a board-level committee (today named Sustainability and Innovation Committee), and strengthening the dialogue at management level with the commitment of the Group Management Committee.

The initial tasks of the committees were to link business and sustainability strategies to how the organization creates value, by establishing how each process fits into and impacts upon the broad range of capitals the organization uses and affects.

The Group Management Committee, made up of the CEO and high-level executives, ensures the strategy is embedded in all the departments and divisions to develop a well-rounded and shared corporate vision.



“

Contribute to the world's progress and safety by delivering meaningful and innovative technological solutions.”



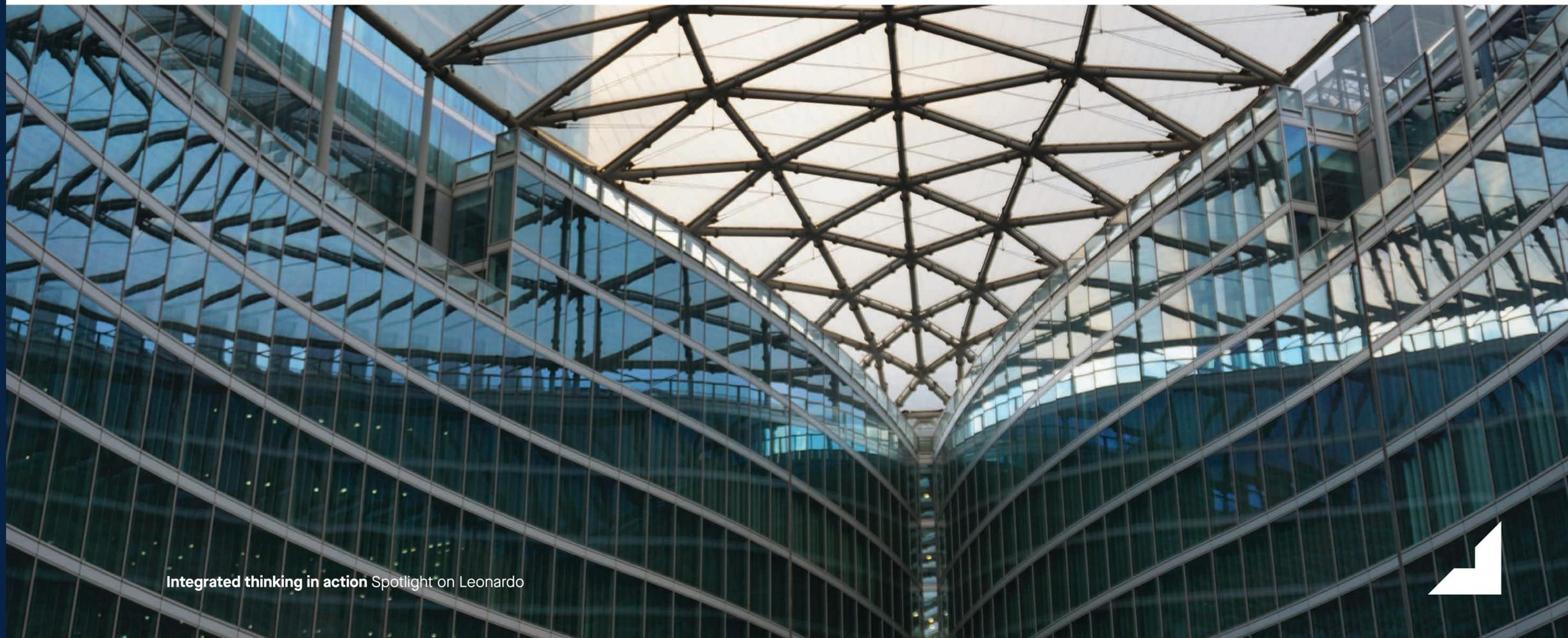
Purpose and stakeholder engagement

In 2019, an employee survey was launched, in addition to several internal focus groups formed of employees at all levels across the business. Their aim was to redefine the purpose, mission and meaning of the company to drive the strategy. Leonardo also set up consultation workshops with stakeholders to listen and understand their perceptions, as important inputs in defining strategy and actions. The organization closely monitors concerns and expectations by undertaking materiality assessments and maintaining a continuous dialogue with departments directly exposed to dialogue with stakeholders.



Co-defining the purpose of Leonardo means internalizing at all levels ‘why’ the company exists and what it wants to achieve. This has resulted in the creation of a point of reference, a compass, not only for those who work at Leonardo, but also for all our stakeholders.

Manuel Liotta
Head of ESG & integrated reporting





We started from our business model, we analytically understood the process through which we create value and we went into the capitals that make this possible. Indeed, the process was not limited to a single voice but required the perspectives of different departments and stakeholders, involved in a collective discussion, and resulted in the value creation model that we have today.

Alessia Silvestro
Sustainability and ESG Manager

Value creation model

At Leonardo, value creation relies upon two main forces, sustainable development and innovation. In particular, Leonardo focuses on identifying technologically innovative areas which are strategically important for the future, and investing in people and skills to oversee these areas. This enables a viable future for Leonardo.

The current value creation model (see Figure 1) is the visual representation of this integrated thinking approach.

Leonardo continuously analyses its value creation model to ensure it reflects the organization's identity, also drawing on feedback received through the IIRC Report Critique programme in order to achieve its better representation.

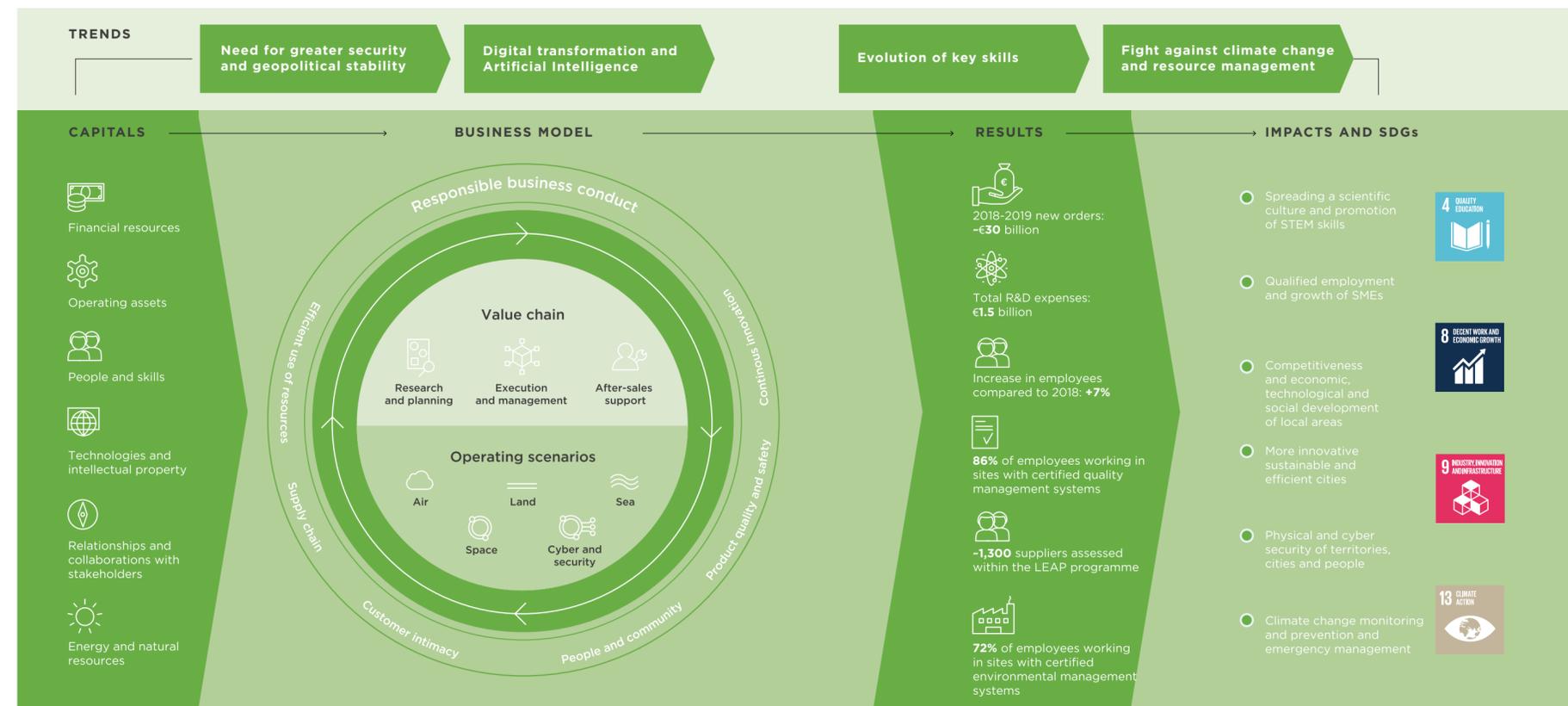


Figure 1. For a detailed view of the model please consult Leonardo's Sustainability and Innovation Report, page 16 - 17





Another challenge is then taking this process across all the countries in which Leonardo operates. Each country has its own culture; ‘adapting’ actions to the local context under the same value creation model is far from easy. I believe that being such a global organization means that the company has to deal with the material issues arising from geographical contingencies. At the same time, integrated thinking can help with learning from international best practices and with better managing risks and opportunities.”

Alessia Silvestro
Sustainability and ESG Manager



How has integrated thinking helped Leonardo deploy its strategy?

Leonardo developed its Strategic Plan and its 2030 Vision with the help of integrated thinking, to enable the business to plan for the next ten years with clear guidelines and aid its resilience in challenging times.

In 2018, to enable the execution of the strategy, the company set six cross-business development guidelines, which turned the value creation model of the organization into actions (see Figure 2):

- Accelerate collaborative innovation
- Build a solid and reliable supply chain
- Deliver customer-centric solutions
- Promote operational eco-efficiency
- Attract and nurture talent
- Promote a responsible business model.

GUIDELINES	COMMITMENTS	TARGETS ¹⁰	2019 RESULTS	IMPACTS
 Accelerate collaborative innovation	Develop an innovation culture and harmonise internal practices	Share knowledge and best practices and promote company-wide initiatives across the Group	<ul style="list-style-type: none"> Launched 2030 Masterplan for innovation and Leonardo Labs for research on future's technologies. Participation in consortia for scouting of innovative start-ups (for example, Elis OPEN Italy and CDI Labs - Collège des Ingénieurs). Collaborative innovation initiatives (for example, AIRtificial Intelligence with the Italian Air Force). 	 Target 9.5 <ul style="list-style-type: none"> About €4.5 billion of total R&D expense for the 2017-2019 period. Research projects and partnerships with more than 90 universities and research centres. Responsible for 18% of all high-tech Italian manufacturing exports.¹¹
	Promote open and collaborative innovation	Strengthen collaborations with external partners and efficient management of open innovation and technology scouting		
 Attract and nurture talent	Invest in training and development programmes	Over 100 hours of training for each employee in the 2018-2022 period	<ul style="list-style-type: none"> 39 average hours of training per employee in the 2018-2019 period. Approximately 14,500 assessments performed to map the professional skills of white collars and junior managers. Over 27,000 people's performance appraised. Under 30 new hires equal to 43% of total new hires in 2019. Women new hires equal to 20% of total new hires in 2019. Organisation of hackathons and contests aimed at undergraduates and graduates in STEM subjects (for example, Innovathon). 	 Target 4.4 <ul style="list-style-type: none"> About 2,500 internships, apprenticeships and training initiatives in the 2017-2019 period. Over 5,000 under 30 new hires in the 2017-2019 period. About 50,000 students reached at the career days in 2019.
	Identify and encourage the skills for today and tomorrow	Map and assess Group skills Initiatives to encourage new generations to study STEM subjects		
	Encourage generational turnover, guaranteeing excellence in terms of skills and professionalism	Under 30 new hires equal to at least 40% of total new hires by 2022		
	Create an inclusive work environment	Women new hires equal to at least 32% of total new hires in 2022		

Figure 2. For a detailed view of the model please consult Leonardo's Sustainability and Innovation Report, page 22 - 23



Each guideline is broken down further into specific operating commitments and targets, both qualitative and quantitative. This enables these guidelines to be fully integrated within the value creation model of the organization and to permeate its business activities in a measurable way.

Specifically, Leonardo reported 2019 results for each development guideline (as in Figure 3 below). New targets will be published in the next report.

DEVELOPMENT GUIDELINES	2019 MAIN RESULTS
 <p>Accelerate collaborative innovation</p>	<ul style="list-style-type: none"> • 2030 Masterplan for innovation and Leonardo Labs • Participation in consortia for scouting of innovative startups • Collaborative innovation initiatives
 <p>Deliver customer centric solutions</p>	<ul style="list-style-type: none"> • 4 M-346 aircraft operating at the International Flight Training School of Galatina (Lecce). • Participation in exhibitions increased by 6% compared to 2018 • Acquisition of Vitrociset
 <p>Attract and nurture talent</p>	<ul style="list-style-type: none"> • 39 hours of training per employee in the 2018-2019 period • Over 27,000 people's performance appraised • Under 30 new hires equal to 43% of total hires in 2019 • Women hires equal to 20% of total new hires in 2019 • Hackathons and contest aimed at undergraduate and graduates in STEM disciplines
 <p>Build a solid and reliable supply chain</p>	<ul style="list-style-type: none"> • ELITE Leonardo Lounge to train high-potential suppliers • Financial and commercial agreements to support suppliers' growth • Ongoing activities on modern slavery and conflict minerals
 <p>Promote operational eco-efficiency</p>	<ul style="list-style-type: none"> • 72% of employees work in ISO 14001 certified sites • Water withdrawal intensity reduced by 10% vs 2018 • Waste produced intensity slightly increased by 1% vs 2018 • 10%-30% productivity increase of 6 sites thanks to Leonardo Production System
 <p>Promote a responsible business model</p>	<ul style="list-style-type: none"> • Participant in the United Nations' Global Compact Action Platform SDG 16 • Performed the annual ISO 37001 verification audit by the certification body • Dow Jones Sustainability Indices' Industry leader in Aerospace & Defence sector • Confirmed CDP (Carbon Disclosure Project) ranking at level A-

Figure 3. For a detailed view of the model please consult Leonardo's Sustainability and Innovation Report, page 22 - 25





Undoubtedly, the very first challenge is cultural. Understanding the value creation model of a complex business such as Leonardo and unlocking this value, requires everyone to be on board. This isn't work that can be carried out with only a few company representatives. On the contrary, it requires a cultural shift. That culture has to then be embedded in the company's fabric and embedding it requires time, effort and resources. This is a journey – perseverance is the key.”

Manuel Liotta
Head of ESG & integrated reporting

How has embedding integrated thinking benefited Leonardo?

The multi-capital approach has enabled Leonardo to look into its capitals and processes in a holistic way, considering interconnections between different strategic areas.

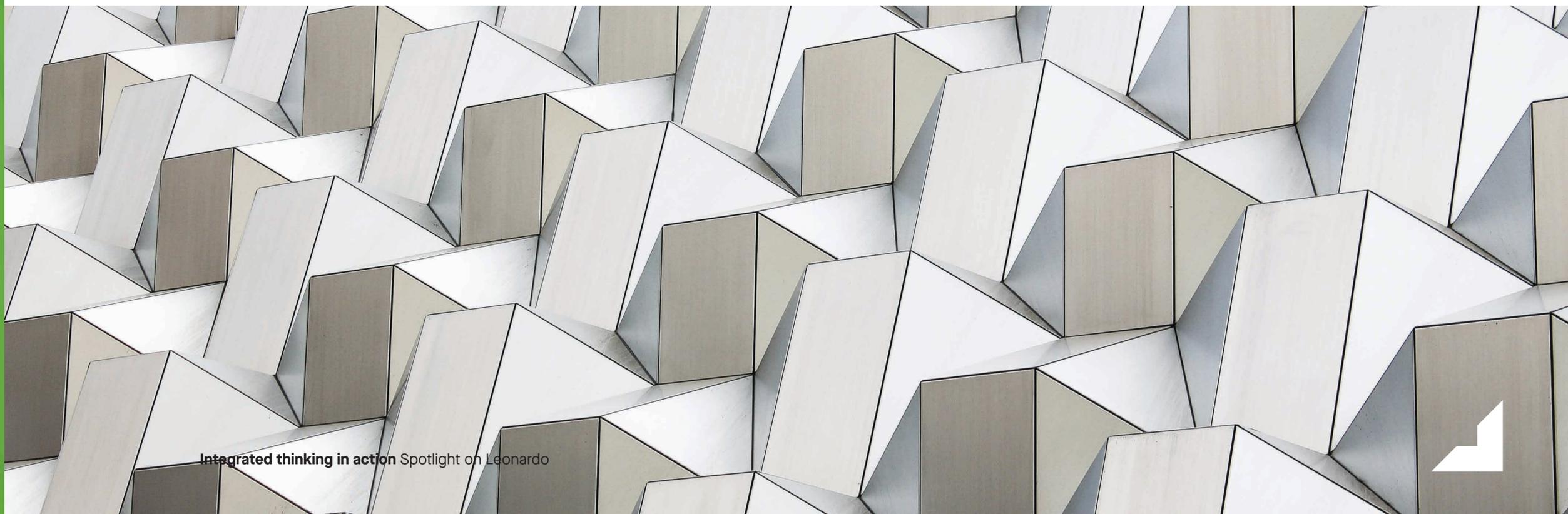
For example, innovation is a key priority, which comes from sharing knowledge and best practices, as well as from investment and research, and is connected to employee wellbeing. That is why Leonardo's integrated strategy aims both to encourage a collaborative culture and nurture the skills of its employees, through learning and development, as well as encouraging future generations to study STEM (Science, Technology, Engineering, Maths) subjects.

In light of its transformational journey, Leonardo's sustainability strategy is fully integrated into its Industrial Plan, launched in 2018, and has since been updated to further integrate the Sustainable Development Goals (SDGs) and the recent guidelines of the European Green Deal. Leonardo worked to quantify its impacts through an SDG lens, measuring the results of its actions and reporting data on quality education, qualified employment, scientific research, technological capabilities and eco-efficiency. Recently, a further step has been taken in this direction, with the company joining the CFO Taskforce of the UN Global Compact to embed the SDGs in finance and investments.



The commitment of the entire management team to the value creation model is also ensured by linking part of their short-term variable remuneration to the achievement of ESG targets and, specifically, to the company's inclusion in the Dow Jones Sustainability Indices.

Furthermore, the company has invested heavily in its data collection system to foster the integration of the multiple capitals at stake. With the creation of a new unit dedicated to ESG and integrated reporting, within the CFO area, Leonardo is working to deliver its first fully integrated report, including both financial and non-financial information. For its efforts, Leonardo has been recognized as industry leader in the Aerospace & Defence sector of the Dow Jones Sustainability Indices in both 2019 and 2020.



VALUE REPORTING FOUNDATION INTEGRATED THINKING PRINCIPLES

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 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.

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Contact: info@valuereportingfoundation.org

www.valuereportingfoundation.org