Break-out Session 4

“The Silo Problems of Giant Corporations
-Is it possible for Integrated Reporting
to overcome these problems?”

29 Sep. 2016 (Thursday) 13:30~14:30

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1) Silo Effect

2) Possibility of Knowledge Management to Breakdown Silo Problems

3) Integrated Reporting based on Integrated Thinking Management
“...Why Sony unveiled not one, but two different digital Walkman devices in 1999 was because it was completely fragmented: different departments of the giant Sony empire had each developed their own—different—digital music devices, with proprietary technology, known as ATRAAC#, that was not widely compatible. None of these departments, or silos, was able to agree on a single product approach or even communicate with each other to swap ideas, or agree on a joint strategy.” Gillian Tett, The Silo Effect, Simon & Schuster, 2015, p.54
"We cannot live without silos in the modern world. But we can avoid succumbing to the problems they pose." - the Peril of Expertise and Promise of Breaking Down Barriers by Gillian Tett
What is the silo?

The silo originally means the farm storage silo. The term of <silo effect> comes from it because there could be two silos right next to each other and if people were inside them they could not be able to communicate, since silos are tall, narrow buildings with no windows and are even supposed to be airtight.
1) The Silo Effect

The ‘Silo Effects’

“We tend to work in silos. Marketers market. Salespeople sell. Engineers engineer. Traders trade. Across industries and cultures, this common organizational structure results in both limited information and restricted thinking. They have the power to collapse companies and destabilize financial markets, yet they still dominate workplace. They blind and confuse us, often making modern institutions collectively act in risky, silly, and even stupid ways.”

by Gillian Tett
Silo Formation

There are 3 types of influences that cause silos. Those internal to the silo itself, those imposed by the Company and those that stem from the outside world. These three factors interact to form silos such that each impacts the others, thereby reinforcing the silo system.

Refer to “Improving Performance by Breaking Down Organizational Silos Understanding Organizational Barriers” Select Strategy, www.selectstrategy.com
I) The Silo Effect

Why Silos are Dangerous for an Organization

1. Communication Barriers
Creating barriers to communication between divisions facilitates divisions working in isolation which negatively impacts the work process because there is a lack of integration between functions.

2. Minimal Co-operation between Areas
Employees do not co-operate with and assist other departments in the Company as much as they should, costing the firm time, effort and money.

3. The Psychology of ‘Feeling a Victim’
“Communication Problem” leads to make the situation in which everyone feels a victim. This is unfortunate because it is difficult for existing members of the firm to break down the communication barriers in light of a pervasive feeling of helplessness.

4. Silos are Long Lasting
Employees do not co-operate with and assist other departments in the Company as much as they should, costing the firm time, effort and money.

Refer to “Improving Performance by Breaking Down Organizational Silos Understanding Organizational Barriers” Select Strategy, www.selectstrategy.com
1) The Silo Effect

The Downward Spiral of Negative Silos

- Each division is focused on its own primary objectives.

- Divisions do not communicate sufficiently or effectively because of the factors that feed into silo formation.

- Divisions do not co-operate with each other because they are uninformed.

- The lack of co-operation breeds resentment and a reciprocal lack of giving.

- Division members feel isolated from other divisions and focus work effort within their own division.

- Each division focuses on its own primary objectives.

Refer to “Improving Performance by Breaking Down Organizational Silos Understanding Organizational Barriers” Select Strategy, www.selectstrategy.com
2) Braking Silo Problems with KM

KM Based on DIKW Model

1. **Data**: the atomic raw material, almost like a physical substance to be stored, moved around, and manipulated.

2. **Information**: an arrangement of data which takes on meaning in some particular context. Information “says something.”

3. **Knowledge**: the mental consequence of engaging information; knowledge exists only within human brains, and every piece of knowledge is unique to the individual brain that hosts it.

4. **Wisdom**: higher-order knowledge; the capacity to go beyond the available knowledge and to arrive at new insights based on learning and experience.

Refer to “Organizational Intelligence & Knowledge Management: Thinking Outside the Silos”, Karl Albrecht. http://www.KarlAlbrecht.com
2) Braking Silo Problems with KM ②

KM Based on SECI Model

2) Braking Silo Problems with KM

How to Communicate and Exchange Each Knowledge between Persons and/or Organizations

1. Knowledge Creation:
   Static DIKW Model $\Rightarrow$ Dynamic SEKI (Ba) Model

2. Communication Method:
   Face to Face $\Rightarrow$ Face to Face + IT Interactive Communication Tool

3. Reporting Media:
   Financial Reporting + CSR Reporting + CSV Reporting
   Combine Reporting $\Rightarrow$ Integrated Reporting
3) Integrated Reporting Based on Integrated Thinking Management

Some Examples in Japan①–ITOCHU Corporation

1) How to Unite Seven Operating Business Segments
   - Textile Company
   - Machinery Company
   - Metals & Minerals Company
   - Energy & Chemicals Company
   - Food Company
   - General Products & Realty Company
   - ICT & Financial Business Company

2) What Is the Value Creation Story for Its Corporate Level
   - Business Development based on Continued Evolution
   - Business Models

3) Key Connecting Drivers of Integration
   - Human Resources Strategy
   - Client Partner Assets
   - Organizational Assets
3) Integrated Reporting Based on Integrated Thinking Management

Some Examples in Japan (2) - MS & AD Insurance Holdings

1) How to Unite Merged Insurance Operating Companies
   - Mitsui Sumitomo Insurance Co., Ltd.
   - Aioi Nissay Dowa Insurance Co., Ltd
   - Mitsui Direct General Insurance Co., Ltd
   - Mitsui Sumitomo Aioi Life Insurance Co., Ltd
   - Mitsui Sumitomo Primary Life Insurance Co., Ltd

2) What Is the Value Creation Story for Holding Level
   - The MS & AD Story of Value Creation
   - Five Business Domain
   - Medium-Term Management Plan

3) Key Connecting Drivers of Integration
   - Developing New Corporate Culture
   - Human Assets Development
   - Value Creation Driver

* A simple aggregate of Mitsui Sumitomo Insurance and Aioi Nissay Dowa Insurance
3) Integrated Reporting Based on Integrated Thinking Management

International Integrated Reporting Council (IIRC)

http://integratedreporting.org/
Business Model of International Integrated Reporting Council <IR>
Key Points of <IR>

• The term business model is defined herein as “the chosen system of inputs, business activities, outputs and outcomes that aims to create value over the short, medium and long term.”
• Consideration of inputs, outputs and outcomes will help to clarify the organization’s positive and negative impacts on financial, manufactured, human, intellectual, natural and social and relationship capital. Such considerations will also encourage the organization to take a broader view of the concept of value creation.
• A distinction is made between outputs and outcomes. Outputs are the key products or services that an organization produces, as well as the waste or other by-products that create or erode value. Outcomes are the internal and external consequences for the capitals as a result of an organization’s business activities and outputs.
• Assessing desired outcomes against actual performance and strategic objectives may prompt changes to the business model.
As the Mutual Supporting Organization of IIRC, WICI’s Vision & Goals

Our Vision

WICI, the world’s business reporting network, is a private/public sector collaboration aimed at improving capital allocation through better corporate reporting information.

Our Goals

- The first is to develop a voluntary new global framework for measuring and reporting corporate performance to shareholders and other stakeholders.
- The second is to develop guidelines for measuring and reporting on industry-specific key performance indicators (KPIs).
- The third is to facilitate the development of XBRL taxonomies for this content.

We believe that such better information will improve capital allocation decisions both within companies and between investors and companies. The result will be more value creation for a better world economy.
WICI Approach to <IR>

Seven Points for Future Business

1. Identifying sources of differentiation of the company from others
2. Making it clear the value creation mechanism unique to the company which can last longer
3. Presenting an integrated picture of the company's activities, including financial data, financial performance and non-financial elements
4. Providing clues to stakeholders to predict future performance of the company
5. Allowing companies to freely choose the substance without requiring ‘tick the box’ type of disclosure
6. Explaining material issues for the company with a certain reliability and comparability of the disclosed information for users
7. Reducing the total cost of reporting for companies
3) Integrated Reporting Based on Integrated Thinking Management

WICI Reporting Framework

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<tr>
<th>Past</th>
<th>Current</th>
<th>Future</th>
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<tbody>
<tr>
<td>a. Business Landscape</td>
<td>d. Performance</td>
<td>A. Business Landscape</td>
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<td>b. Strategies</td>
<td>d-2. GAAP based</td>
<td>A-2. Economics</td>
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<td>b-9. Business unit strategies</td>
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<td>b-10. Business portfolio</td>
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<td>c. Resources and Processes</td>
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<td>c-1. Resources and processes summary</td>
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<td>(C-99.) Resources and processes summary especially with changes in resource forms, key performance and main process from that described in c-2 and c-3</td>
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<td>c-2. Resources forms</td>
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<td>c-3. Key processes</td>
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<td>c-4. Value drivers</td>
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<td>D. Performance</td>
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<td>D-1. Financial prospects (summary)</td>
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An integrated report should show a holistic picture of the combination, interrelatedness and dependencies between the factors that affect the organization’s ability to create value over time.
Deepening the Concept of “Connectivity”

Inquiring into Critical Value Creation Driver (CVCD) of each business entity

A Case Study of 3M Japan has been conducted by WICI Japan Study Group on Value Creation Driver

Connecting CVCD with accumulated data of IT Management System

Identifying and specifying KPIs explaining its own value creation process

Conversion of Data Collecting to Process Information

Adhoc and Isolated Data Gathering Approach for Financial/Non-financial Reports

Integrated Thinking Approach of Projecting its own value creation mechanism

Describing reliably the Value Creation Process (Value Creation Story) of Each Business Entity with <IR>

Preparation for Assurance
Value Creation Tree Analysis of 3M Japan

3M Innovation

Ability to collect customer needs to 3M technology

Ability to utilize 3M Technology Platforms

Ability to create business

Ability to realize & validate ideas

NPI / Commercialization

6 Types of Capital in Octopus Model

- Financial Capital (Aqua) (F)
- Manufactured Capital (Brown) (M)
- Intellectual Capital (Blue) (I)
- Human Capital (Green) (H)
- Social and Relationship Capital (Orange) (S)
- Natural Capital (Purple) (N)

Value Creation Cycle

#1: No of customer visits by engineers

#2: No of visitors to CTC

#3: No of Technology Platforms

#4: No of newly planned Technology Platforms

#5: No of awardees who challenged new ideas

#6: No of Tech Forum Events

#7: Actual sales results (NPVI)

#8: NPVI: 37%@2017 (Global 3M Target)
The purpose of the WIRF is to establish guiding principles and content elements for the reporting of intangible resources which are material for an organization’s value creation process and its communication to stakeholders.
Definition of the Intangibles

Intangibles are non-physical resources that generate value to the organization in the short, medium and long term.
What We Are Going to Do

1  Clarifying the Concept of ‘Value’
   1-1 Measurement under the monetary economy or not
   1-2 Value to Whom ・・・ Value to the organization or stakeholders
   1-3 Role of ‘Outcome’ ・・・ How to connect organization’s value to stakeholders’ value through identifying outcomes?

2  Making <IR> More Understandable
   2-1 Is the concept of ‘Capital’ same as ‘Resource’?
   2-2 How to avoid the duplications of financial accounting concepts in the case of expressing intangibles?
Announcement of Intangible Resources Events in 2016

Nov. 30 (Wed)  International Work Shop on
                  Intellectual Capital and knowledge
                  venue: Ono Memorial Auditorium at WASEDA Univ.

Dec. 1 (Thu)  Visiting the Customer Technical Center of 3M Japan
                 at Sagamihara

Dec. 2 (Fri)  WICI Symposium 2016
                 venue: Ohkuma Memorial Auditorium at WASEDA Univ.

Thank You

http://www.wici-global.com/index_ja