



Multi-Capital Decision Making in the Boards. How Finance Department Can Enhance Integrated Thinking

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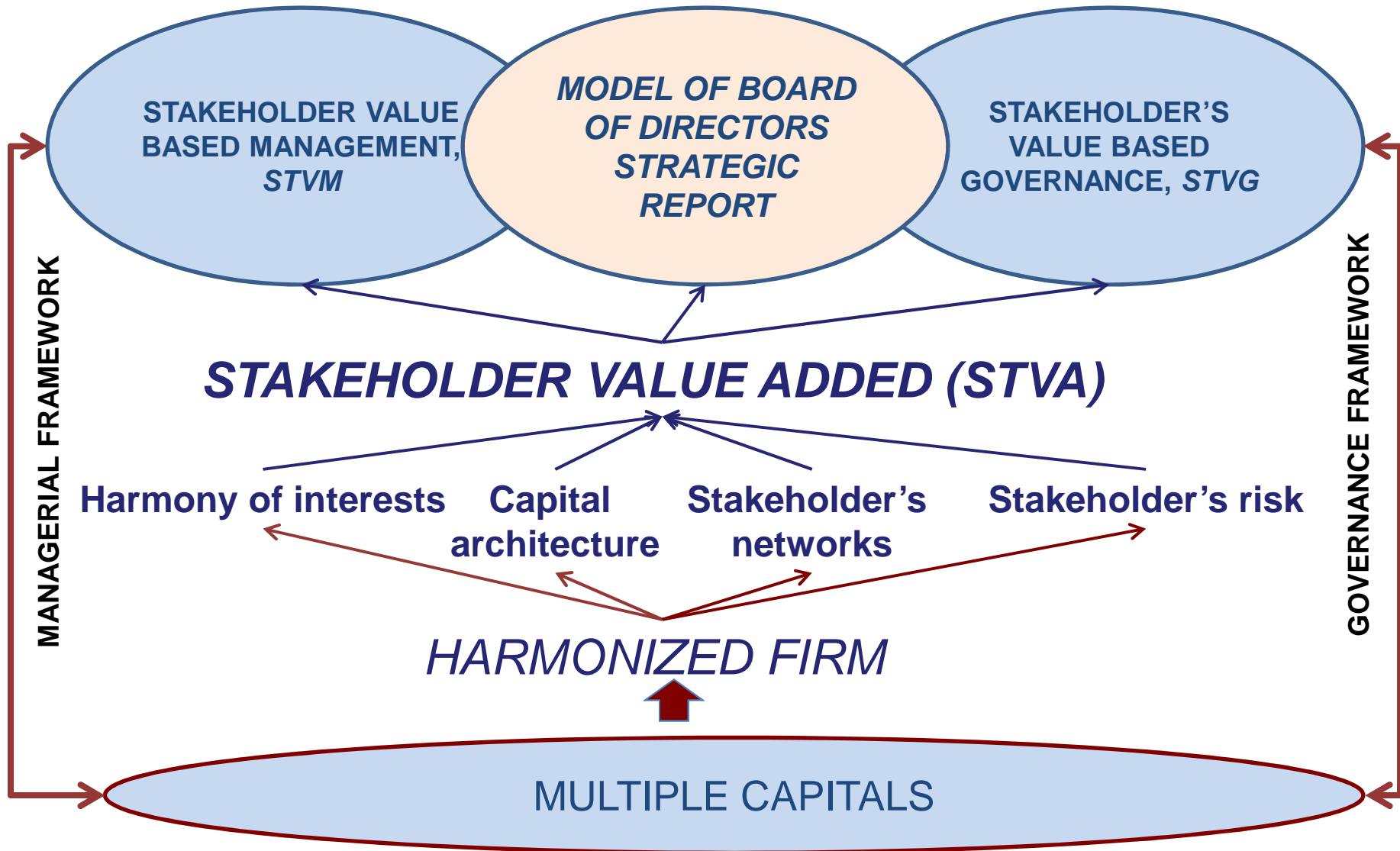
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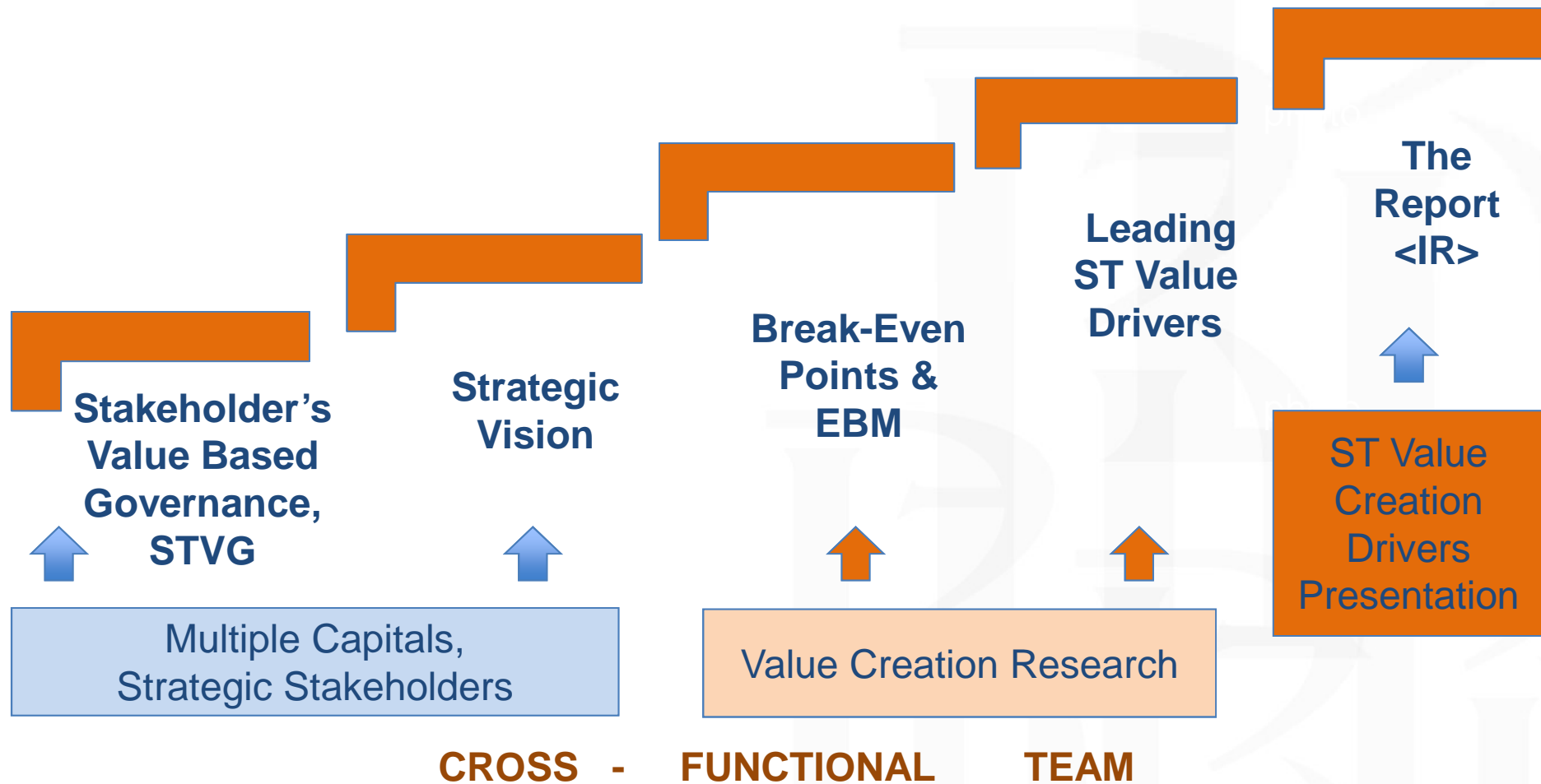
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- ❑ Multicapital decision- making and Stakeholder Value Added Governance (STVG)
- ❑ Reconciliation of financial and non-financial measures: some proposals
- ❑ Integrated thinking? The evidence from Russia
- ❑ Further opportunities for cooperation

INTEGRATED VALUE BASED MANAGEMENT





SUSTAINABLE GROWTH INDEX, SGI:

$$SGI = g_s \times \frac{l}{k} \times \sum_{i=1}^k \max[0, (ROCE_i - WACC_i)]$$

g_s - *geometric mean of sales growth rate*

$ROCE$ – *return on capital employed in the year “i”*

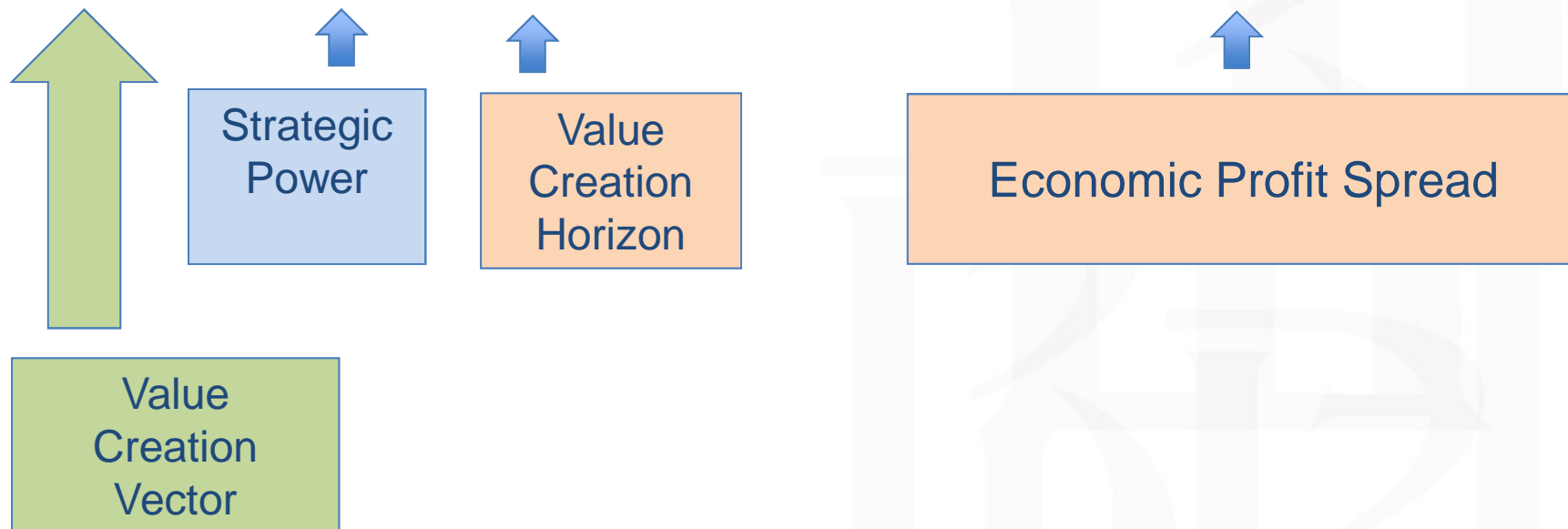
$WACC_i$ – *weighted average cost of capital in the year “i”*

k – *number of years under observation*

l – *number of years with positive economic profit spread*

SUSTAINABLE GROWTH INDEX, SGI:

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$$IHI = \frac{A - |B|}{A + |B|} \quad -1 \leq IHI \leq +1$$



Stakeholder Value Creation Vector

$|B|$ Decreases, if the interests are not carefully understood and incorporated within the strategic framework (no strategic fit)

IHI – interest's harmonization index

A – weighted average sum of positive components;

B - weighted average sum of negative components



- New Corporate Governance Code, 2014
- New Concept of Nonfinancial Reporting, 2017
- Preparation of the Law on Nonfinancial Reporting for December 2017

Indices	Since 2016	1 year	3 years	Overall
MSE (Moscow stock exchange)	7.37%	14.30%	42.14%	34.86%
“Openness”	6.45%	8.10%	46.12%	34.95%
“Vector”	19.64%	29.21%	75.99%	52.55%
“Perspective”	19.64%	29.21%	75.99%	51.54%

By 01 February 2017 164 companies, 752 non-financial reports since 2000:

- Ecology - 68, CSR - 291, Sustainability – 248, **integrated -120**, 25 others
- Integrated reports by major industries (number of firms) :
 - Oil&gaz 19, Energy sector 41, metals&mining 18, chemicals 12, Finance &insurance 18, Telecoms 10
- Dominance of social responsibility and sustainability vision
- Boards do not have sufficient education to apply and follow integrated thinking
- Weak or absent intellectual capital analysis tradition

Potential areas for further research & discussion

- ❑ Short-termism versus long-termism of companies (not investors). The drivers behind the value creation, best practices
- ❑ How do long term value creators apply integrated thinking? Best practices

- ❑ Integrated thinking and fit for growth
- ❑ Integrated thinking and corporate DNA:
 - information (structure),
 - mode of thinking (interactions),
 - decisions (motives and motivation),
 - norms (responsibilities)

- ❑ The role of integrated reporting in firm-activists communications
Integrated reporting and expectations (analysts, investors)



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Thank you for your attention!

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