Volume 20 Issue 17
Originally issued as A8

Global Journal of Management and Business Research: A Administration and Management
Volume 20 Issue 8 Version 1.0 Year 2020
Type: Double Blind Peer Reviewed International Research Journal
Publisher: Global Journals
Online ISSN: 2249-4588 & Print ISSN: 0975-5853

Case Studies of Value Creation on Integrated Reporting in Japan

By Dr. Kazunori Ito
Senshu University

Introduction- How to visualize the value creation process is a major issue in integrated reporting. If a strategy map of Balanced Scorecard (BSC) is used, value creation and suppression of value loss can be visualized separately according to the strategic theme. The value creation process can be visualized by distinguishing between strategic themes in business strategy and strategic themes solving social issues. However, there is an issue in that companies that have not adopted the BSC cannot use strategy maps. For this reason, how to visualize the value creation process is a highly interesting topic to investigate.

The International Integrated Reporting Council's IIRC framework (2013b) mainly focuses on information disclosure to financial capital providers, and visualization of the value creation process focuses on value creation through business strategy. At the same time, an IIRC discussion paper (IIRC, 2011) contained a proposal that also focused on suppression of value loss to stakeholders by solving social issues

GJMBR-A Classification: JEL Code: M20

CASESTUDIESOFVALUECREATIONONINTEGRATEDREPORTINGINJAPAN

Strictly as per the compliance and regulations of:

© 2020. Dr. Kazunori Ito. This is a research/review paper, distributed under the terms of the Creative Commons Attribution-Noncommercial 3.0 Unported License http://creativecommons.org/licenses/by-nc/3.0/), permitting all non-commercial use, distribution, and reproduction in any medium, provided the original work is properly cited.

Case Studies of Value Creation on Integrated Reporting in Japan

Dr. Kazunori Ito

I. Introduction

How to visualize the value creation process is a major issue in integrated reporting. If a strategy map of Balanced Scorecard (BSC) is used, value creation and suppression of value loss can be visualized separately according to the strategic theme. The value creation process can be visualized by distinguishing between strategic themes in business strategy and strategic themes solving social issues. However, there is an issue in that companies that have not adopted the BSC cannot use strategy maps. For this reason, how to visualize the value creation process is a highly interesting topic to investigate.

The International Integrated Reporting Council's IIRC framework (2013b) mainly focuses on information disclosure to financial capital providers, and visualization of the value creation process focuses on value creation through business strategy. At the same time, an IIRC discussion paper (IIRC, 2011) contained a proposal that also focused on suppression of value loss to stakeholders by solving social issues. However, the octopus model advocated by the IIRC cannot be said to be a value creation process that can accommodate value creation and suppression of value loss. In other words, it is a major task to visualize information not only about business strategy and solving social issues but also visualizing not only value creation but also suppression of value loss.

Many companies in Japan have taken on the challenge of visualizing a value creation process that addresses both value creation and suppression of value loss in integrated reporting since 2013.[1] Since it is not possible to consider all integrated reports, we undertake a comparative study of the disclosure of value creation and suppression of value loss, using companies that visualize relatively diverse value creation processes in Japanese integrated reporting.

Author: Senshu University, Japan. e-mail: itoh@isc.senshu-u.ac.jp

[1] Japan was selected due to the large number of Japanese companies producing integrated reports. In a response in an interview with DHBS editor-in-chief Ryo ot subo, WICI Japan chairman Kon points out that the number of companies worldwide preparing integrated reports in 2018 was about 1,600 and that more than 400 of these were Japanese companies. This article was published in "DHBS Original Articles" on July 29, 2019. https://www.dhbr.net/articles/-/6032?page=3 (2019/12/19)

This paper offers a comparative study of the visualization of the value creation process using integrated reports voluntarily disclosed by companies, and proposes requirements for the value creation process with consideration for both value creation and suppression of value loss. Section 2 examines companies' internal and external environmental factors in regards to IIRC flame work's content elements. Section 3 clarifies the IIRCs views and changes in those views in regards to business model content items. Section 4 makes a comparative study of visualizations of the value creation process based on the integrated reports from four leading Japanese companies. Section 5 clarifies and further examines the requirements for visualizing the value creation process in terms of management's use of information based on the integrated reports of the companies subject to comparative study. Lastly, we summarize this paper's findings.

II. Content Elements Concerning the Environment Internal and External to the Company

An integrated report does more than reveal financial and non-financial information and their relationship. It requires disclosure of information about environmental factors internal and external to the company. These are described in the content elements of the IIRC framework as company profile, external environment and governance (IIRC, 2013b, pp.24-25). We will clarify these in that order.

- *Organizational overview and external environment*
  The IIRC framework points out that "an integrated report should answer the question: What does the organization do and what are the circumstances under which it operates? (2013b, p.24)," and demands the disclosure of the content of the company's business and the external environment surrounding the company. In regard to the company profile, it is necessary to clarify the company's mission and vision and the contents of its business under its basic business environment.

Since the organizational overview and external environment are conceptual, it is relatively difficult to connect and visualize financial and non-financial information. For this reason many companies describe these using the CEO's message. However, companies

© 2020 Global Journals

that recognize social issues as an external environment may set explicit attainment goals and link these to non-financial information. In such cases, as when using a business strategy to solve a social issue, business strategy and social issues are closely linked, and the value creation process visualized.

- *Governance* The IIRC framework states "an integrated report should answer the question: How does the organization's governance structure support its ability to create value in the short, medium and long term (2013b, p.25)," and requires the disclosure of governance information. In the visualization of corporate governance in integrated reports, most companies must disclose their governance systems, company directors and auditors, corporate officer remuneration, type of board, their respective coordination, internal audits and interactions with shareholders. These contents are also visualized in financial reports. This kind of current information disclosure is only a formal disclosure, for which only formal requirements such as the system of governance and the career histories of external board members, etc., are required.

On the other hand, the IIRC framework (2013b, p.25) requires the disclosure of career history, abilities and experiences as governance officer skills. Moreover, they also require description of their specific actions that affect strategy and risk management as well as how remuneration is linked to value creation. As the IIRC framework suggests, meaningful, substantive disclosure that visualizes governance in relation to value creation will be required. Substantive disclosure here describes, for example, how the comments of a specific outside director have influenced the management's strategy development and decision-making, and how they have contributed to value creation or suppression of value loss.

In preparing an integrated report, unlike a financial report, the release of accounting responsibility that assumes governance by investors only should not be sufficient. Companies must respond to stakeholder governance, and must be accountable in conjunction with the value creation process. To do so, it is an issue to consider only formal disclosure. It is necessary to respond to stakeholder governance through substantive disclosure that enables stakeholders to understand value creation and suppression of value loss. However, it may be difficult to demonstrate governance at the same level as visualization of the value creation process. Therefore, as many companies today disclose, a governance element is created and clarified through substantial disclosure.

The company profile and external environment above, as well as governance are contents that have conventionally been disclosed in financial reports. This is not additional information disclosed through integrated reports. On that point, disclosure of this information in integrated reports is not particularly considered a problem. However, the internal and external business environments, which have so far been formally disclosed, must be substantively disclosed to stakeholders in relation to value creation.

III. Content Elements Concerning Business Model

Among the content elements within the IIRC framework, elements relating to business model include business model, risk and opportunity, strategy and resource allocation, performance and outlook (IIRC, 2013b, pp.25-32). We will consider these in turn.

- *Business Model* "Business model" is defined in the IIRC framework as "an organization's system of transforming inputs through its business activities into outputs and outcomes that aims to fullfil the organization's strategic purposes and create value over the short, medium and long term (IIRC, 2003b, p.33)". Here, input is the capital used in business activities, output is quantity of output and quality level of products, services, secondary products and waste. Moreover, outcome refers to the degree of capital created or impacted as a result of output from business activities. The increase or decrease in six types of capital can be restated as outcomes. In this way the core of the value creation process to be visualized are content elements relating to the business model.

According the IIRC's Business Model Background Paper, the results of literature studies into business models show that some definitions are synonymous with strategy while other definition are distinct from strategy.[2] Here, business model differs from strategy, and we clarify concepts considering business models to be methods by which strategy is executed. For example, let us consider a convenience store or automobile manufacturer. In these industries, all companies have adopted very similar business models. What creates differences in profitability is strategy. When business models are considered in this way, business models and strategy can be considered as distinct concepts. The octopus model in the IIRC framework also sets business model as an item separate to strategy. We can understand business models to be a means of executing strategy.

- *Risks and Opportunities* The IIRC Framework states that "an integrated report should answer the

[2] This report can be downloaded below (2019/11/12). https://integratedreporting.org/wpcontent/uploads/2013/03/Business_Model.pdf this report examines the relationship between business models and content elements, from the point of view that business models are linked to strategies. According to the report, this is organizational capability relating to expanded profitability in 63%, input and activity in 56%, value creation or outcomes in 52%, strategy in 48%, output in 22% and value chain or other in 19%.

© 2020 Global Journals

question: What are the specific risks and opportunities that affect the organization's ability to create value over the short, medium and long term, and how is the organization dealing with them (IIRC, 2003b, p.27)."Of the factors that influence value creation capability through risks and opportunities, it is necessary to disclose information concerning those that are materiality.

It is necessary to disclose the process for determining materiality and the main decision items (the narrowing-down process, key individuals who influenced the prioritization). In regard to the process of determining materiality, an IIRC draft (2013a, p.31) creates a matrix taking into consideration the materiality of impact on value creation capability and event (in BSC terms, strategic initiatives), and requires materiality be judged. Moreover, the IIRC Framework (IIRC, 2013b, p.29) also points out that the process for determining materiality should be specified. If the decision-making process can be clarified in this way, it will be possible to disclose that the company is rationally selecting events with consideration for risk likelihood.

- *Strategy and resource allocation* The IIRC Framework states "an integrated report should answer the question: Where does the organization want to go and how does it intend to get there? (IIRC, 2003b, p.27)."This requires disclosure of the formulation of a strategy to realize company's strategic objectives, strategy execution and resource allocation plans to solve social issues. It is moreover necessary to indicate short, medium and long term outcome targets, and measure progress through material results. As set out by Ito (2014, pp.218-250), integrated thinking must be taken into account when disclosing strategy and resource allocation. In other words, not only is the relationship between strategic theme and organization, which functions to create synergy or suppression of value loss materiality, but also portfolio management using a strategy map as corporate strategy. Moreover, SWOT analysis may also reveal the relationship between the external environment and risks and opportunities. The matrix shown in Sustainability Reporting Standards (GSSB, 2016) is considered to function for resource allocation for solving social issues.

In addition to the pursuit of business excellence, it is important to disclose strategy themes in the value creation process, such as strategies seeking to emphasize customer relationships and pursuing differentiated strategies that offer competitive advantage. Specifically, through the value creation process, it is necessary to clarify, for each strategy theme, the role of innovation, how companies are building and exploring intangibles and to what extent environmental or social issues are being incorporated into the company's competitive advantage strategy. At the same time, resources must also be allocated to solve social issues. Achieving these at the same time and visualizing the value creation process is the focus of strategy and resource allocation. Companies are unable to create value solely by seeking solutions to social issues, but ignoring social issues does not create appropriate value.

- *Performance* The IIRC Framework states that "an integrated report should answer the question: to what extent has the organization achieved its strategic objectives for period and what are its outcome in terms of effects on the capital? (IIRC, 2003b, p.28)."Integrated reports can disclose qualitative and quantitative information about the extent to which the company has achieved its strategic objectives over a period of time and information about achievements and outcomes.

Specifically, targets must be disclosed in quantity information. In addition, factors such as risks and opportunities and the impact on the capital value chain must be disclosed as quantitative information as much as possible. Relationships with key stakeholders and their responses are to be disclosed as qualitative information. In addition, past, present and future prospects, as well as their relationship, should be disclosed as quantitatively as possible.

In disclosing information, in accordance with the guiding principles of consistency and comparability, once adopted indicators must be disclosed continuously. Where this is for investors, it is desirable to disclose information that enables quantitative comparison between companies. Where this is for stakeholders, not only will it be necessary to disclose quantitative comparison between periods but also how differences in strategy due to qualitative information affects performance.

It is necessary to disclose financial indicators together with other elements. For example, it is important to explain effects on financial indicators that exert important effects on the causal relationship between capital and performance, such as that shown by KPIs (key performance indicators), such as the ratio of greenhouse gas emissions, to sales and expected sales growth due to increased human capital, using a narrative. Put simply, it is not only necessary to disclose past and present company performance itself, but also to explain using a narrative the relationship with increases or decreases in capital that will affect future prospects.

- *Outlook* The IIRC Framework states "an integrated report should answer the question: What challenges and uncertainties is the organization likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance? (IIRC, 2003b, p.28)."Integrated reporting focus on expected long-term changes,

© 2020 Global Journals

and must provide valid and credible analysis of the external environment the company faces in the short, medium and long-term, effects on the company and provisions against uncertainties. However, outlooks contain uncertainty, and it is important to create risk analysis and contingency plans to address these uncertainties. In regard to risks, it is also important to be able to visualize what kind of risks accumulate throughout the supply chain as a whole, e.g., carbon footprint.

As above, two elements were examined as environmental factors internal and external to the company, and five elements were examined as content elements relating to business models. It is thought that many companies already disclose not only environmental factors but also risks and opportunities, results and future outlook in financial reports. However, there is space to consider whether substantive disclosure extends to fully address the relationship with value creation. With regard to the disclosure of content elements, we examined whether the contents of disclosure were sufficient, and what information ought to be added. These points are arranged thus:

The first issue of disclosure content elements was clarified in the commentary on governance, performance and future outlook. That is, governance involves disclosing the skills of governance officers and their involvement in decision-making, for performance, the disclosure of not only results but a narrative, and for future outlook, disclosure of preparations against uncertainties. Moreover, substantive disclosure relating to value creation is desirable.

The second additional disclosure is disclosure of business models, strategy and resource allocation. It will be necessary to visualize strategy and resource allocation using BSC and to supplement SWOT analysis. In regard to risk, it is also important to disclose information with a scope covering the entire supply chain. We proposed using the event matrix shown in an IIRC draft (IIRC, 2013a) for the materiality of the business strategy, and the matrix presented in the Sustainability Reporting Standards (GSSB, 2016) for resource allocation to social issues.

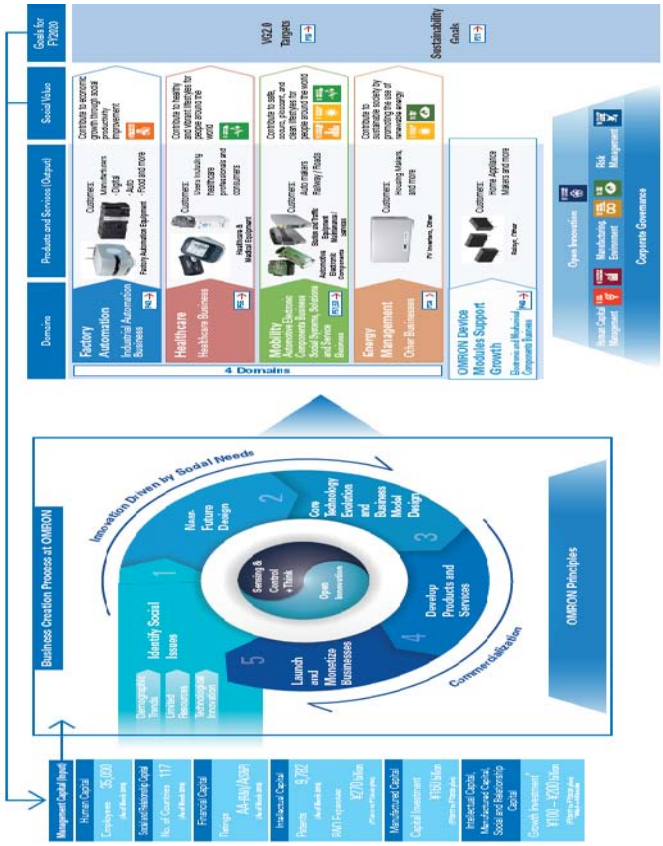
IV. Three Types of Visualization for the Value Creation Process

As with Kawasaki Heavy Industries (Ito, 2016), some integrated reports are similar to sustainability reports. Of course, in order to engage in stakeholder engagement as value co-creation, it is necessary to disclose value creation and suppression of value loss as business strategy and solutions to social issues. With reference to Japanese integrated reports, disclosure of the value creation process can be classified into three types. First is the octopus model type. Second is the strategy map type. Third is the sustainability type. This section specifically examines these three types based on integrated reports considered to be relatively good.

a) The Octopus model Type

The octopus model type is compliant with the IIRC Framework. First, a company will conduct business activities making use of governance, subject to the company profile and external environment. Depending on the business activities, it is necessary to formulate strategy with consideration for risks and opportunities, to allocate resources, and convert past performance into a future outlook. To that end, initial capital is used as input in business activities, and while managing the output produced there from, outcomes are expected, and these outcomes result in the creation of capital value creation. The above is the value creation process according to the octopus model proposed in the IIRC Framework. Omron's value creation process is a representative example of this octopus model type.

© 2020 Global Journals



Source: Omron Integrated Report (2019, pp.7-8)

Figure 1: Omron's value creation process

Figure 1 shows Omron's value creation process. In Omron's value creation process, capital is input into the business creation process, the results of business activities are output, social value is created in each domain, and at the same time SDGs (sustainability development goals) and the mid-term business plan are achieved.

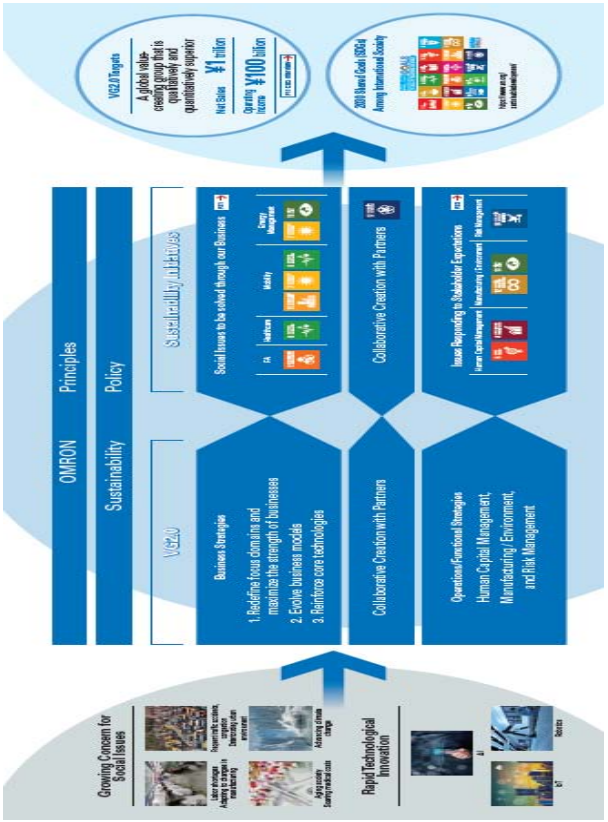
In Figure 1, based on the company philosophy, the business creation process explores social issues (population growth, resource constraints, technological innovation) and creates designs for the near future. On this basis, it is a business process that bridges the creation process, strengthens core technologies and designs business models with the commercialization process develops products and services and aims to create new businesses and profit. Creating social value through the output of products and services in each of the four domains (factory automation, healthcare, mobility, energy management), while at the same time aiming to achieve the mid-term business plan and contributes to the achievement of the SDGs.

Omron's mid-term business plan (VG2.0) began in 2017 as the final stage of its 10-year long-term vision (Value Generation 2020).This mid-term business plan covers four years, and is shown in Figure 2.

From Figure 2, the following business strategies were set in order to address social issues and rapid technological innovation, (1) Re-establish focal domains and strengthen the business (2) Evolve business models and (3) Strengthen core technologies. In addition to co-creation with partners, the company is addressing important sustainability issues through human resource management and performing manufacturing and environmental risk management as functional strategies. The important sustainability issues are solving social issues through business, co-creation with partners and meeting stakeholder expectations; there are two parts, one part being value creation, the other suppression of value loss. As a result, together with aiming to achieve the mid-term business plan, it also contributes to achieving the SDGs in the super-long term.

In order to solve social issues, the value creation process is visualized not as corporate strategy, but instead in more detail as business strategy (Omron Integrated Report, 2019, pp.21-24). By visualizing up to the level of business strategy, the relationship with the customer becomes clear. Moreover, it also clearly illustrates the objective of value creation through business, including co-creation with partners, and the suppression of value loss objective by responding to stakeholder expectations.

© 2020 Global Journals



Source: Omron Integrated Report (2019, pp.19-20)

Figure 2: Omron's mid-term business plan

Omron's integrated reporting can be called an excellent value creation process because it successfully solved value creation and suppression of value loss.

Omron's value creation process has several issues, however. First, as an issue related to integrated thinking, since only business strategies are described, the relationship between corporate strategy and business strategies is unclear. Moreover, as an issue relating to the information connectivity, it is not known what kind of causal relationship exists between financial and non-financial information in regards to business strategy, and so there is an issue of a type 1 of information connectivity. Furthermore, products and services are outputs, but the quantity of their output is not considered. For this reason, the relationship between business activities, outcomes and capital is also unclear, and so there is an issue of a type 2 of information connectivity.

b) The Strategy Map Type

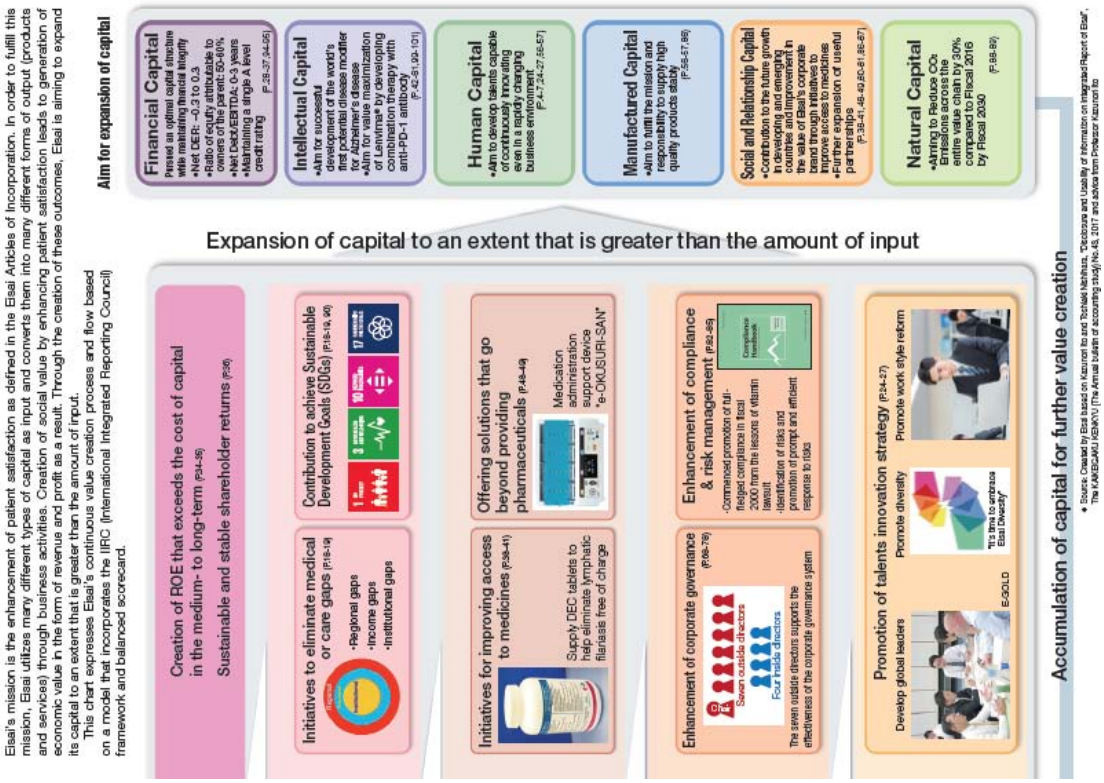
With regards to the value creation process, information connectivity is a requirement of the IIRC framework's guiding principles. However, as examined in Ito (2019), there is the issue that the information connectivity cannot be visualized within the Octopus model.

By contrast, the strategy map of the Balanced Scorecard (BSC) proposed by Kaplan and Norton (2004) can visualize the causal relationship between strategic objectives. The visualization of strategy is the value creation process. In this value creation process a causal relationship is assumed wherein preparing strategic objectives from the learning and growth perspective can achieve strategic objectives from the internal process perspective, and thereby strategic objectives from the customer perspective and strategic objectives from a financial perspective can be achieved.[3] Eisai Co., Ltd. stands among cases of visualizing the value creation process using a strategy map.[4] Figure 3 shows Eisai's value creation process using a strategy map.

From Figure 3, Eisai's value creation process first inputs six types of capital to execute the strategy. The strategy here is visualized as a causal relationship between the strategic objectives from four perspectives.

[3] Massigham et al. (2019), discussed in Ito (2019), is this type of study.
[4] Eisai's value creation process introduced in Ito and Nishihara (2017) is the 2017 version. Meanwhile, the value creation process cited in this paper is the 2019 version. The 2017 strategy map is more useful for understanding the causal relationship between strategic objectives. However, Eisai's institutional investors criticized the strategic objectives for being hard to picture. Therefore, since the 2018 edition of the integrated report, a strategy map has been created with diagrams and photos attached to make the strategic objectives easier to picture.

© 2020 Global Journals



Source: Eisai Integrated Report (2019, pp.20-21)

Figure 3: Eisai's value creation process

Value creation is visualized on the left of the strategy map, and suppression of value loss on the right. Indicators must be set in order to be able to measure the achievement of strategic objectives. If indicators can be created, financial and non-financial information are combined in a strategy map. As a result of business activities, output, a leading indicator, is produced, together with outcomes, lagging indicators, which can measure the degree of achievement of strategic objectives. This outcome is the increase or decrease in the value of the six types of capital.

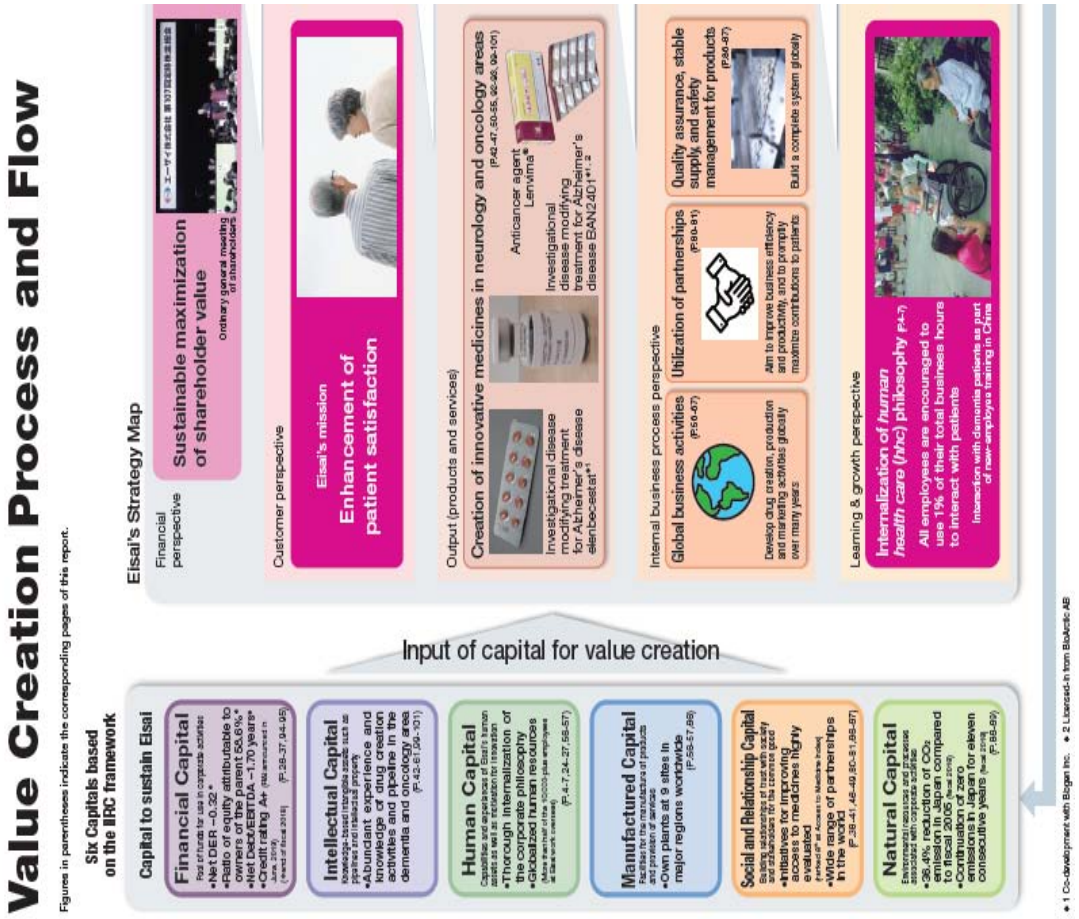
Strategic objectives from the learning and growth perspective relate to organizational capital (internalization of *human health care* (*hhc*) philosophy) and human capital (promotion of talents innovation strategy). Based on this, for strategic objectives from the internal process perspective, strategic objects relating for business processes for value creation (global business development and partnership activities, product quality assurance/safety services and safety management) and strategic objectives suppression of value loss(strengthening corporate governance, strengthening compliance and risk management).

As a result, value-creating output (products and services) can be created, together with efforts to suppression of value loss (provision free of charge, provision of medication assistance equipment). From this, strategic objectives from the customer perspective can contribute to increasing patient satisfaction, closing gaps in medical treatment and care and achieving the SDGs. Lastly, strategic objectives from a financial perspective can achieve sustainable maximization of shareholder value, ROE in addition to achieving shareholder return.

Eisai's materiality is unique (See Figure 4). This is not the matrix of impact on value creation and risk potential set out in the IIRC draft (IIRC, 2013a). Moreover, this is unlike the matrix of impact on value creation and impact on company and stakeholder valuation as in the Sustainability Reporting Standard (GSSB, 2016).

As shown in Figure 4, Eisai's matrix is the impact matrix on value creation and the level of interest among long-term investors for events to be strategically executed (in BSC terms, strategic initiatives). The vertical axis, which represents the importance of stakeholders, is similar to that of the Sustainability Reporting Standard (GSSB, 2016) except that it only targets specific stakeholders, namely long-term investors. Another difference is that rather than the materiality of social issues, this is the materiality of strategic initiatives. In other words, it can be understood that Eisai assigns priority according to the materiality of strategic initiatives, and sets events with higher priority as strategic objectives.

© 2020 Global Journals



Source: Eisai Integrated Report (2019, p.3)

Figure 4: Eisai's Matrix

In short, it can be understood that Eisai uses the strategy map to visualize its value creation process of value creation and suppression of value loss. In addition, visualization of strategy using a strategy map can also be understood. In regards to the relationship between company strategy and business strategy, which is the topic of integrated thinking, there is not distinction between the two, as the company operates a single business in pharmaceuticals. Furthermore, we examine information connectivity. Events with high materiality priority are set as strategic objectives, and the relationship between financial and non-financial information is visualized using a strategy map showing the causal relationship between strategic objectives. From this it can be understood that the first type of information connectivity is ensured. However, the relationship between business activities and capital cannot be achieved using such a strategy map alone; as it is, the second type of information connectivity remains an issue.

c) Sustainability Type

Although based on the octopus model, there is a value creation process that ultimately aims to increase social value, as in sustainability reports. Examples of this type of sustainability include the Ricoh Group and Lawson. The two cases are illustrated here to examine the value creation process in which corporate value solves social issues.

i. *The Ricoh Group*

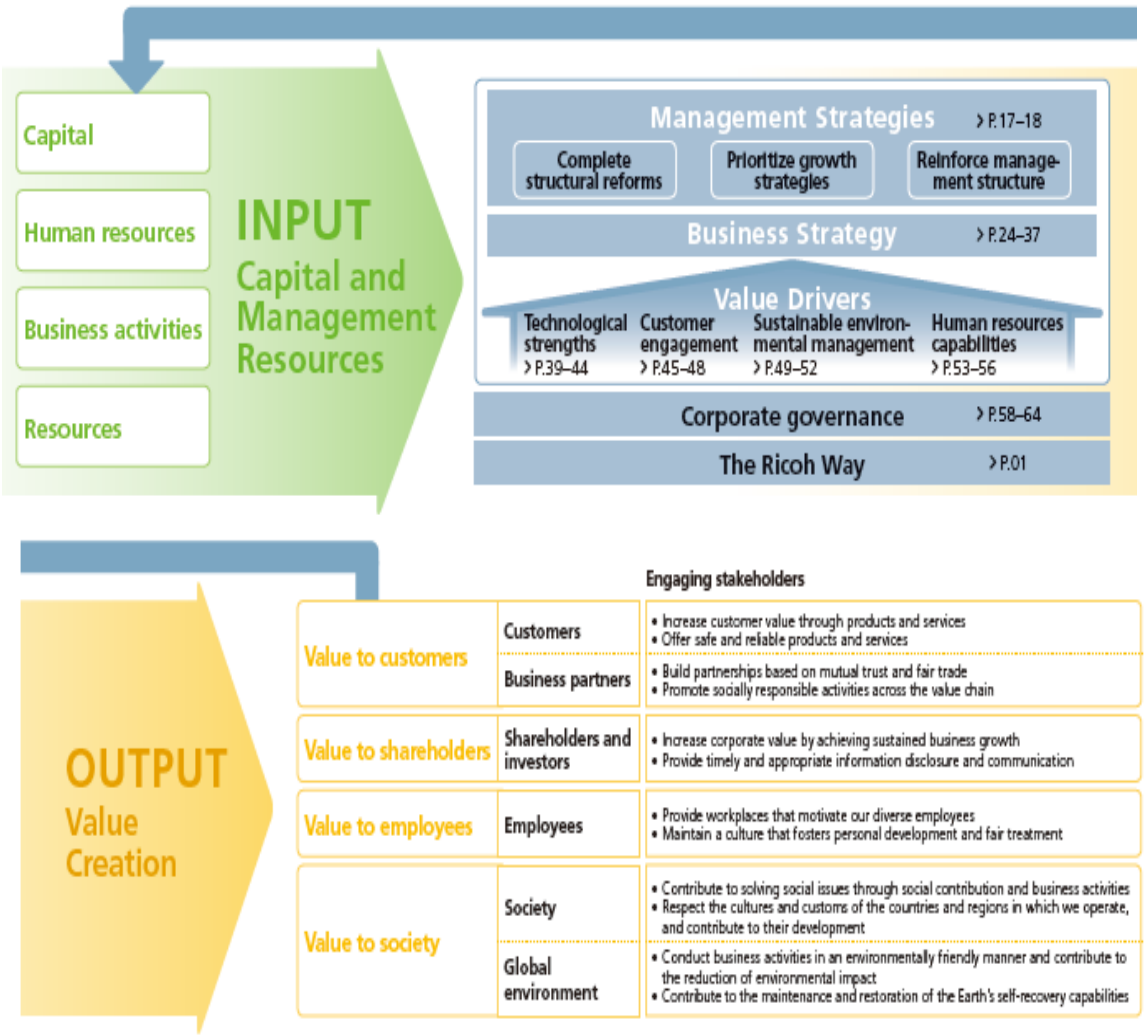
As shown in Figure 5, the Ricoh Group's value creation process assumes capital, human resources, business activities and resources as inputs. Moreover, under the mission, vision and governance known as the Ricoh Way, as a result of executing business strategies using value drivers (technological strategies, customer engagement, human resource capability), outcomes are considered stakeholder value, linked to value creation and suppression of value loss. Stakeholder value here consists of value to customer, value to shareholder, value to employees and value to society.

The IIRC Framework assumes six types of capital. Here however, the Ricoh Group considers only manufacturing capital and financial capital to be capital, and includes human resources (human capital) and resources (intellectual capital, natural capital) under other inputs. The IIRC Framework assumes that

© 2020 Global Journals

business activities are components of a business model, while the Ricoh Group is characterized by its treatment of business activities as inputs.

Moreover, from Figure 5, one of the features is that in order to increase shareholder value, social issues are considered as external environment, and there are inputs for their solutions. Under the mission and governance, corporate strategy (Considered to be management strategy within Ricoh Group) is separated from business strategy. Since business models are not used, business models are considered to be synonymous with strategy. Furthermore, regarding stakeholder value as solutions to social issues is similar to sustainability reports. Means to solve social issues are considered to be business strategy, which visualizes this co-creation of value with stakeholders. It can be inferred that suppression of value loss is not linked to business strategy relating to the solution of social issues, but instead is linked to value drivers. In regard to solving social issues, separation into parts solved using value drivers linked to business strategy and parts solved using value drivers not linked to business strategy is one characteristic of the Ricoh Group.

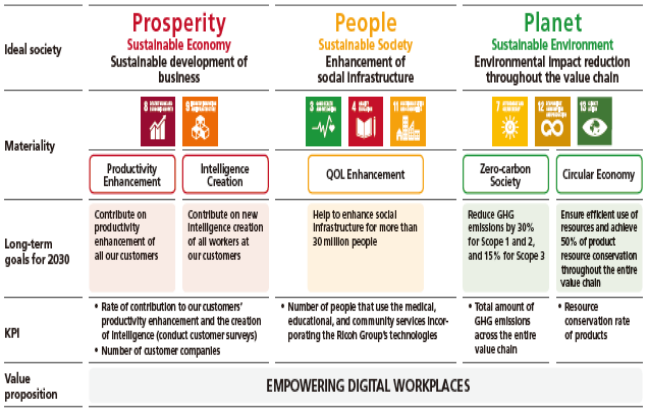


Source: Ricoh Group Integrated Report (2019, pp.19-20)

Figure 5: The Ricoh Group Value Creation Process

Figure 5 is very similar to Omron's octopus model type. The difference is whether the ultimate goal is considered to be shared value consisting of economic and social value or social value alone is considered at issue. Omron's ultimate goal is to achieve its mid-term business plan and sustainability, aiming for economic and social value. On the other hand, while the ultimate goal of the Ricoh Group is stakeholder value, it aims to solve social problems as a materiality for stakeholders. This point is the basis for the sustainability type. For this reason, the relationship between social issues and value creation is as shown in Figure 6-6.

© 2020 Global Journals



Source: Ricoh Group Integrated Report (2019, p.21)

Figure 6: The Relationship Between Social Issues and Value Creation

Figure 6 recognizes social issues as materiality for the sustainable society (The Three Ps Balance at Ricoh Group) it aims for. The social issues here referred to as the 3Ps are a sustainable economy for the company (Prosperity), a sustainable society (People) and sustainable environment (Planet). This materiality is clarified using the icons of the Sustainable Development Goals (SDGs) that the United Nations set in 2015 with the aim of achievement by 2030. Goals for 2030 were set for each social issue and indicators set to evaluate them. Its relation is that if all of these can be achieved, new value propositions can be made to stakeholders.

For the social issues, five materialities are presented in relation to the 3Ps; productivity enhancement, knowledge creation, QOL enhancement, achieving a zero-carbon society and circular economy. No decision-making process was shown for selecting and prioritizing these social issues. It can be understood that the social issues relating to value creation are productivity improvement (superlative work) and knowledge creation (new product leadership). Their specific business strategies described separated for each business; office printing / office services, commercial printing, industrial printing, thermal (thermal paper, thermal wax transfer ribbon), industrial products, smart vision (images, video and data services) and new development.

Improving quality of life, achieving a decarbonized society and achieving a recycling-based society are set as social issues involving suppression of value loss. These social issues are assumed to be goals for 2030 in the SDGs, and they are characterized by being very long-term. The evaluation index for social issues concerning suppression of value loss also has a qualitative part, such as reducing the environmental burden and reducing inventory waste, however strategic indicators such as promoting new business styles and responding to diverse needs are parts which cannot easily be measured. From this, in regard to how we ought to measure suppression of value loss, it can be said that it is difficult to specific indicators.

From Figure 6 it can be seen that the Ricoh Group connects social issues to the SGDs. Aiming to achieve the SDGs as corporate value creation is an important objective that leads to solving social issues. However, it is questionable whether the purpose of the sustainability-type value creation process, which aims to solve social issues, is itself the company's purpose. The Triple Bottom Line can be understood as considering not only social and environmental aspects, but also economic aspects. The Ricoh Group aims for a sustainable economy as one of its 3Ps, Prosperity. This point is understood, and business strategy sometimes relates to solving social issues, but this does not always matter.

The Ricoh Group's main products are copy machines for office printing. Aiming at achieving as recycling-based society, it has been developing environmentally-friendly products such as remanufacturing used copiers and developing "staple-less bound inner finishers." These are certainly business strategies that solve social issues. However, the Ricoh Group is aiming for a digital business as a growth strategy. For example, it manages documents using digital data in offices, records information from sensors at nursing and care homes, and shares or records information by automatically converting voice to text for the service industry. Ought the development of products and services, establishing an unprecedented platform, be considered a matter of advancing business strategy, rather than attempting to solve social issues? Particularly where it identifies latent needs, it may not be a social issue.

In short, the Ricoh Group's value creation process appears to be related to value drivers in a form that combines value creation and suppression of value loss as it pertains to solving social issues. Moreover, in regard to integrated thinking, the mid-term business plan clarified the integration of corporate and business strategy by visualizing growth strategy. However, synergy creation, suppressing anergy and portfolio management could not be understood. Furthermore,

© 2020 Global Journals

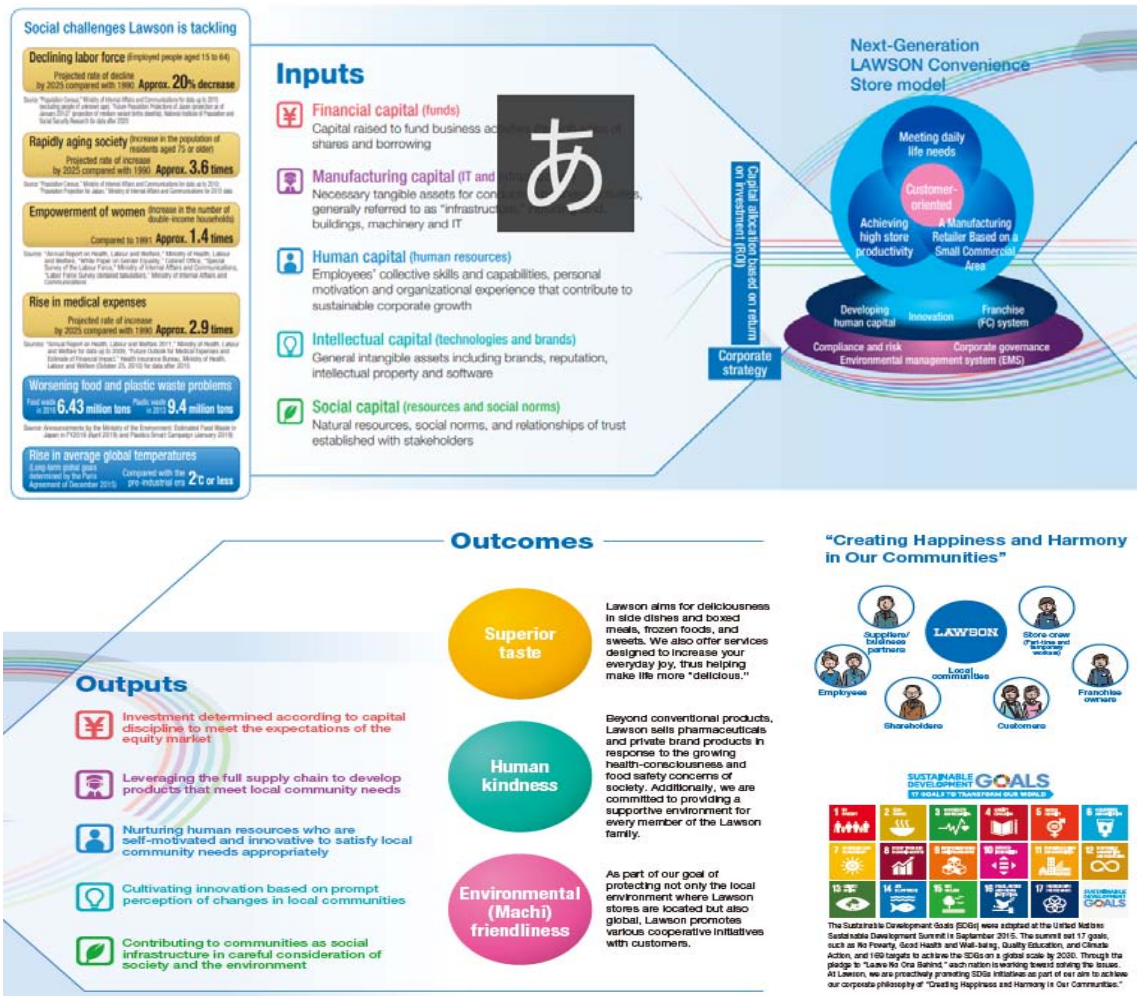
there is also a question of information connectivity. In the value creation process alone, the relationship between financial and non-financial information is not made clear, and there is an issue with the type 1 of information connectivity. Moreover, since business activities are not visualized, there is also an issue of the relationship between activities and capital, which is an issue with a type2 of information connectivity.

ii. *Lawson's Value Creation Process*

Lawson's value creation process inputs six types of capital to solve social issues. Conducting business activities using capital based on a management strategy that aims to solve social issues will produce outputs and outcomes. The result is a value creation process that ultimately achieves the SDGs (see Figure 7).

According to Figure 7, Lawson's value creation process is based on compliance risk, corporate governance and environmental management, and through a strategy employing human resource development, innovation and FC (franchising) using five types of initial capital, conducts business activities based on a business model that responds to needs from the customer's perspective in all aspects of life, high store productivity and small-scale manufacturing and retailing. As a result of its output, outstanding appeal, kindness to people and kindness to the planet (to the neighborhood) are achieved as outcomes, contributing to achieving the SGDs.

Lawson's value creation process differs from that of the octopus model in that value creation begins from solving social issues and ends at its contribution to achieving the SDGs. Although called an integrated report, it links the solution to social issues, SDGs, with business strategy and is a corporate report with a strong flavor of a sustainability reports. In other words, they recognize stakeholder issues and relate them to business strategies under a business model for their solution. Moreover, outcomes achieved through business strategy are not necessarily tied to capital. In other words, the relationship between capital and ultimately achieving the SDGs is unclear. Furthermore, Lawson's business strategy describes several measures as "building the foundations for sustainable growth."



Source: Lawson Integrated Report (2019, pp.14-15)

Figure 7: Lawson's Value Creation Process

© 2020 Global Journals

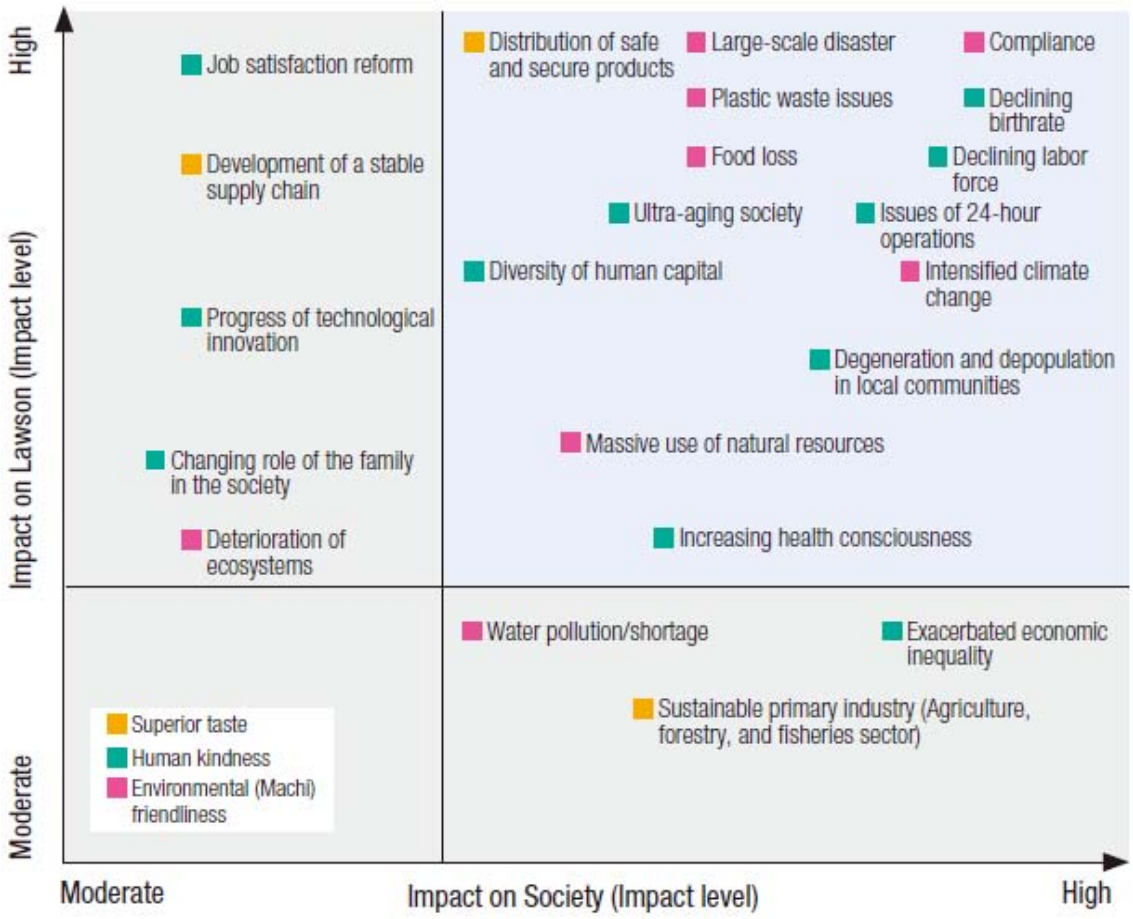
Measures to construct these foundations are evident from the social issues in Figure 7. The social issues being addressed by Lawson include responding to the declining labor force population, the rapidly aging society, empowerment of women, rise in medical expenses, worsening food and plastic waste problems, and rising in average global temperatures. Figure 8 depicts a matrix of materiality for prioritizing social issues.

The matrix in Figure 8 differs from the matrices in the IIRC draft (2013a) and the Sustainability Reporting Standards (GSSB, 2016). As shown in Figure 8, this matrix illustrates the impact of social issues on society and on Lawson. In other words, this can be interpreted as a plot of the impact of social issues on value creation and suppression of value loss. This approach to materiality is the same as that of Kawasaki Heavy Industries' CSR activities, discussed in Ito (2016).

Setting the social issues extracted by materiality (Figure 8) against the social issues being tackled by Lawson (Figure 7), there is a slight discrepancy between them. Many social issues are not being addressed, despite having high priority, including compliance, large-scale disasters, distribution of safe and secure products, declining birthrate and issues of 24-hour operations. Moreover, social issues being tackled by Lawson which do not have high priority include empowerment of women and rising in medical expenses.

This discrepancy is not particularly referenced in the integrated report, but a degree of speculation is possible. When creating its first integrated report in 2013, empowerment of women and rising in medical expenses were cited as community issues (Lawson Integrated Report, 2013, p.3). Considered from this point, it can be seen that Lawson's materiality includes not only high-priority social issues, it also includes social issues that Lawson has been tackling from the outset.

At Lawson, the purpose of the company is considered to be to solve social issues, and that the solutions to social issues all relate to business strategies. Lawson's value creation process, in which solving social issues is the company's sole objective, is questionable. The main purpose of companies is to create value through business strategies, the resolution of social issues being a secondary objective. As Lawson views solving social problems as business strategy, the two are not without common ground. But does Lawson not have business strategies that do not relate to social issues?



Source: Lawson Integrated Report (2019, p.16)

Figure 8: Lawson's Matrix

© 2020 Global Journals

For example, product development responding to customer needs is an issue that relates to business strategies that cannot solely be considered as social issues. In this kind of product development, Lawson has adopted the development of original products that assume scenes in daily life by time of day and target. This product development is a company strategy that assumes potential customers. Rather than solving all social issues that have become apparent, it seems better to recognize that there are business strategies and solutions to social ISSUES.

In short, Lawson's value creation process formulates business activities in order to solve social issues, contributing to achieving the SDGs through its business activities. Although its contribution to solving social issues can be understood, there is the issue that suppression of value loss is not made clear. In regards to the question of integrated thinking, it has a single small-scale manufacture and retail business, and since corporate and business strategy cannot be distinguished, only business strategies are visualized. With regard to the question of information connectivity, the value creation process does not visualize the connectivity between financial and non-financial information, the type 1 of information connectivity. Moreover, in regard to the type 2 of information connectivity, business activities are not specifically shown, and the relationship between business activities and capital is not visualized.

V. Value Creation Process Requirements for the use of Information

There are two aspects to develop an integrated reporting, disclosure of information to stakeholders and management's use of information. First we examine the usefulness of integrated reporting for information use. Next, we clarify the requirements for visualizing the value creation process as the objective of management's use of information. Then, we re-evaluate the four examples of value creation process discussed in Section 3.

a) *The Utility of Integrated Reports to Information Use*

Eccless and Krzus (2010, p.148) point out in their book that integrated reporting have both internal and external benefits. As an external benefit, it can improve corporate disclosure and transparency by providing a single message to stakeholders. On the other hand, the internal benefit is that when formulating strategy, management can take serious efforts to respond to risks and opportunities to ensure a sustainable society. In other words, the developing of integrated reporting has the external advantage of eliminating information gaps through information disclosure and ensuring reliability, but also carried the internal benefit of aiding management through management's use of information.

It is important for management to use information for strategy formulation and execution, management decision-making and management control. Supposing this kind of information use, the developing of integrated reporting has four major effects on companies (Eccless and Krzus, 2010, pp.148-156). First, it can identify relationships with customers and suppliers, and can clarify commitments to these stakeholders. Second, clarifying these commitments enables management to make better decisions. Third, such communication can deepen relationships with stakeholders. Fourth, as a result reputational risk is reduced. It certainly asserts the significance of management accounting in integrated reporting.

Stakeholders must engage in the dialog to co-create value through engagement with management. To that end, stakeholders must, from integrated reporting, be able to correctly grasp the value creation process contributing to value creation and suppression of value loss. Moreover, this also enables managers to use the results of stakeholder engagement for strategy formulation, execution and management control. In this way, management can not only use internal information to formulate and execute strategy, but can also use external information from stakeholder engagement in management. In short, there are significant advantages to both stakeholders and management from integrated reporting and stakeholder engagement.

b) *Value Creation Requirements and Each Company's Case*

As hinted in the examination of stakeholder engagement, in stakeholder engagement based on integrated reporting, the targets of information use are not only companies but also stakeholders. Here, however, we consider cases where management uses information obtained through stakeholder engagement to formulate and execute their own strategies. Management can use the information obtained through information disclosure relating to strategy and engagement in response to it. Information disclosure for stakeholder engagement involves visualization of the value creation process, especially considering the causal relationship between content elements. We therefore consider the requirements of the value creation process for the use of information.

i. *Requirements for Visualizing the Value Creation Process*

There are three requirements to visualize the value creation process, (1) Value creation and suppression of value loss, (2) Integrated thinking and (3) Information connectivity.

Value creation and limiting loss of value means that, when visualizing the value creation process, it is necessary to visualize business strategy and solutions to social issues. In particular, visualization of value

© 2020 Global Journals

creation and limiting loss of value must not be forgotten. It is therefore necessary to clearly distinguish between value creation and limiting loss of value when visualizing.

Integrated thinking means to visualize the relationships between corporate and division, and the short, medium and long-term balance. It is necessary to visualize synergy creation and the suppression of anergy from the relationship between corporate strategy and business strategy. It is also necessary to visualize short, medium and long-term portfolio management.

Information connectivity is subdivided into two types required of integrated reports. As has already been stated several times, the type 1 of information connectivity is the connectivity between financial and non-financial information. The type 2 of information connectivity is the link between activity and capital. In visualizing the value creation process, it is necessary to clearly show these types of information connectivity.

In visualizing the value creation process, we believe satisfying the above three requirements is optimal for information disclosure and the use of information. Below therefore, we examine the integrated reporting of four companies based on these three requirements.

ii. *Conformity to requirements in the octopus model type*

We examine the Omron's conformation to the value creation process conditions. As shown in Figure 1, Omron creates businesses in order to solve social issues. However, from Figure 2, parts that create value through business strategy and parts that limit loss of value by responding to stakeholder expectations are visualized side by side. It is understood from this that requirement 1 is being met. However, the relationship between corporate strategy and business strategy in requirement 2 is not made clear. Business strategy is visualized, but there is no description of synergy or suppression of anergy as corporate strategy, nor of portfolio management. Adherence to requirement 2 is therefore understood to be insufficient. Furthermore, connectivity between financial and non-financial information cannot be understood, and the type 1 of information connectivity is an unsolved issue. Moreover, the relationship between business activities and capital is also not made clear, and the type 2 of information connectivity remains unresolved. From this it was found that the requirement 3 was not being met.

iii. *Conformity to requirements in the strategy map type*

Next, we examine conformity to the requirements of the value creation process using Eisai's strategy map.

In regard to the requirement 1, value creation and limiting loss of value, from Figure 3, Eisai visualizes the value creation process on the left side of the strategy map and limiting loss of value on the right. By visualizing this kind of strategy, six types of capital are input into business activities, and the value creation process, in which capital increases or decreases according to the increase or decrease of outcomes resulting from those activities is visualized. From this, it can be understood that Eisai treats value creation and limiting loss of value in the same line when visualizing them. In regard to the requirement 2, the visualization of corporate and business strategy, Eisai is a single business company, a pharmaceuticals manufacturer, and so there is no corporate strategy. Compliance with the second requirement is not required. In regard to the third condition, information connectivity, because a strategy map is used, the type 1 of information connectivity can be satisfied. However, since business activities are not made clear, the type 2 of information connectivity remains an issue.

iv. *Conformity to requirements in the sustainability type*

We examine requirements compliance in regards to Ricoh Group's value creation process. In regard to conformity with the requirement 1, let us look at Ricoh Group's value creation and limiting loss of value. The value creation process is linked to value drivers in a way that combines value creation and limiting loss of value as a solution to social issues. Therefore, although value creation and limiting loss of value are illustrated, because they are not clearly distinguished, the requirement 1 cannot be said to be satisfied.

In regard to conformity with the requirement 2, at Ricoh Group, the mid-term business plan describes the relationship between corporate and business strategy. However, since there is no description of synergy creation, anergy suppression and portfolio management as corporate strategy, adherence to the requirement 2 can be called insufficient. In regard to conformity with the requirement 3, the type 1 of information connectivity remains an in issue in that the relationship between financial and non-financial information is not made clear. Moreover, because business activities are not visualized, there remains the issue of the type 2 of information connectivity in that the relationship between activities and capital is not made clear.

Lastly we examine the requirements conformity of Lawson's value creation process. Figure 7 provides a reference in regards to the requirement 1 of value creation and limiting loss of value. Figure 7 visualizes the objectives of the mid-term business plan and sustainability objectives. Thus, business strategy and contribution to the solution of social issues can be understood, but value creation and limiting loss of value are not distinguished. Adherence to the requirement 1 is not perfect, but otherwise well done.

We also consider the requirement 2, integrated thinking. This is a single small-scale manufacturing and retail business, and so corporate and business strategy

© 2020 Global Journals

cannot be distinguished. Lawson therefore only visualizes business strategy. Lastly, we consider the requirement 3, information connectivity. In Lawson's value creation process, the relationship between financial and non-financial information is not made clear, and so the type 1 of information connectivity is unresolved. Moreover, business activities are not specified, and so the type 2 of information connectivity, the relationship between business activities and capital, remains unresolved.

Value Creation Type \ Condition		Value Creation and Value Damage Control	Integarted Thinking	Information Conectivity No.1	Information Conectivity No.2
Octopas	OMRON	○	×	×	×
Strategy Map	EISAI	○	△	○	×
Sustainability	Richo Group	△	△	×	×
	Lawson	△	△	×	×

Source: Created by the author

Figure 9: The relationship between value creation process type and conformance to requirements

Above, we examined conformity to requirements for information disclosure and utility to use of information for each type of value creation process. Figure 9 compiles and summarizes the four companies. In Figure 9, circles indicate cases where requirements are met, crosses indicate cases where conditions are not met, and triangles indicate cases where requirements are not completely met.

VI. Conclusion

In this paper, we have compared and examined the value creation process based on integrated reports created by Japanese companies. In order to compare and examine not only from the standpoint of investors but also those of stakeholders and managers, we classified visualization of the value creation process into three types. In this comparison, we examined the conformity of three requirements (value creation and limiting loss of value, integrated thinking, information connectivity) considered to be useful for information disclosure and information use. Three findings were obtained as a result of this comparison.

The first finding is that the value creation process should be visualized by simultaneously and clearly distinguishing between value creation and suppression of value loss. There were two cases where distinction was made between value creation and limiting loss of value. Omron and Eisai were cases where value creation and suppression of value loss were juxtaposed and clearly distinguished. From this, it was understood that Eisai and Omron satisfied requirement 1. On the other hand, Ricoh Group and Lawson were cases where their value creation processes were solutions to social issues, with social issues solved using business strategy. The idea that solving social issues is itself the purpose of the company, while fitting for a sustainability report is an issue for integrated reporting. However, Ricoh Group does not make suppression of value loss explicit. Lawson considers value creation and suppression of value loss, but the two are not distinguished.

The second finding is that, as a result of a case study on the visualization of strategy in the value creation process, the requirement 2, of integrated thinking linking corporate strategy and business strategy, is relatively neglected. For example, Omron only discloses its business strategy in the value creation process, and its description of corporate strategy is unclear. In the Ricoh Group, although there is a description of corporate and business strategy, synergy creation, anergy suppression and portfolio management as corporate strategy are not made clear. Eisai and Lawson are companies that specialize in a specific business, and so visualization of business strategy alone is sufficient. In short, it was found that companies with multiple businesses have a vague perception of corporate strategy and that there quirement 2 is an issue.

The third finding was that information connectivity is an unresolved issue. As with Eisai, if a strategy map is created, the type 1 of information connectivity, maintaining a causal relationship between financial and non-financial information, can be ensured. However, creation of a strategy map alone cannot resolve the type 2 of information connectivity. In addition, from the value creation processes of three companies, Omron, Ricoh Group and Lawson, it was found that neither the type 1 of information connectivity nor the type 2 of information connectivity could be resolved. In short, no case was found satisfying the third requirement. From these results, it was understood that companies first must create a strategy map to visualize the type 1 of information connectivity and that proposals are required to resolve asyet unresolved the type 2 of information connectivity.

© 2020 Global Journals

I clarify the limitations of this paper. The integrated reports in Japan had issues with information connectivity. It is necessary to overcome these issues for future research.

References Références Referencias

1. Eccles, R. G. and M. P. Krzus (2010) *One Report: Integrated Reporting for a Sustainable Strategy*, John Wiley & Sons. Eisai (2019) *Eisai Integrated Report 2019*.
2. Global Sustainability Standard Board (2016) *GRI 101: Management Approach*.
3. IIRC (2011) *Towards Integrated Reporting: Communicating Value in the 21st Century*, International Integrated Reporting Committee.
4. IIRC (2013a) *Consultation Draft of the International <IR> Framework*, International Integrated Reporting Council.
5. IIRC2013b) *The International <IR> Framework*, International Integrated Reporting Council.
6. Ito, K. (2014) *Strategic Development and Implementation by BSC*, Dobunkan-Shuppan.
7. Ito, K. (2016) From Interest adjustment by Interested Parties to Engagement with Stakeholders," Disclosure News" Vol.32, pp.123-128。
8. Ito, K. (2019) Survey on Value Creation Process on Integrated Reporting, *Kaikei*, Vol. 196, No.2, pp. 202-215。
9. Ito, K. and T. Nishihara (2017) Disclosure and Usability of Information on Integrated Report of Eisai, *The Kaikeigaku Kenkyu*, No.43, pp.1-26.
10. Kaplan, R. S. and D. P. Norton (2004) *Strategy Maps: Converting Intangible Assets into Tangible Outcomes*, Harvard Business School Press.
11. Lawson (2013) *Lawson Integrated Reporting 2013.*
12. Lawson (2019) *Lawson Integrated Reporting 2019*.
13. Massing ham, R., P. R. Massing ham and J. Dumay (2019) Improving Integrated Reporting: A New Learning and Growth Perspective for the balanced Scorecard, *Journal of Intellectual Capital*, Vol.20, No.1, pp.60-82.
14. Omron (2019) *Omron Integrated Report 2019*. Stubbs, W. and C. Higgins (2014) Integrated Reporting and Internal Mechanisms of Change, *Accounting, Auditing & Accountability Journa*l, Vol. 27, No. 7, pp.1068-1089.
15. Richo (2019) *Richo Grpoup Integrated Report 2019*.

© 2020 Global Journals