What is an integrated KPI and why is it so hard to develop. Give examples from the Danone case?

What is an Integrated KPI?

An **Integrated KPI (Key Performance Indicator)** is a **performance measure that connects financial and non-financial outcomes**, showing how sustainable activities actually contribute to a company's **business value creation**.

Instead of tracking financial and sustainability results **separately**, integrated KPIs link them. For example, they answer questions like:

"How does reducing CO_2 or improving employee well-being translate into profitability, resilience, or brand value?"

In integrated reporting (<IR>), these indicators are crucial because they demonstrate how a company uses and transforms its different "capitals" (financial, human, natural, social, etc.) to create long-term value.

Why Are Integrated KPIs So Hard to Develop?

Creating them is difficult for both technical and conceptual reasons:

Challenge	**Explanation (Danone context)**
1. Linking cause and effect	It's hard to prove a direct, measurable connection between sustainability actions and financial results. Example: How exactly does reducing plastic packaging or improving farmer income increase Danone's profit?
2. Data integration	Financial data comes from accounting systems, while social and environmental data come from sustainability teams — often using different metrics, time frames, and verification processes.
3. Monetization pressure	The IIRC model encourages putting euro values on human, social, or natural capital. Danone resisted this, arguing that not everything meaningful can or should be monetized (e.g., employee motivation, health impact).

4. Lack of standard methodology	No universally accepted formula exists to integrate non-financial outcomes into economic value, so comparisons are difficult.
5. Cultural and mindset differences	Finance focuses on precision and compliance; sustainability teams focus on long-term impact and qualitative factors. Combining both perspectives takes time and organizational learning.

Area	Existing KPI	Potential Integrated KPI	Why It's Difficult
Carbon / Climate	"CO_2 emissions per ton of product" (Danprint)	"CO_2 emissions per € of sales" → links environmental efficiency to economic output	Requires converting environmental data into financial ratios and ensuring consistent accounting boundaries.
Nutrition & Health	"% of products meeting nutritional guidelines"	"Revenue share from healthy/nutritious products" → connects social impact to profitability	Must classify products objectively and track global portfolio data.
Employee Engagement	"Employee satisfaction index"	"Productivity or retention rate linked to engagement scores"	Correlation between engagement and performance is hard to quantify consistently.
Sourcing / Farmers	"% of milk sourced from local farmers under fair contracts"	"Supplier relationship score vs. supply chain cost savings"	Benefits (loyalty, quality, brand reputation) are qualitative and long-term.
Packaging / Waste	"% recyclable packaging"	"Cost savings or brand premium from sustainable packaging"	Translating environmental achievements into tangible financial value is uncertain.

KPI Examples

1) **CO_2 Emissions per Ton of Product (Danprint)**

$$CO_2\ Intensity = \frac{Total\ CO_2\ Emissions}{Total\ product\ volume}$$

This KPI integrates **environmental and manufactured capital**, measuring how efficiently production processes use resources. **Lower emissions per ton indicate better operational performance and environmental stewardship.**

2) **% of Products Meeting Nutritional Guidelines**

$$Nutrition\ Compliance = \frac{Compliant\ products}{Total\ product\ portfolio}$$

This KPI integrates **social** and **intellectual capital**, showing how product innovation and formulation improvements contribute to public health and consumer trust.

3) **Employee Satisfaction Index**

$$Employee\ Satisfaction = \frac{Sum\ of\ Engagement\ Scores}{\#Respondents}$$

This KPI integrates **human** and **social capital**, reflecting employee engagement, wellbeing, and cultural alignment—drivers of retention, innovation, and long-term organizational resilience.

4) % of Milk Sourced from Local Farmers under Fair contracts

$$FairSourcing = \frac{Volume\ from\ Fair\ Local\ Suppliers}{Total\ Milk\ Volume}$$

This KPI integrates **social/relational** and **financial capital**, highlighting how responsible sourcing practices strengthen local economies while securing supply stability and cost predictability.

5) % Recyclable Packaging

$$Recyclable\ Packaging\ Ratio = \frac{Recyclable\ Material\ Used}{Total\ Packaging\ Material}$$

This KPI integrates **environmental** and **manufactured capital**, measuring circularity and eco-efficiency in packaging design. It links material choices to reduced waste and improved brand perception.

6) Carbon adjusted recurring EPS

$$carEPS = Recurring\ EPS \times (Estimated\ Financial\ carbon\ \cos t\ \div \#shares\ after\ dilution)$$

This KPI integrates **financial capital** and **environmental capital,** adjusting Earnings per share based on the impact of carbon emission costs (internalising externalities)**.**

7) Healthy Sales Share

$$Healthy\ Sales\ Share = \frac{Volume\ of products\ Rated\ HSR\ \geq\ 3.5}{Total\ Sales\ Volume}$$

This KPI integrates **social** and **financial capital**, showing how growth depends on sales of healthier products, reinforcing Danone’s mission of “health through food.”

8) WAIP (weight averaged integrated performance)

$$WAIP = \sum_{i=1}^{4} (C_i \times S_i)$$

This KPI **integrates non-financial capitals** to assess **how effectively investments in people, relationships, and processes generate sustainable value.** For example, stronger employee development **(Human Capital)** leads to more innovation **(Intellectual Capital)**, higher production efficiency **(Manufactured Capital)**, and improved community relations **(Social Capital)**. WAIP quantifies these interconnections, linking human and social drivers directly to long-term operational performance.

9) Employee Integrated Retention Productivity (EIRP)

$$EIRP = productivity\ Index \times [1 + (TARGET\ Turnover\ -\ Actual\ Turnover)]$$

This KPI integrates **human** and **intellectual capital**, linking employee engagement and retention with productivity outcomes. It quantifies how workforce stability drives innovation and efficiency gains.

10) Supplier Relationship Value Ratio (SRVR)

$$SRVR = \frac{Supply\ Chain\ Cost}{Supplier\ Relationship\ Score}$$

This KPI integrates **social/relational** and **financial capital**, assessing how ethical and collaborative supplier partnerships translate into cost efficiency and value resilience across the supply chain.

11) Sustainable Packaging Value Added (SPVA)

$$SPVA = Brand\ premium\ \% + \frac{Cost\ Savings\ from\ Recycled\ Packaging}{Total\ packaging\ COST}$$

This KPI integrates **environmental**, **manufactured**, and **financial capital**, linking circular packaging performance to both cost savings and market differentiation.

13) MAVCR (Mission-Aligned Value creation rate)

$$\text{MAVCR} = \text{Sales growth} \times AEER \times MAF$$

$$AEER = 1 + (\text{Target Voluntary Turnover} - \text{Actual Voluntary Turnover})$$

$$\text{MAF} = 0.5 \times (\text{Innovation Index}) + 0.5 \times (\text{Nutrition and Social Score})$$

$$\text{Innovation Index} = \frac{\text{Sales from Products developed in the last 3 years}}{\text{R\&D Spend} + \text{Training Spend}}$$

This KPI **integrates Financial Capital, Human Capital, Social** and **Intellectual Capital** between three terms. The first term is the sales growth, second term is the Employee Retention Rate and the third term is a Multi Alignment Factor, these last two terms are scored between 0 and 2.