

Supporting SMEs in Australia for future success

Exploring how to improve business
performance utilising integrated
thinking and reporting techniques

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CEOs message

In today's complex and changing business environment it has never been more important for small to medium enterprises (SME) to tell their story and show stakeholders how they plan to create value and grow over time. Integrating financial performance with all elements that create its value an SME could, in the long-term, streamline processes and positively influence costs and reduce reporting burden.

Together with the Deakin Integrated Reporting Centre (DIRC), CA ANZ and ACCA are pleased to present this white paper which aims to support our members who work with and within a SME to transition SMEs from traditional business thinking to adopt an integrated way of strategising and communicating how their organisations add value to society.



Ainslee van Onselen
Chief Executive Officer CA ANZ



Helen Brand
Chief Executive ACCA

Foreword

“... it is a global movement which captures the zeitgeist of our time, where people want to not only run a good business, but they want to be associated with a business that is doing good”

– **Hon Bruce Billson (Former MP)**

Since the term ‘triple bottom line’ was first coined by John Elkington in 1994, the lens through which we should consider enterprise performance has evolved. In the mid-1990s, Elkington encouraged organisations to focus on ‘people, planet and prosperity’ when reporting on enterprise performance. However, the world has changed dramatically since then. When reporting, businesses today must think beyond shareholders, other investors and regulators – they must also consider a broad range of other stakeholders who contribute resources that enhance a business’s prosperity and who assess performance in terms of organisations’ ‘social license to operate’.

The shift in expectations of company reporting reflects a growing recognition that mere compliance with regulatory reporting requirements is no longer sufficient to satisfy the full range of stakeholder information needs. Minimum compliance, for example, does not allow companies to tell their value creation story, differentiate themselves from their competitors in the marketplace and engage with increasingly discerning stakeholders. Unless a business can show evidence (through credible data) and enhance confidence through broader business reporting, stakeholders cannot make meaningful or fully informed assessments of its performance and future potential.

In response to changing expectations, an international movement to formalise a more integrated approach to company reporting has led to the creation of the International Integrated Reporting Framework. The framework sets out a series of fundamental concepts, guiding principles and content elements for modern company reporting, with a focus on enterprise value created across the wide range of resources and relationships available to individual companies.

By promoting a more cohesive, efficient and comprehensive approach to reporting, integrated reporting enables organisations to communicate the full range of factors that materially affect their ability to create value over time. Preparing an integrated report can benefit small and medium-sized enterprises (SMEs) by encouraging a sharper focus and understanding of the business strategy and business model, and how the business creates value.

At the heart of integrated reporting is a system that enables organisations to identify and manage the drivers of their prosperity. It encourages a focus not just on value created within organisations, but the value created for stakeholders and society at large through a wide range of activities, interactions and relationships. For example, integrated reporting can help businesses of all sizes confirm they are not breaching human rights, reflecting a consciousness of their supply chains and understanding of their impacts. This type of approach, in turn, can favourably position businesses when dealing with prospective clients, seeking finance, fulfilling the information needs of their customers and investors and attracting future employees.

While many larger, well-resourced organisations have embraced new approaches to company reporting, SMEs have lagged, with many smaller firms perplexed and/or challenged in the face of changing expectations of them. Can this situation be improved? The roundtable held in late 2021 that gave rise to this white paper represents a positive and encouraging step towards identifying how SMEs can be supported to achieve future prosperity through integrated reporting. In particular, the roundtable explored how barriers to SMEs embracing integrated reporting can be overcome, and how potential solutions and pathways to help SMEs reap the rewards of implementation can be identified. I commend the researchers for their work.

Hon Bruce Billson (Former MP)

The Australian Small Business and Family Enterprise Ombudsman

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Executive summary and recommendations

Exploring the roles of integrated thinking and integrated reporting techniques in supporting SME business performance

In Australia, like in most international jurisdictions, small and medium-sized enterprises (SMEs) are a major driver and indicator of national economic performance and prosperity. But in recent years, Australian SMEs have been underperforming on key performance measures – particularly productivity growth – and therefore acting as a drag on economic growth, with research identifying a significant decline in productivity growth among SMEs over the past decade. The COVID-19 pandemic, which has left many SMEs in hard-hit industries struggling to survive and has raised concerns about the mental health of those involved with SMEs, has served to bring the longstanding issues with Australian SMEs into sharper focus.

Long before the pandemic, policymakers and researchers had identified productivity growth among SMEs as critical to Australia's economic future. Over the past three decades, productivity growth driven by larger firms and booming global demand for Australia's mineral exports have sustained consistently positive national GDP growth figures. As a nation, however, we cannot reasonably expect to rely on high prices and demand for resource exports forever – particularly as the world moves away from fossil fuels and towards sustainability. And recently, in Australia, small businesses have been reported to be experiencing higher levels of mental ill-health, in a significant part due to financial stress. To maintain our historical growth trend in the coming decades, increasing productivity growth among SMEs and better supporting them through times of high stress is therefore likely to be critical.

How can this be achieved? Globally, the attention of researchers and policymakers has been turning increasingly to the power of integrated thinking and integrated reporting techniques to support and enhance business performance. At its core, integrated thinking involves a broader and more inclusive approach to decision making, management and reporting. It also entails a strong focus on non-financial as well as financial factors that affect an organisation's ability to create or sustain value over time, and consideration of interactions with a wide range of stakeholders – from employees to suppliers, customers, financiers and others – in the

organisation's information loop. As such, integrated thinking and integrated reporting represent a significant advance from traditionally closed-door, finance-centric and silo-based approaches to organisation management, communication and reporting.

A defining feature of integrated thinking is that it provides key personnel across different parts of an organisation with knowledge and understanding of the overall business strategy and business model, and of how the various sections of the organisation interconnect. Proponents of integrated thinking techniques argue that such an inclusive and 'integrated' approach encourages the different parts of an organisation to work together more collectively, leading to more informed and considered decision making and, ultimately, a more sustainable basis for value creation and future growth and prosperity.

Integrated reporting – a natural companion to integrated thinking – is a potentially valuable communication tool that not only reflects the practice of integrated thinking occurring inside an organisation, but arguably plays a key role in driving and sustaining it. In contrast to the historically narrow financial focus of company reporting, integrated reporting entails broad disclosure of various types of information relevant to an organisation's ability to create and sustain value. While the main intended targets of integrated reports are providers of financial capital (shareholders and debtholders), the reports also provide useful information to a wider range of stakeholders – including employees, customers, suppliers, business partners, communities, legislators, regulators, policymakers and others – on how the organisation plans to create and sustain value over time. It is argued that such transparency leads not only to better internal decision making, but also to commercial advantage by enhancing the organisation's reputation and image among prospective business partners and customers. It is also held that the commitment to producing an integrated report motivates the integrated thinking practices that underpin the reporting.

Since the initial publication of the International Integrated Reporting Framework in 2013 by the International Integrated Reporting Council (IIRC), which was designed for adoption by entities of various sizes and nature, the focus to date has mainly been on how larger organisations can reap its benefits. In Australia, KPMG¹

reports that a majority of larger listed companies have adopted at least some of the principles of integrated reporting outlined in the Integrated Reporting Framework. Some of the biggest names in Australian business – from Qantas and AGL to Australia Post and others – have lauded the benefits.

But what about SMEs? In Australia, there are currently only a few instances that we can identify of SMEs, in any size category, embracing integrated reporting techniques (recognising that without evidence of integrated reporting, the use of integrated thinking techniques is unobservable). Could this be a lost opportunity for Australia? Are SMEs missing out on the potential benefits of integrated thinking and integrated reporting? What are the barriers to SMEs and other types of organisations adopting integrated thinking and integrated reporting techniques? Could specific guidance be created to assist SMEs in applying integrated thinking and integrated reporting? Moreover, could large-scale adoption of integrated thinking and integrated reporting among SMEs help to catapult Australia's economy into a new era of growth and prosperity, and help to insure it against future adverse impacts? In this white paper, we explore the drivers and barriers (external) and cost and benefits (internal) to SMEs embracing integrated thinking and integrated reporting techniques and potential policy settings that might support SME performance through such techniques.

Target Audience

This white paper has been prepared to provide evidence-based recommendations to those who determine policy, or who can provide practical support to SMEs, to benefit from the implementation of integrated thinking and integrated reporting. The target audience includes government, accounting and auditing standard setters and regulators, professional accounting bodies, accounting software providers, and researchers. The paper also has relevance for the professional firms that service the needs of SMEs – in particular, small and medium practitioners (SMPs), which have an essential role to play in advising and guiding SMEs on how to adopt integrated thinking and integrated reporting. We believe owners and operators of SMEs themselves – particularly those seeking to enhance their competitiveness and business performance – could also benefit from reading this white paper.

Which SMEs?

Our focus on the potential adoption of integrated thinking and integrated reporting techniques by other small (5-19 employees) and medium-sized entities (20-199 employees), rather than micro entities (1-4 employees), reflects evidence presented in this white paper that larger SMEs are more likely to benefit from broader reporting practices than smaller, relatively resource-poor SMEs. However, as detailed in the white paper, even the smallest firms can clearly benefit from embracing at least some elements of integrated thinking.

Evidence informing methods for this white paper

With the principles and practices of integrated thinking and integrated reporting intended for use by all organisations, we have identified an emerging body of international research aimed at establishing their appropriateness for use by SMEs. The potential broad application of the principles is made clear in the Integrated Reporting Framework, which includes detailed guidance for organisations on the principles behind integrated thinking and integrated reporting, what should be included in an integrated report, and how that information should be presented.

As a primary source of evidence, we explore and review academic and practitioner literature to gain a broad understanding of current knowledge about the history and potential utility of integrated thinking and integrated reporting for SMEs. While the bulk of research to date has been directed to the implementation by larger entities and has provided an evidence base of a range of benefits, the much smaller base of research examining integrated thinking and integrated reporting for SMEs (which is virtually non-existent in Australia) has also generally found both to be beneficial. We carefully consider the applicability of this research for SMEs in Australia.

In addition, we draw on expert views and evidence presented at a roundtable forum, held in November 2021, to canvass the potential for wide adoption of integrated thinking and integrated reporting by SMEs in Australia. Convened by the Deakin Integrated Reporting Centre (DIRC) and Chartered Accountants Australia New Zealand (CA ANZ), the forum was attended by 25 of Australia's leading thinkers and practitioners in accountancy and business.

Roundtable participants – including senior academics, accountants, accounting body representatives, government policymakers and SME representatives – were asked to:

- Evaluate the purported benefits of integrated thinking and integrated reporting for SMEs
- Identify subgroups of SMEs most likely to benefit from adopting integrated thinking and integrated reporting
- Consider how SMEs should approach the implementation of integrated thinking and integrated reporting
- Identify barriers to SMEs adopting integrated thinking and integrated reporting
- Suggest initiatives and policies that could support SME implementation of integrated thinking and integrated reporting.

The majority of roundtable participants agreed that many types of SMEs could reap long-term benefits by taking a broader approach to strategic thinking and company reporting, and that the concepts of integrated thinking and integrated reporting were appropriate for SMEs. Questions arose, however, as to whether such an approach would unreasonably add to the reporting burden on smaller enterprises, and therefore whether it would be widely accepted or embraced across the SME sector.

Major findings

Overall, the literature provides evidence that the long-term benefits of integrated thinking and integrated reporting will outweigh the costs for most SMEs, but some firms are likely to benefit more than others. Specific SME characteristics identified as having relevance to the cost-benefit equation for integrated thinking and integrated reporting include the firm size, the industry in which it operates and the extent to which that industry is exposed to environmental and other sensitive issues, and whether the SME is profit-oriented or social-purpose oriented.

Several types of barriers to the implementation of integrated thinking and integrated reporting by SMEs were identified. These include limited resources (time, human and financial) available to SMEs, and a lack of access to information systems required to access the broader data collection needed to support integrated thinking and integrated reporting. The literature also identifies perception barriers, with integrated reporting perceived by some as too complex for SMEs, especially given the limited implementation guidance for SMEs currently available. Further, integrated thinking and integrated reporting can be subject to a lag effect, with the benefits taking several reporting cycles to be realised.

But there was also a broad consensus among participants at the roundtable that the barriers to SMEs adopting integrated thinking and integrated reporting were not insurmountable. A supportive environment within the broader SME ecosystem, along with top-down management support within the SME, were cited as essential to the wide adoption of integrated thinking and integrated reporting by SMEs. In the context of building a supportive environment, it was argued that accounting practices, especially SMPs, have an important role to play in supporting and advising SMEs on the implementation of integrated thinking and integrated reporting.

Recommendations

Proposals presented at the November roundtable, in combination with our extensive review of prior academic literature on the feasibility of integrated thinking and integrated reporting techniques for SMEs, have informed the following recommendations. Further discussion of the recommendations is contained in Chapter 4.

Recommendation 1 – The Commonwealth, State and Territory Governments, and the various regulatory agencies, should streamline the provision of guidance and support materials, focusing on a single source of guidance and support for SMEs.

Recommendation 2 – The Commonwealth Government should consider establishing or nominating a single agency as a central repository for initiatives and resources available for SMEs. This agency could provide guidance to SMEs on their broader strategic and reporting options – including integrated thinking and integrated reporting – and be a repository for SMEs to voluntarily submit reported information.

Recommendation 3 – Regulatory agencies and accounting and assurance standard setters should consider, when undertaking cost-benefit analysis of current initiatives on extended (non-financial) reporting and assurance, the potential impact on SMEs of broader information requests from larger regulated entities.

Recommendation 4 – Professional accounting associations and industry organisations should consider education for their members who work in or service the needs of SMEs – particularly those in small and medium-sized accounting practices (SMPs) – about the potential benefits of integrated thinking and integrated reporting for SMEs.

Recommendation 5 – Accountants as trusted advisors, either working within SMEs or providing services to SMEs, should seek to assess the potential benefits of integrated thinking and integrated reporting for an SME and, where appropriate, encourage adoption.

Recommendation 6 – Government and agencies supporting SMEs should encourage SMEs to explore the value to their businesses of adopting integrated thinking and integrated reporting.

Recommendation 7 – Software providers should facilitate the development of new products that simplify integrated thinking and integrated reporting processes for SMEs. The new technology solutions should be developed in collaboration with government agencies and other stakeholders, such as financiers and supply chain members, that have an interest in promoting broader, more transparent reporting by SMEs.

Recommendation 8 – More research should be undertaken to enhance understanding of the potential benefits and costs associated with integrated thinking and integrated reporting for SMEs, and the extent to which integrated thinking and integrated reporting could be adopted across the sector.

Chapter 1 – Background

The Australian SME context

The current operating environment for SMEs

All of the indicators are that the SME sector is doing it tough in the current operating environment. In recent years, Australian SMEs have been found to be underperforming on key performance measures – particularly productivity growth – and therefore acting as a drag on economic growth, with research identifying a significant decline in productivity growth among SMEs over the past decade.² More recently, and exacerbated by the impact of the COVID-19 pandemic, concerns have been raised about the mental health of those involved with SMEs, with issues related to financial stress being identified as a significant contributor to these health concerns.³ Integrated thinking and integrated reporting *have* the potential to both boost productivity growth and alleviate financial stress by helping SMEs better understand their entity and its value creation prospects and communicating this to *relevant stakeholders*.

Integrated thinking, integrated reporting and SMEs

What are integrated thinking and integrated reporting, and why are they relevant to SMEs?

The concepts of integrated thinking and integrated reporting have been evolving globally for some years following the publication of the International Integrated Reporting Framework in 2013. The concepts reflect a growing recognition that organisations with a broader and more transparent approach in the way they conduct and report their activities (both internally and externally) can generate more value and establish a more sustainable basis for future growth and prosperity. In contrast to the traditional financial focus of company reporting, integrated reporting requires a broad representation of an organisation's performance and activities beyond financial information, including the company's long-term ability to create and sustain value. While integrated reporting is primarily focused on providing relevant information to capital providers (investors/shareholders and lenders), it also benefits a wide spectrum of stakeholders, including employees, customers, suppliers, business partners, local communities, legislators, regulators, policymakers.

The Integrated Reporting Framework states that an integrated report should provide insight into the organisation's strategy and its effects on the six foundational 'capitals' of an organisation's value creation:

1. financial capital
2. manufactured capital
3. intellectual capital
4. human capital
5. social and relationship capital
6. natural capital.

The integrated report highlights how the organisation creates value and how value creation for the organisation is interrelated with value for other stakeholders. Hence, the report should provide insights into the organisation's relationships with its key stakeholders and how it responds to their legitimate needs and interests.

To produce an integrated report, an organisation must, by definition, engage in integrated thinking; the two practices are interdependent. The integrated thinking⁴ principles that have been developed represent a leadership and management philosophy focusing on the identification and organisation of multiple capitals⁵ to create value over the short, medium and long term for the enterprise and its key stakeholders.⁶ This integration between financial and non-financial capitals is intended to deliver better decision making, increase transparency and promote a forward-looking culture.⁷ The output, the integrated report, is an effective way of communicating an entity's value creation stories to the stakeholders.

Advocates of integrated thinking argue that it leads to more informed and inclusive decision making, encouraging the different parts of an organisation to work together more collectively and harmoniously. Integrated thinking and integrated reporting are also said to impose positive discipline and rigour across organisations, encouraging strategic thinking, innovation and greater responsiveness to the legitimate information needs of stakeholders. Ultimately, through these outcomes, it is argued that integrated thinking and integrated reporting lead to greater and more sustainable value creation in the organisation.

The Integrated Reporting Framework sets out how an integrated report should answer a series of questions pertinent to the organisation's ability to generate value over the short, medium and long term, including:

- What does the organisation do and what are the circumstances under which it operates?
- How does the organisation's governance structure support its ability to create value?
- What is the organisation's business model?
- What are the specific risks and opportunities that affect the organisation's ability to create value, and how is the organisation dealing with them?
- Where does the organisation want to go and how does it intend to get there?
- To what extent has the organisation achieved its strategic objectives for the period and what are its outcomes in terms of effects on the capitals?
- What challenges and uncertainties are the organisation likely to encounter, and what are the potential implications for its business model and future performance?

The Integrated Reporting Framework can be applied to all organisations. The Value Reporting Foundation's (VRF)ⁱ long-term vision is a world in which integrated thinking is embedded within the mainstream business practice in the public and private sectors, facilitated by integrated reporting as the norm. Clearly, any business, regardless of size, will benefit from a better understanding of its sources of competitive advantage and, more broadly, from a more informed basis for decision making. Additionally, an integrated report provides a complete picture of the business that can serve to enhance its access to capital.

Contrasting integrated reporting and sustainability reporting

A parallel motivation for the widespread adoption of integrated reporting is pressure on all companies, including SMEs, to reflect and report on their social and environmental impacts. It must be emphasised from the outset that sustainability reporting has a wider primary audience than does integrated reporting (see Figure 1). Sustainability reporting involves reporting on an organisation's impact on the economy, the environment and society, incorporating matters such as an organisation's impacts on climate change, human rights and corruption. Some information normally found in a sustainability report may be included in the integrated report, but only to the extent that it is material to value creation over time. Integrated reporting, by contrast, can cover issues often not typically covered in sustainability reporting, such as inter-dependencies between capitals

(e.g., the relationship between intellectual capital and human capital and its impact on intangibles) or interdependencies between capitals and stakeholders.

Figure 1. Comparison of sustainability, integrated and financial reporting⁹



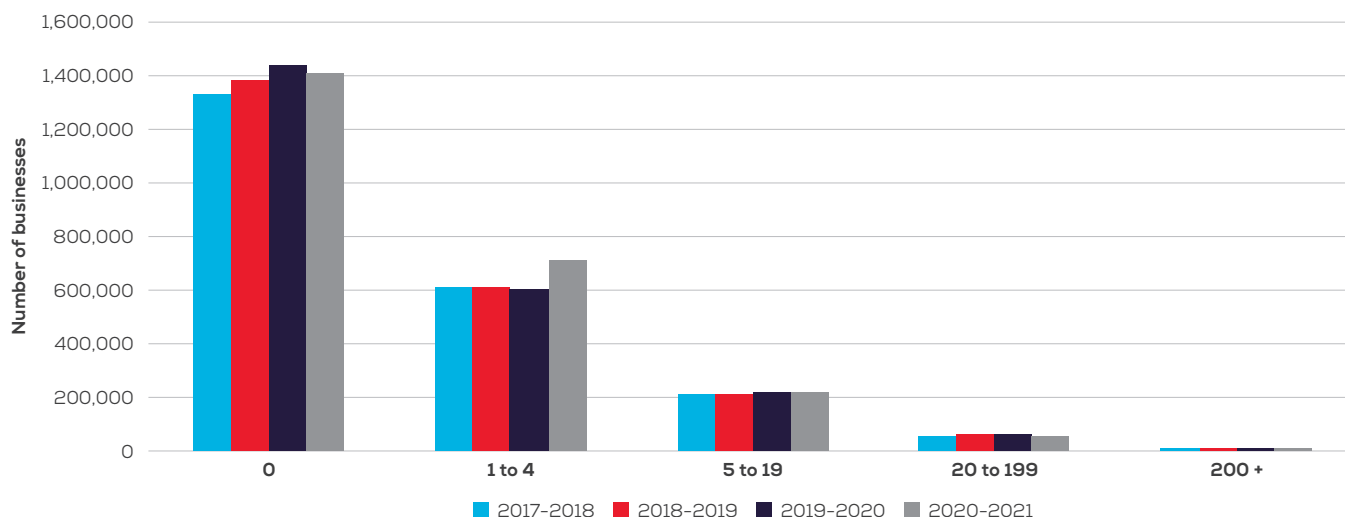
With increasing pressure on SMEs from suppliers, customers, employees and others to think more about sustainability issues, the potential for integrated reporting to help SMEs with the management of these issues from the perspective of long-term value creation and profitability is significant. For example, using integrated reporting and value creation lens to manage sustainability issues has frequently helped business leaders to refine the business' purpose and, from there, refocus on strategic priorities.⁹ Similarly, integrated reporting can enhance business performance by improving the image and reputation of an SME with its customers, staff, suppliers, lenders, investors, regulators and other stakeholders. These primary business considerations, of course, intersect with altruistic and social responsibility motivations that will also play a part in driving the behaviour of many business owners and operators.

Defining the Australian SME sector

In this section, we outline the various definitions of SMEs in Australia and explore their characteristics (size and industry) that may impact their ability to improve business performance by adopting integrated thinking and integrated reporting techniques. SMEs, by definition, comprise a diverse range of organisations. We first outline the various size categories by which SMEs are defined in Australia and present trend data for these various categories. We then present breakdowns of Australian SMEs by industry.

ⁱ In June 2021, the activities of the IIRC and the Sustainability Accounting Standards Board (SASB) were merged to form the Value Reporting Foundation (VRF), "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 and eroded". On June 20, 2022 the VRF was consolidated into the IFRS Foundation.

Figure 2. Businesses by annualised employment size range



Definition of an SME

Size is the most widely used measure to categorise SMEs in Australia – from the smallest single-person businesses up to medium-sized enterprises employing up to 199 people. For practical and analytical purposes, SMEs can be categorised according to three size variables: number of employees, annual turnover and value of assets. Different government agencies and analysts draw on various combinations of these three variables to determine the firm size for their own purposes.

First, number of employees is the basis for the standard definitions used by the Australian Bureau of Statistics (ABS). The ABS defines a small-sized business as an entity employing fewer than 20 people, and a medium-sized business as one employing between 20 and 199 people. The ABS further differentiates SMEs into four categories: (1) Non-employing businesses, including sole proprietorships and partnerships without employees; (2) Micro-businesses employing between 1 and 4 people; (3) Other small businesses employing between 5 and 19 people; and (4) Medium-sized businesses employing between 20 and 199 people.

In June 2021, there were 2,402,254 actively trading businesses in Australia.¹⁰ Of these, 1,410,049 (58.7%) were non-employing businesses, and 711,364 (29.6%) had 1-4 employees (micro-businesses). A further 220,427 (9.2%) employed between 5 and 19 people, and 56,046 (2.3%) employed between 20 and 199 people. A further 4,368 (0.2%) were larger businesses employing more than 200 people. For this white paper, we use the ABS definitions of SMEs, focusing on small and medium-sized businesses.

The second common method to categorise SMEs follows the definition of the Australian Taxation Office (ATO) based on annual turnover, which is used to determine if a business is eligible to obtain small business entity concessions. Specifically, the ATO defines small business entities as individuals, partnerships, companies or trusts carrying on a business and having an aggregate turnover of less than \$10 million.

The third method to categorise SMEs follows the definition in Section 45A(2) of the Corporations Act 2001. With thresholds revised starting from 1 July 2019, a proprietary company is considered to be small for a financial year if it satisfies at least two of the following three characteristics: (1) The consolidated revenue for the financial year of the company and the entities it controls (if any) is less than \$50 million; (2) The value of the consolidated gross assets at the end of the financial year of the company and the entities it controls (if any) is less than \$25 million; and (3) The company and the entities it controls (if any) have fewer than 100 employees at the end of the financial year. This means that a medium-sized entity under the ABS definition (20-199 employees) may be considered large under the Corporations Act if they have greater than 100 employees and either have revenue of at least \$50 million or gross assets of at least \$25 million. While large proprietary companies must prepare and lodge an audited financial report and a directors' report for each financial year, companies that meet at least two of the above criteria (small proprietary companies) are not required to lodge financial reports. There are exceptions, which are unusual in practice, where ASIC requests lodgement or it is required by at least 5% (total votes) of the shareholders.

SMEs by industry

The table below identifies Australian SMEs, broken down by industry sector and size (micro, small, and medium sized entities). The construction industry had the highest number of SMEs of any industry (410,839, or 17.1% of total entities operating) in 2021. Accommodation and food services accounted for 4.4% of all entities but comprised the highest proportion of SMEs (5-199 employees) with 13.3% of small entities and 13.5% of medium-sized entities. Table 1 below confirms a highly diverse distribution of SMEs across Australia.

Table 1. SMEs distribution by industry and size

Industry	Number of entities operating in 2021	% of non-employing and micro entities (1-4 employees)	% of small entities (5-19 employees)	% of medium-sized entities (20-199 employees)
Construction	410,839 (17.1%)	17.8%	12.9%	9.8%
Professional, scientific and technical services	316,462 (13.2%)	13.5%	10.8%	10.8%
Rental, hiring and real estate services	272,610 (11.3%)	12.4%	4.0%	2.7%
Transport, postal and warehousing	194,459 (8.1%)	8.7%	3.0%	3.7%
Agriculture, forestry and fishing	173,131 (7.2%)	7.6%	4.8%	3.9%
Health care and social assistance	159,076 (6.6%)	6.4%	8.3%	7.4%
Retail trade	145,079 (6.0%)	5.4%	11.1%	9.3%
Other services	114,575 (4.8%)	4.7%	5.9%	2.3%
Financial and insurance services	113,916 (4.7%)	5.1%	2.3%	2.1%
Administrative and support services	107,252 (4.5%)	4.3%	4.9%	8.0%
Accommodation and food services	104,854 (4.4%)	3.2%	13.3%	13.5%
Manufacturing	86,968 (3.6%)	3.0%	7.2%	10.8%
Wholesale trade	82,527 (3.4%)	3.1%	5.5%	7.0%
Education and training	36,753 (1.5%)	1.4%	2.3%	3.5%
Arts and recreation services	33,489 (1.4%)	1.4%	1.5%	1.7%
Information media and telecommunications	23,800 (1.0%)	1.0%	0.8%	1.2%
Electricity, gas, water and waste services	8,078 (0.3%)	0.3%	0.5%	0.6%
Mining	8,030 (0.3%)	0.3%	0.4%	0.7%
Public administration and safety	7,028 (0.3%)	0.3%	0.4%	0.9%
Currently unknown	3,328 (0.1%)	0.2%	0.0%	0.0%
All industries	2,402,254 (100%)	2,121,413 (100%)	220,427 (100%)	56,046 (100%)

The continuing vibrancy of the SME sector is highlighted by a 3.8% annual increase in the numbers of such entities in 2021. Only two industries exhibited a decrease in the number of entities: public administration and safety (-1.5%) and transport, postal and warehousing (-2.8%). The industries with the highest numbers of new entrants in 2020-2021 were administrative and support services (20.3%) and transport, postal and warehousing (18.6%).

The current reporting ecosystem for SMEs

Legal reporting requirements for SMEs

In Australia, there are a range of statutory reporting requirements around financial statements that vary depending on SME size and legal structure (i.e., Companies, partnerships, social purpose entities, employing businesses, non-employing businesses). As previously mentioned, medium-sized companies SMEs (by ABS definition) with more than 100 employees may be classified as an SME by the ABS definition and at the same time large entity under the Corporations Act and required to lodge an annual audited financial report and a directors' report with the Australian Securities and Investments Commission (ASIC). There are also some situations in which small entities are required to prepare and lodge financial reports with ASIC – including when they are controlled by a foreign company, or if they are required to do so by either 5% of their shareholders or by ASIC. Entities may also have different reporting requirements to other regulators overseeing their activities, such as in education, real estate and construction. All entities are required as a minimum to keep adequate financial records.¹¹

Preparing information for tax is an important aspect of reporting, and all SMEs are required to provide such information to the ATO. As part of their taxation obligations, all SMEs must prepare a tax return and submit a business activity statement (BAS) if they are registered for the goods and services tax (GST). A business is required to register for GST when its GST-relevant turnover is at least \$75,000 (or \$150,000 for non-profit organisations).

The payment cycle for GST obligations (the due date for BAS lodgment) varies according to the GST turnover of the business. The reporting frequency is annual for entities with a GST-relevant turnover of under \$75,000 (or \$150,000 for not-for-profits), quarterly for businesses with GST turnover of between \$75,000 and \$20 million, and monthly for entities with GST turnover of \$20 million or more.

In Australia, there are no regulatory requirements for broader reporting for most SMEs. While predominantly applying to larger organisations, much of the information currently required by law for broader reporting is in relation to two specific reporting requirements (1) for large carbon emitters, under the National Greenhouse Energy Reporting Act of 2007 regulations;¹² and (2) for entities with greater than \$100 million consolidated revenue, modern slavery reporting requirements under the Modern Slavery Act 2018.^{ii,13} With the increased

demand for accountability around climate and social impacts, it is potentially conceivable that a future government could introduce new or further tighten existing regulations, indicating that more SMEs may be required to report on aspects of their social and environmental impacts.

Other pressures for SMEs to provide a broader range of information

There has been an observed increase in pressure from external organisations on SMEs to provide a broader range of information. One source of demand for broader information is through the supply chain. With many SMEs acting as suppliers for larger corporations, there are incentives and pressures associated with reporting up the supply chain, particularly when big companies need information from suppliers in relation to climate change and modern slavery to meet their legal reporting obligations.

Arguably, SMEs that report this information are better placed to attract new customers up the supply chain and to meet information requests from further down the supply chain. Similarly, international customers from jurisdictions with a regulatory focus on sustainability might require additional information concerning social or environmental impact before signing export contracts with Australian suppliers for products or services.¹⁴ Also, more socially conscious people are likely to be attracted to organisations, either to work for or transact with, that clearly articulate their mission and purpose, and that highlight their social and environmental credentials. In addition, finance providers are increasingly requesting information beyond the ability to repay or likelihood of financial return. For example, banks want to understand a potential client's broader range of environmental risks. The industry-led and United Nations-convened Net-Zero Banking Alliance¹⁵ brings together, from a worldwide perspective, banks committed to aligning their lending and investment portfolios with net-zero carbon emissions by 2050. The alliance, representing more than 40 per cent of the assets of the global banking industry, is requiring more information on the environmental impact of projects for which loan finance is being sought.

ii The reporting requirement under the Modern Slavery Act (2018) apply to commercial and not-for-profit entities with annual consolidated revenue of at least AU\$100 million and requires applicable entities to publish annual Modern Slavery Statements describing their actions to assess and address modern slavery risks, including in supply chains.

The reporting burden on SMEs

Despite facing less onerous reporting requirements than large organisations, the proportional cost for the required reports is much higher for SMEs. In addition, significant compliance and associated reporting burden is associated with participation in government and industry support schemes.¹⁶ Further, some types of SMEs are also facing growing demands for additional social and environmental information. While requirements to report broader information are currently modest, and the requests relatively ad hoc, the push for broader reporting by all entities is likely to grow over time. Could such emerging information requirements be met, or streamlined, under the Integrated Reporting Framework? As identified in the following chapters of this white paper, one of the barriers to SME owners and managers embracing integrated reporting is the *perception* that the costs of adopting integrated thinking and integrated reporting might exceed the benefits. But with ever-increasing reporting requirements, it is possible that the adoption of the Integrated Reporting Framework may in fact help to mitigate the overall costs and burden for many SMEs. This proposition is explored in more detail in subsequent chapters.

Chapter 2 – The research

Research into SMEs, integrated thinking and integrated reporting

With the environmental and structural backdrop outlined in Chapter 1, and with integrated thinking and integrated reporting having the potential to alleviate some of the concerns currently faced by SMEs, in this chapter we explore and review the academic and practitioner literature. This allows us to gain a broad understanding of current knowledge about the history, drivers, benefits, barriers, costs and potential utility of these potential solutions for SMEs. While the bulk of research to date has been directed to the implementation of integrated thinking and integrated reporting by larger, mostly listed, entities and has provided an evidence base of a range of benefits, the smaller base of research focused on SMEs has also generally found both integrated thinking and integrated reporting to be beneficial. Research finds integrated thinking allows SMEs to better understand their business model, strategy and areas of competitive advantage, including the consumption and impact of resources and relationships critical to value creation. It also helps them to comprehend the integration of financial and non-financial performance and to assess the potential implications of external forces. Together, these factors have been found to assist and enhance SMEs' internal decision-making processes, provide a contextual basis for the analysis of relationships with stakeholders, and facilitate and strengthen the focus on business sustainability. Further, integrated reporting promotes SMEs' engagement in consideration of wider value creation, and concisely communicates a variety of business elements that are found to be of interest to various stakeholders.

However, previous research has also found the existence of significant barriers to the implementation of integrated thinking and integrated reporting by SMEs. Issues leading to resistance include limited resources (time, human, and financial) available to SMEs and limits to, or inadequacies in, information systems to access the broader data collection needed to support the implementation of integrated thinking and integrated reporting. The literature also shows that integrated reporting is perceived by some as too complex for SMEs. In this context, a number of 'getting started' guides have been recently developed, or are in the process of being developed.¹⁷ Although not Australian specific, and most are not SME-oriented, they may provide useful advice and support for SMEs to embark on this journey.

The following summary of drivers and barriers identified in prior literature suggests that there are certain types of SMEs to which integrated thinking and integrated reporting may be particularly well suited, and for which the expected long-term benefits from adopting integrated thinking and integrated reporting will outweigh the costs. However, with limited implementation guidance designed specifically for SMEs, many may struggle in the initial years of implementation. A supportive environment within the broader SME ecosystem, along with adequate financial, managerial, and social resources, is essential to the wide adoption of integrated thinking and integrated reporting by SMEs.

Figure 3. Integrated reporting, integrated thinking and SMEs



Drivers of integrated thinking and integrated reporting

Internal drivers of adoption

In a longitudinal case study of an Italian SME, Del Baldo¹⁸ identified multiple drivers for SMEs to adopt integrated reporting, including enhancing reputation and building mutual trust among stakeholders and improving the communication strategy and the disposition to measure performance in a medium-long term perspective. In addition, integrated reporting was regarded as a communication tool that enhanced SMEs' visibility to the broader market (in financial, academic, national and international contexts). Greater market visibility gives an SME more opportunity to expand and grow. This finding is consistent with research from the larger entity setting, which identifies the importance of enhanced visibility.¹⁹

The application of integrated thinking and integrated reporting can also be beneficial to key SME stakeholders – such as customers/clients, banks, employees and the local community – who are affected by the SME's operations in various ways, and on whom SMEs are dependent for their long-term survival and success. Based on results from another Italian case study, James²⁰ finds SMEs can use integrated reporting to enhance brand value and reputation among stakeholders, encourage better employee and customer loyalty, gain trust from funders, lower the cost of capital and improve the understanding of the business. Adopting integrated reporting also allows the SME to become more competitive in the marketplace.

Supply chain drivers in the sector

Internationally, in response to the societal expectations on entities to help solve problems such as environmental degradation, inequality and poverty, many have committed²¹ to deliver value to all stakeholders, including customers, employees, suppliers, communities (including the physical environment) and shareholders. Leading multinational companies have joined the Organisation for Economic Cooperation and Development's (OECD's) Business for Inclusive Growth²² coalition to promote economic equality and opportunity to all stakeholders. In a similar vein, the theme for the World Economic Forum Annual Meeting 2020 was "Stakeholders for a Cohesive and Sustainable World". These initiatives will inevitably filter through from 'the big end of town' to SMEs. As outlined in chapter 1, by adopting integrated reporting, SMEs, especially those that supply larger corporations, can be well placed strategically to attract new customers and meet the associated additional information requests. Other benefits might include reducing environmental resource usage, creating a good business culture that maintains low staff turnover and attracts talented employees, and better managing risk.

Drivers of adoption by providers of financial capital

Adoption of integrated reporting improves the usefulness of financial information to investors and other financial stakeholders who continue to be the primary users of integrated reporting.²³ SMEs typically face difficulties accessing financial capital, in part because of the existence of informational barriers²⁴, and in certain areas, such as trade finance, the administrative complexity.²⁵ On one hand, SMEs lack the resources to have a sophisticated in-house finance team and may not be confident in communicating with financial providers (banks, equity investors or venture capital firms). Conversely, financial providers, in addition to requiring basic information about the ability to repay, or the likely financial return, now increasingly require credible information about the company's broader range of risks, including climate emissions. For example, more than 250 banks representing over 40% of global banking assets have joined the Principles for Responsible Banking²⁶ to undertake a leading role in achieving the United Nation's Sustainable Development Goals and the goals of the Paris Climate Agreement, and have committed to implement six principles related to alignment, impact and target setting, clients and customers, stakeholders, governance and culture and transparency and accountability at the strategic, portfolio and transactional levels.²⁷ To this end, integrated reporting can become a powerful tool that facilitates dialogue with financial stakeholders by enhancing the communication of the value creation story, aligning the disclosure with information requirements, and gaining recognition and support from financial stakeholders.²⁸

Industry drivers of adoption for the sector

Prior academic studies present evidence that type of industry and related industry organisation's demands for information²⁹ impacts the cost-benefit analysis of adopting integrated reporting. SMEs working on, or supporting, certain industries have greater social (e.g., retail) or environmental (e.g., agriculture, electricity, mining) impacts, driving demand for related accountability on these issues. In addition, industry organisations³⁰ making representations to the public or government can better articulate the social and environmental impact of their member firms when they are provided with more comprehensive reporting from those members.

Benefits of implementation for SMEs

There is broad consensus in the literature that SMEs can benefit significantly from adopting integrated reporting³¹ – particularly because, by its nature, integrated reporting forces organisations to engage in the related and highly beneficial practice of integrated thinking. Although these two practices go hand-in-hand, some research literature has examined the benefits associated with implementing either integrated thinking or integrated reporting.

Benefits for SMEs of implementing integrated thinking

Integrated thinking has been found to increase management effectiveness in creating long-term value,³² as it encourages companies to think broadly of their business model, inputs, business activities, outputs and outcomes.³³ Integrated thinking also encourages employees at all levels of the organisation to become more involved and work collaboratively towards a common goal of long-term value creation, suggesting enhanced accountability.³⁴ As a result, organisations that practice integrated thinking will have better internal information flow,³⁵ enhanced internal decision making,³⁶ a basis for more informed decisions,³⁷ and the capacity to answer stakeholders' requests comprehensively³⁸.

Table 2. Summary and key findings of research literature on the benefits of integrated thinking

Reference	Benefits
Churet and Eccles 2014	The adoption of integrated thinking increases the overall effectiveness of management in creating value over the long term.
Adams 2015	An emphasis on long-term thinking and encouragement of broader thinking about the value creation process and the business model is beneficial.
Burke and Clark 2016	Embedding integrated thinking into a company's activities increases the information flow between departments and into management decision making and external reporting.
Mio et al. 2016	Integrated thinking requires managers to build a more holistic view of the company by considering the interrelation among different operating and functional units and the capitals.
Adams 2017	Thinking about and discussing the organisation's business model – with or without the preparation of an integrated report – encourages and enhances value creation.
Del Baldo 2018	Integrated thinking improves the internal decision-making process by breaking down operational and reporting silos, which leads to improvement in the systems and processes.
Vitolla and Raimo 2018	The application of integrated thinking triggers intra-company communication and collaboration to produce a concise and transparent integrated report.
Baboukardos et al. 2021	Entities that implement integrated thinking exhibit better connectivity among their functional units, which promotes a better understanding of their internal processes and relationships and facilitates dialogue among the functional units.
Busco et al. 2021	Adopting integrated thinking enables organisations to answer stakeholders' requests accurately and comprehensively, resulting in strong and long-lasting relationships of trust and transparency with stakeholders.

Benefits for SMEs of implementing integrated reporting

The further adoption of integrated reporting can also drive strategic change.³⁹ Integrated reporting triggers the use of multiple capitals beyond financial capital,⁴⁰ which motivates managers to advance corporate reputation and think broadly of stakeholder needs, rather than purely satisfying investor needs.⁴¹ By shifting the strategic focus to both financial and non-financial performance, companies can frame the integrated report around their unique business story⁴² and enhance the company

value.⁴³ By extension, the integrated report can be used as a tool to communicate an organisation's mindset, activities and value creation practices,⁴⁴ and can have positive impacts through the coverage of information that would otherwise remain hidden (such as intangibles, and the expertise and dedication [social capital] of the management and employees)⁴⁵ and through the encouragement of a more holistic risk-management approach⁴⁶ that could be beneficial for internal and external decision-making purposes.⁴⁷

Table 3. Summary and key findings of research literature on the benefits of integrated reporting

Reference	Benefits
Steyn 2014	Integrated reporting helps to motivate and shift the attention of managers to advance corporate reputation and meet broader stakeholder needs, rather than only addressing financial reporting requirements.
Stubbs and Higgins 2014	Integrated reporting drives change by forcing organisations to review their business strategies and develop the integrated 'story'.
Simnett and Huggins 2015	An enhanced strategic focus on both financial and non-financial performance can help companies attain a complete understanding of value drivers and how these drivers contribute to their strategic goals, resulting in enhanced company value.
Oliver et al. 2016	Adoption of integrated reporting triggers the consideration of multiple capitals, beyond financial capital.
Barth et al. 2017	An increase in reporting quality (via integrated reporting) improves internal decision making.
Del Baldo 2017	The benefits of integrated reporting include an assessment of intangibles that would otherwise remain hidden, and stronger cohesion within the company, leading to improved strategies and results.
Al-Htaybat and von Alberti-Alhtaybat 2018	Integrated reporting can be used as a tool to communicate an organisation's mindset, activities and value creation practices.
Vitolla and Raimo 2018	Analysts have credited integrated reporting with a higher quality of external company reporting combined with a greater readability of documents. Internally, increased involvement of employees has been observed.
Dyczkowska and Fijałkowska 2022	The adoption of integrated reporting affects disclosure choices and encourages decision makers to reveal factual possibilities that constitute a solid basis for generating long-term value for stakeholders.
Panfilo et al. 2022	Integrated reporting encourages the practice and reporting of a holistic risk-management approach, which helps decrease credit risk and results in a lower cost of debt.

Barriers to implementation

After interviewing SME managers, Del Baldo⁴⁸ concludes the Integrated Reporting Framework should be simplified, shortened and 'operationalised' to be user-friendly for SMEs. With the complexity, it may be hard for SMEs to have a good practical understanding of integrated thinking and integrated reporting and develop it as a practice.⁴⁹ A notable jurisdictional exception to this information vacuum is Italy, where the Network Italiano Business Reporting (NIBR) *Integrated Reporting for SMEs: Implementation Guidance* has been developed. Elsewhere, with the more limited guidelines, SMEs face information, knowledge and skills gaps associated with implementing integrated thinking and integrated reporting, and the few relevant case studies find SMEs

struggle with this implementation. For example, Del Baldo finds the case study's subject, Costa Edutainment, struggled in the early years to implement integrated thinking and integrated reporting, particularly in defining the value creation process, developing a risk management process, and thinking in an integrated manner. While the guidelines for implementing integrated reporting in SMEs issued by the NIBR have helped in filling some gaps, there remains scope for further targeted guidance for SMEs. Furthermore, SMEs do not face the same level of pressure and expectations as large entities to consider non-financial reporting⁵⁰ and many SMEs are not even aware of how integrated thinking and integrated reporting can be beneficial to their value creation.⁵¹

Table 4. Summary and key findings of research literature on the barriers to adopting integrated thinking and integrated reporting

Reference	Barriers
Lodhia 2015	The lack of guidance available to develop an understanding of integrated reporting, and the detailed rules and guidelines needed to prescribe how integrated reporting is to be implemented.
Del Baldo 2017	Some challenges in the implementation of integrated reporting include the weakness of the "culture of non-financial information" (such as transparency, and the clarity about governance information, data collection or comparability between different 'silos'), the lack of a supportive information system to identify, monitor and account for value drivers, and the lag effect of reaping the benefits.
Gerwanski 2020	There is a broad consensus that the most pertinent barrier for companies to adopt integrated reporting is the lack of definitive guidance and absence of practical reporting guidelines
Zhou et al. 2020	For broader information to be appropriately used, not only must it be reported, but it must be credible. There is little guidance currently developed for appropriate credibility enhancing techniques for this broader information
Dyczkowska et al. 2021	Some issues faced by SMEs include the lack of information and skills, complexity and perceived costs as well as the fact that SMEs do not face the heterogeneous set of pressures and expectations that large entities are expected to deal with.
Madarasi-Szirmai et al. 2021	Many SMEs are not aware of the importance of integrated thinking, and the switch to integrated reporting would impose additional burdens on them.
Simnett et al. 2022	Appropriate credibility enhancing techniques to support both internal and external reporting are evolving, but still need some development work, and experience gained from practice.

Costs to implement

SMEs would naturally be concerned to ensure that the benefits of implementing integrated thinking and integrated reporting would outweigh the costs, particularly considering the efforts required to adopt these practices.⁵² While the perceived administrative costs of preparing an integrated report are a significant barrier to adoption, the reality of other costs to SMEs cannot be excluded. These include:

- Developing appropriate information systems within the SME that will capture the information needed to facilitate the broader thinking and reporting;⁵³

- Preparing an integrated report, above and beyond any current financial reporting requirements;⁵⁴
- The lack of a centralised source of support and information on integrated reporting, resulting in search costs for SMEs seeking beneficial information; and
- Establishing the credibility of reported information, for both internal and external decision making, lest the reported information will not be relied upon by the intended users.⁵⁵

Table 5. Summary and key findings of research literature on the costs to implementing integrated thinking and integrated reporting

Reference	Costs
Del Baldo 2017	Costs associated with changing behaviour and developing an appropriate information system to identify, monitor and account for the value drivers.
Zhou et al. 2019	Costs associated with appropriate credibility enhancing techniques, lest the broader information will be disregarded from decision making as marketing material
Gerwanski 2020	Costs associated with developing appropriate information systems
Dyczkowska and Fijałkowska 2022	Full adoption of integrated thinking and integrated reporting involves the incurring of up-front costs involved with systems set up, and reporting structures, with the benefits being long term.

Opportunities with integrated thinking and integrated reporting

Integrated reporting allows SMEs to concisely communicate material matters to investors and managers to enable them to make informed decisions, and stakeholders to reach corporate objectives for long-term success.⁵⁶ Based on preliminary surveys of SMEs, it has been proposed that initiatives should be undertaken to raise SMEs' awareness of the benefits from adopting integrated thinking and integrated reporting, and that training should be offered to fill skill gaps and educate the SMEs about perceived preparation costs.⁵⁷ To fully reap the benefits of integrated reporting, the underlying concept of integrated thinking should be embraced and championed by boards and executive leadership teams to sustain the necessary changes in operational processes, decision making and stakeholder management.⁵⁸ The heterogeneity of SMEs requires each organisation to identify which capitals contribute to their value creation.⁵⁹ For SMEs to progress in their adoption of integrated reporting, challenges and barriers need to be better understood and carefully investigated.

Opportunities for SMPs to support SMEs

Research finds external accountants – especially small and medium-sized accounting practices (SMPs) – are the most trusted⁶⁰ and preferred advisers to SMEs⁶¹. SMEs are found to benefit when they purchase business advice from their external accountants through enhancements to firm performance.⁶² The types of SMEs most likely to purchase business advice from their external accountants are larger and younger entities that carry higher levels of debt or intend to obtain new funding, and that exhibit higher growth rates or intentions to grow.⁶³ SMPs are clearly well placed to support SMEs in introducing and supporting the implementation of integrated thinking and integrated reporting.

Opportunities for information technology providers to support SMEs in implementing integrated thinking and integrated reporting

In the era of digitalisation, digital technologies play an important role and potentially have high synergy with the adoption of integrated thinking and integrated reporting.⁶⁴ A review of the practice literature shows that most software solutions today are designed to optimise a specific business function, with the principal tools being those that chart the whole company, the financial chart of accounts and the organisational chart. However, there is currently significant development in platforms that enhance integrated planning, which is beneficial for enhancing integrated thinking (note, for example, IBM⁶⁵ and Oracle⁶⁶), as well as developments in the integration of the various information sources and platforms, such as building sustainability-type information into financial reporting platforms, which are beneficial for enhancing integrated reporting. While these developments are principally aimed at large organisations, the expectation is that they will be scalable, and therefore will become relevant for SMEs.

Krause and Pellens⁶⁷ argue that digital technologies may help organisations to overcome the complexities and allow management to analyse a large quantity of data. As shown by the <IR> Technology Initiative⁶⁸, the implementation process for integrated thinking and integrated reporting involves a new set of challenges because the organisation needs to tell the story of how it creates value over time and across multiple capitals, which requires connected, rapidly changing information that can flow from management reporting, analysis and decision making. In other words, the information relevant to the value creation story needs to be collected, integrated and processed in a timely manner. Therefore, information technology providers can help to facilitate the development of software platforms that simplify and assist SMEs in the adoption of integrated thinking and production of an integrated report.

The importance of reporting credible information

One of the main findings of prior research is the importance of credible information in reporting. While it is recognised that the credibility of reported information is enhanced when it is independently assured by an assurance expert⁶⁹, we recognise the costs associated with such an approach. Both SMEs and assurance standard setters such as the Australian Government's Auditing and Assurance Standards Board (AUASB) might consider how best to build the credibility of the information in a cost effective manner – particularly where this is going to make a difference to the confidence and actions of the information users.

Chapter 3 – Expert opinions

The future of integrated thinking and integrated reporting in the Australian SME sector

A roundtable forum hosted by CA ANZ and the Deakin Integrated Reporting Centre was held with key SME stakeholders on 15 November 2021. The roundtable heard a diverse range of views from 25 leading Australian thinkers and practitioners, including government policymakers, industry representatives, business owners, accounting practitioners, representatives from professional accounting bodies, software providers, accounting standard setters and academics. Held under Chatham House rules, the roundtable was convened to explore the potential for integrated thinking and integrated reporting concepts to be adapted to the Australian SME environment, and in particular to:

- Confirm the purported benefits of integrated thinking and integrated reporting for SMEs
- Identify which sub-groups of SMEs are most likely to benefit from integrated reporting adoption
- Identify how SMEs should approach the implementation of integrated thinking and integrated reporting
- Identify barriers to SMEs adopting integrated thinking and integrated reporting
- Inform policy designed to support the implementation of integrated thinking and integrated reporting by SMEs.

As previously discussed, the adoption of integrated thinking and integrated reporting globally, including in Australia, has occurred mainly among large companies, with a limited evidence base exploring whether SMEs could also reap long-term benefits by taking a broader approach to company reporting. Results from the roundtable accordingly add to the evidence base. While there was a diverse range of views at the roundtable, six key themes emerged:

1. Integrated thinking and integrated reporting are potentially useful for a wide range of SMEs.
2. Some types of SMEs are more suited to integrated reporting than others – with likely benefits depending on SME size, industry and nature.
3. It is essential that integrated reporting does not unreasonably add to the overall reporting burden on SMEs.
4. The benefits of integrated thinking and integrated reporting need to be conveyed to SMEs.
5. Integrated reporting can help address many of the information demands faced by SMEs.
6. Technology solutions will be beneficial to support the implementation of integrated reporting by SMEs.

Theme 1: The usefulness to SMEs

To gain insights into the views of SME roundtable participants about the potential usefulness of integrated thinking and integrated reporting to SMEs, they were asked to address the following questions:

1. To what extent is developing the concept of integrated thinking for SMEs going to be useful?
2. To what extent is integrated reporting going to be useful for SMEs?

Consistent with the literature, most respondents agreed that the concepts of integrated thinking and integrated reporting were potentially useful for SMEs. The poll results were also consistent with – if not influenced by – a presentation by an external accountant who detailed the experience of a client company, Intrepid Travel, and how integrated thinking and integrated reporting helped the business transform from humble origins to become a major force in the travel industry. Roundtable participants heard how integrated thinking helped the organisation achieve more clarity of purpose and, through its integrated report, the ability to articulate its message to a range of stakeholders.

The case of Intrepid Travel gives valuable first-hand insights into how SMEs can benefit from adopting integrated thinking and integrated reporting. “The integrated report is our leading piece of brand positioning, and it is super critical... it is used for other purposes, it is the document given to any new contact, whether that be an investor, customer, or employee. It is the first thing provided that says, ‘this is who we are.’” Integrated reporting helped get the company noticed. “A document like this demonstrates the quality of the board of management to understand the value story, the focus on long term value, the clarity of purpose and the alignment of people... this just demonstrates the quality of the business”.

In another presentation to the roundtable, an accounting practitioner suggested a simplified application of integrated reporting for SMEs to minimise the reporting burden – an approach that would focus on a narrower, easier-to-use set of elements than those in the Integrated Reporting Framework. The approach would require SMEs to focus on three important elements from the Integrated Reporting Framework: (1) *What* – the strategy; (2) *With* – the resources and relationships; and (3) *How* – the business model and system of governance.⁷⁰ The practitioner argued these core elements of integrated reporting were “concise, connected and grounded on integrated thinking”. Roundtable participants were polled on the importance of each of these three elements to SMEs. The results suggested that while all three elements – the “what, with, and how” – of integrated reporting were important, SMEs should focus most on the ‘with’ – in particular, identifying and measuring the specific resources and relationships that drive performance for their business.

Another practitioner argued that even sole practitioners or micro businesses could benefit from the implementation of integrated reporting. Taking a plumber as an example, the practitioner said: “You might be the best, cleanest and most on-time plumber... if that is what you are going to be, then how are you going to measure, manage and report on that well? ... You know why you are going to work, how you are going to differentiate yourself in the market, what is it that you do to create value for your business and others ... there is so much wasted marketing stuff done by small entities that sort of goes in the post box and then straight to the bin, which potentially could be refocused by putting on their website and some other form (with the intention) of getting your name out there”. Two potential conclusions can be drawn from this testimony: (1) It is important that the business knows how it creates value and how it communicates this value to its customers, and (2) The practices of integrated thinking and integrated reporting need not be strictly prescribed; an SME can be seen to begin to engage with and benefit from the concept of integrated thinking by doing as little as developing an effective online marketing strategy.

Theme 2: Which SMEs are likely to benefit

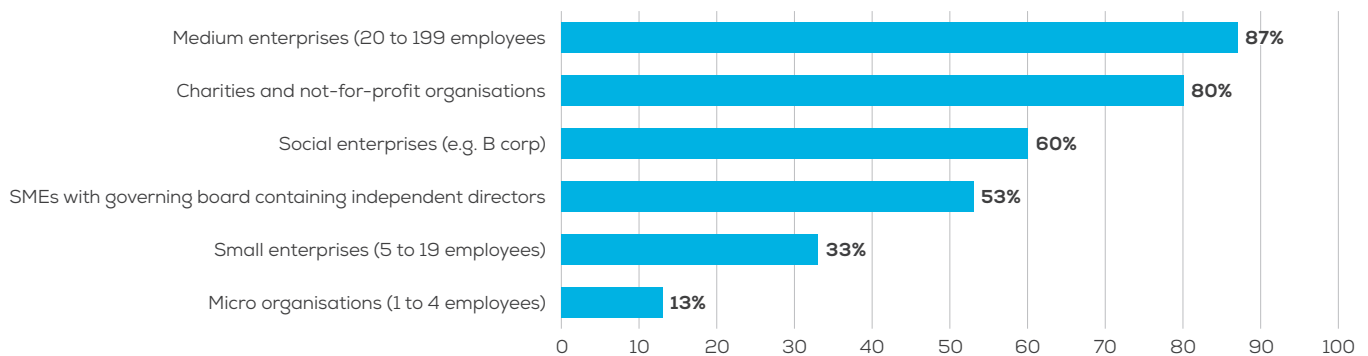
Roundtable participants were asked which business types would benefit from embracing integrated reporting. A large majority – 87% – agreed that medium-sized enterprises would likely benefit from adopting integrated reporting. But only 33% perceived a benefit to small entities (5-19 employees) and 13% perceived a benefit to micro entities (0-5 employees). A substantial majority of participants perceived integrated reporting to be beneficial to charities (80%) and social enterprises such as B Corps (60%).

The polling results led to considerable discussion around the possible need to segment the wider SME sector according to which types of SMEs were more likely than others to benefit from adopting integrated reporting – and should therefore be targeted by policymakers. One small business industry representative stated: “I think the principles of integrated thinking and integrated reporting are fabulous, and it is effectively a really thoughtful and smart way to run a business. [But] it is just not the reality for many businesses, particularly on the smaller end of things. In the current economic climate, they are worried about having enough money to pay the supplier who is coming tomorrow”. An SME owner said: “If we are talking about the overwhelming majority of small businesses, we actually need to acknowledge that half of them do not employ anybody... it is a lot more work and we have a

shortage of practitioners, professionals, accountants and bookkeepers to make it real for businesses. They do not want to do this themselves”. Another representative from an SME industry group highlighted how time pressures would mitigate against owners and managers of small businesses embracing integrated reporting, saying: “Small businesses just do not have any time to do anything that does not have a clear and present bottom line. Not something [that] down the track, not something when they get bigger. But [they focus on] something that is now, problems they have got right now, and there is the challenge”. Thus, there was widespread support for the view that integrated reporting would not be widely embraced by smaller SMEs (particularly sole practitioners and micro businesses) and that, when it comes to policymaking, segmentation based on size would be important.

This led to a discussion about how the need for segmentation of the SME sector would present challenges for policymakers and others seeking to encourage the adoption of integrated reporting. “I think the size differential is the biggest barrier in finding a solution,” one practitioner said. Another practitioner stated: “... even in the SME space, we are not going to have a one-size-fits-all guidance”.

Figure 4. In your opinion, which SMEs will the IR for SMEs be useful for?

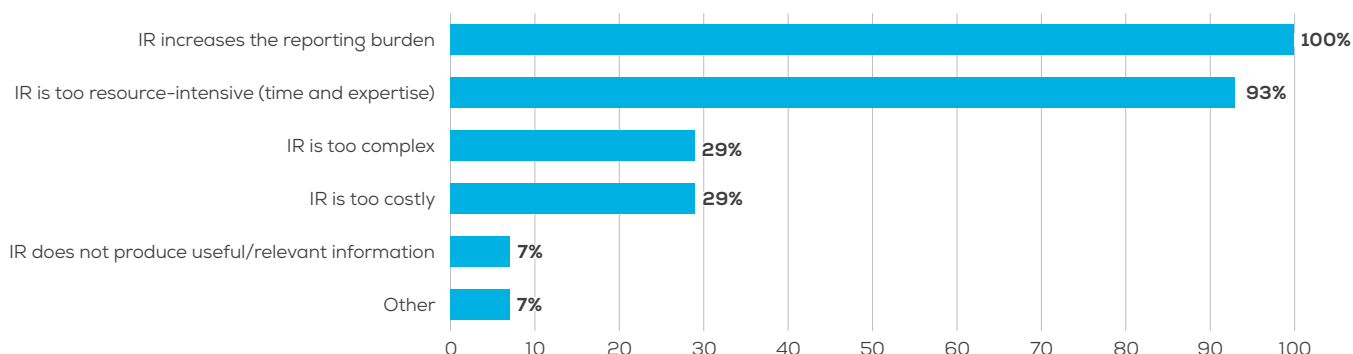


Theme 3: The perceived increase in the reporting burden

Roundtable participants were asked what they considered to be the major barriers to SMEs adopting integrated reporting. All agreed that the major barrier was the perception that integrated reporting increases the reporting burden. This was followed closely by integrated reporting being too resource-intensive (in terms of time and expertise). A representative from an industry group reflected the view that integrated reporting was perceived to create a reporting burden, particularly for smaller entities: "Integrated reporting sounds like just a whole heap of extra work... the person who owns the small business tends to be all things to all people... anything you ask them to do beyond what they are doing now – they go into absolute meltdown because they are already doing all of these things". In response, a practitioner representative pointed out that the benefits of adopting integrated reporting may well exceed any perceived costs. The practitioner highlighted that the transparency from integrated reporting, either in the form of a report or even a website disclosure, could be a winning strategy that differentiates one business from others and thus helps it gain a competitive advantage.

An accounting standards setter said: "There is already too much reporting, and so the challenge is maybe to reduce some of the existing reporting requirements that are established by regulators". A practitioner responded: "My challenge to this concept is what are you going to get rid of... what does a business get to stop doing when they start doing this?". An industry group representative said: "Nothing will make small entities run faster from the word reporting than IR [integrated reporting and industrial relations]." Despite evidence presented elsewhere in this white paper that SMEs that embrace integrated reporting would not face an unreasonably heavy reporting burden, there is a perception that such a burden exists, and that integrated reporting might add to it. Thus, a clear message emerged: Many smaller businesses would take some convincing that integrated reporting would not result in an unreasonable reporting burden.

Figure 5. What do you/your organisation see as the barriers for IR for SMEs?



Theme 4: How to convey that benefits outweigh the costs

A consensus emerged that while producing an integrated report may require significant initial investments, the expected long-term benefits would outweigh the costs for many SMEs.

The relevance of integrated thinking to SMEs was highlighted by some participants. An accounting standards setter said: "We need to understand integrated reporting principles and how they can impact internal management of an organisation... for internal reporting purposes rather than external reporting purposes... [the] benefit of integrated reporting is in the integrated thinking". This is consistent with the statement by Value Reporting Foundation that "integrated thinking and integrated reporting go hand in hand – one might come before the other, but together, they can provide organisations with very powerful tools and processes, which combine into a continuous journey". In other words, integrated reporting encouraged integrated thinking and led to more informed and integrated decision making as well as encouraging strategic thinking, innovation and greater responsiveness to the legitimate needs of stakeholders.

An academic stated: "We really need to underline as well that [integrated reporting] is a new way of trying to integrate and view how a business should be run in a sustainable manner... it is a new paradigm in terms of how entities should think about the strategies they have". Referring to smaller entities, an industry group representative said: "... we have to go to look at their capacity and, more importantly, how we define what is in [integrated reporting] and how they could possibly make this work. If it is a method of thinking about your business that addresses the problems that you have now and it is sort of a solutions-based approach, hopefully, that will run over time into a reporting-type approach". Hence, it was important to convey the benefits associated with integrated thinking and integrated reporting and how small entities can benefit through integrated thinking.

Theme 5: Potential motives or drivers for SMEs to implement

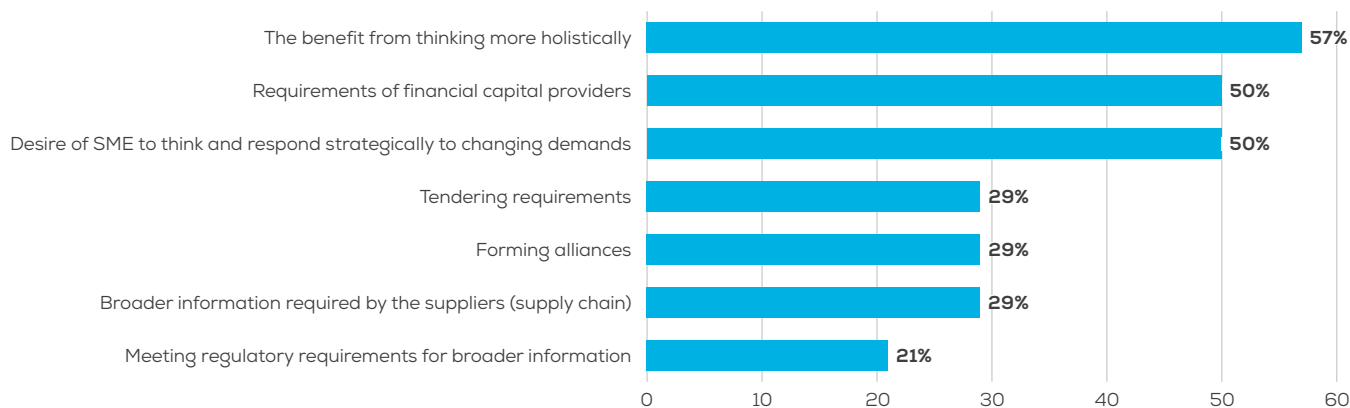
Polling exploring the potential drivers of SMEs adopting integrated reporting highlighted the benefits of integrated thinking, the requirements of financial capital providers and the desire of SMEs to think and respond strategically to changing demands.

A number of participants highlighted the relevance of integrated thinking for SMEs and its importance in encouraging SMEs to embrace integrated reporting. For example, a standard-setter representative stated: "It is important to understand integrated reporting principles and how they can impact internal management of the organisation... I really believe that the benefit of integrated reporting is in the integrated thinking." A practitioner said: "... the benefits [of integrated reporting] for the organisation are beyond just regulatory reporting,

the associated integrated thinking behind it is hugely beneficial". An academic observed: "It is a new paradigm shift, it is a new order, and it is a new way of actually thinking. So, it is a new paradigm in terms of how businesses should think about the actual enterprise and their strategies".

For larger SMEs, the requirement from financial providers is potentially one of the major drivers to produce an integrated report. While 50% of roundtable participants identified a similar benefit for SMEs, requirements of external capital providers are clearly not as influential for SMEs as in larger organisations. A practitioner echoed this point: "It is less of a benefit, I think, because most SMEs are not necessarily going to banks frequently for capital".

Figure 6. What do you/your organisation see as the drivers for IR for SMEs?



Theme 6: Utilising technology to simplify reporting

Technology plays a big role in supporting organisations to prepare and distribute their corporate reporting – and to help stakeholders receive and consume reports. In this context, roundtable participants argued that integrated thinking and integrated reporting would be more attractive to SMEs if they were enabled by purpose-built, user-friendly technology that helped to mitigate perceptions of an increased reporting burden.

One practitioner said it was important to simplify the process of integrated reporting by incorporating technology as part of the production process. "How do you build these rules [the Integrated Reporting Framework] as code so that it can be automated... so it can be just something that is part of [my] natural process or natural system," the practitioner said. "If [I] cannot do that, if [I] cannot build this effectively... then this is, by definition, green tape. It is a lot more work, and we have a shortage of practitioners, a shortage of professionals, a shortage of accountants, book-keepers and developers

to make it for businesses. They do not want to do this themselves, in a lot of cases". Another practitioner said it was "hugely important that individual people, if they are required to do anything, sometimes app-based would be extremely suitable. Something app-based for a company of my size would be absolutely suitable".

Chapter 4 – Conclusions and recommendations

Based on research conducted for this white paper, we present in this final chapter a series of recommendations to support the potential widespread adoption of integrated thinking and integrated reporting techniques in the Australian SME sector. The recommendations draw on background insights gleaned from extant research and professional literature, and from initiatives to support integrated reporting in overseas jurisdictions and by international professional bodies. But the primary source of direction and content for the recommendations came from the insights of 25 experts who took part in our roundtable in November 2021 to consider how

the potentially transformational benefits of integrated thinking and integrated reporting might be adapted in the Australian context to support the future growth and prosperity of the SME sector. The recommendations have a strong focus on frictions currently preventing Australian SMEs from benefiting from the adoption of integrated reporting and how these barriers might be overcome. While our suggested prescriptions should be seen as neither final nor definitive, they could become an important catalyst for change – a prospect alluded to in our final recommendation that further research be conducted into this area.

Table 6. Recommendations at a glance

	Source of recommendation	
	Literature review	Roundtable
Recommendation 1 – The Commonwealth, State and Territory Governments, and the various regulatory agencies, should streamline the provision of guidance and support materials, focusing on a single source of guidance and support for SMEs.	✓	✓
Recommendation 2 – The Commonwealth Government should consider establishing or nominating a single agency as a central repository for initiatives and resources available for SMEs. This agency could provide guidance to SMEs on their broader strategic and reporting options – including integrated thinking and integrated reporting – and be a repository for SMEs to voluntarily submit reported information.	✓	✓
Recommendation 3 – Regulatory agencies and accounting and assurance standard setters should consider, when undertaking their cost-benefit analysis of current initiatives on extended (non-financial) reporting and assurance, the potential impact on SMEs of broader information requests from larger regulated entities.	✓	✓
Recommendation 4 – Professional accounting associations and industry organisations should consider education for their members who work in or service the needs of SMEs – particularly those in small and medium-sized accounting practices (SMPs) – about the potential benefits of integrated thinking and integrated reporting for SMEs.	✓	✓
Recommendation 5 – Accountants as trusted advisors, either working within SMEs or providing services to SMEs, should seek to assess the potential benefits of integrated thinking and integrated reporting for an SME and, where appropriate, encourage adoption.	✓	✓
Recommendation 6 – Government and agencies supporting SMEs should encourage SMEs to explore the value to their businesses of adopting integrated thinking and integrated reporting.	✓	✓
Recommendation 7 – Software providers should facilitate the development of new products that simplify integrated thinking and integrated reporting processes for SMEs. The new technology solutions should be developed in collaboration with government agencies and other stakeholders, such as financiers and supply chain members, that have an interest in promoting broader, more transparent reporting by SMEs.	✓	✓
Recommendation 8 – More research should be undertaken to enhance understanding of the potential benefits and costs associated with integrated thinking and integrated reporting for SMEs, and the extent to which integrated thinking and integrated reporting could be adopted across the sector.	✓	✓

Recommendation 1

The Commonwealth, State and Territory Governments, and the various regulatory agencies, should streamline the provision of guidance and support materials, focusing on a single source of guidance and support for SMEs.

One of the principal barriers to SMEs adopting integrated thinking and integrated reporting is the lack of a centralised source of support and information, resulting in search costs for SMEs seeking beneficial information, and potential confusion and inconsistency. The need for clear and concise guidance for SMEs on how to implement integrated thinking and their reporting obligations and options has been acknowledged in prior academic research – and was strongly emphasised by participants in the November 2021 roundtable. Currently, support for SMEs is spread among various agencies and professional associations, such as the Australian Small Business and Family Enterprise Ombudsman (ASBFEO), the various state and territory’s small business support structures, professional accounting bodies and associations such as the Council of Small Business Organisations Australia (COSBOA). Recent studies have identified a lack of coordination of government efforts to support small businesses as an impediment to business prosperity.⁷¹ Even at the Commonwealth Government level, there are various sources of support, such as the website maintained by the Australian Treasury, specifically for small businesses⁷², and the whole-of-government website coordinated by the Department of Industry, Science, Energy and Resources for the general Australian business community⁷³. Integrated thinking and integrated reporting can provide an appropriate structure for such support and information, and better coordination would be expected to lead to greater use of support services and the potential for a consequential improvement in SME productivity and reduction in financial stress.

Recommendation 2

The Commonwealth Government should consider establishing or nominating a single agency as a repository for initiatives and information resources available to SMEs. This agency could provide guidance to SMEs on their broader strategic and reporting options – including integrated thinking and integrated reporting. It could also be a repository for SMEs to voluntarily submit reported information.

The establishment of a central agency or other body to provide information on the broad range of resources available for SMEs would be a logical extension of the proposals detailed above in Recommendation 1. A single agency dedicated to the information/resource needs of SMEs would overcome the problems associated with the existing fragmented and highly disparate sources of assistance and guidance to SMEs. By providing a central source of information about reporting requirements and options for all SMEs – with services tailored to different entity sizes and, potentially, different industries – the body would help to overcome existing information barriers to the widespread adoption of integrated thinking and integrated reporting practices – and, by extension, become a significant driver of the economy-wide expansion of these practices.

A number of existing bodies could serve as possible role models for the new agency, including the Small Business Administration in the US⁷⁴ and the Australian Charities and Not-for-profits Commission (ACNC) – with the resources it provides for charities and not-for-profit organisations, and its charities register. The ACNC’s practice of providing a portal for charities to submit annual financial reports could also be usefully applied by a central agency catering to for-profit SMEs. All large and medium-sized charities are required to submit their annual financial reports through the ACNC facility, and more than 20% of small charities do so voluntarily.⁷⁵

The coordinator or agency could act as a repository of information provided by SMEs to help meet the growing range of non-financial information requests on issues such as supply chains or environmental impacts that SMEs are increasingly being asked by business partners to provide, and in future, for integrated reports.⁷⁶ Again, the ACNC could provide a role model in this context; it collects information voluntarily from charities for their legally mandated Annual Information Statements on how they are achieving their charitable purposes.

Similarly, a central agency could help facilitate a standardised report format for additional information required by such groups as supply chain participants or financial capital providers. This would enable SMEs to prepare a single report that could satisfy multiple stakeholders and purposes – instead of having to provide tailored information to meet specific stakeholder information requests – and thereby save significantly on administrative costs while increasing their visibility to, and reputation among, potential collaborators and customers. In doing so, SMEs would in effect be engaging in varying degrees of integrated reporting. Logically, therefore, it would not be too much of a leap to consider that such a central repository could become a full-service, one-stop shop to support SMEs wanting to formally embrace integrated reporting.⁷⁷

Such an agency would also allow for evidence on reporting by SMEs to be collected and evaluated to help inform any further support for this sector. It is appreciated that there will be a challenge to incentivise SMEs to prepare and voluntarily submit their broader reporting to a central agency. A possible option to encourage take-up might be to provide SMEs with a quality assurance ranking framework, such as the International Organisation for Standardisation (ISO) system, or a program such as the ACNC Registered Charity Tick program, which helps charities to promote their registration and presence on the ACNC Charity Register.⁷⁸ For charities, this program has proved to be a beneficial way for donors and the public to easily identify registered charities they may wish to contribute to or transact with.

Recommendation 3

Regulatory agencies and accounting and assurance standard setters should consider, when undertaking cost-benefit analysis of current initiatives on extended (non-financial) reporting and assurance, the potential impact on SMEs of broader information requests from larger regulated entities.

Australian and international regulators and accounting standard setters have in recent years been looking at how to best meet the increasing demands for broader information to be reported by companies and other reporting organisations. One of the key findings of our research is that, as distinct from financial accounting, information supporting broader (non-financial) reporting sometimes emanates from, and impacts on, entities outside the reporting entity. One example of where this occurs is through the Modern Slavery Act, which requires reporting entities to seek information from their supply chains to meet their reporting obligations. Another example involves carbon emissions commitments, where providers of capital seek further information about the carbon-intensive activities of organisations seeking funding. As all regulatory and standard-setting activities are undertaken on a cost-benefit basis, such requests for information to outside parties, including any cases involving SMEs, need to be factored into these regulatory and standard-setting activities.

In addition, the integrity of any information requested of, or reported by, SMEs is crucial to the reliance that can be placed on that information. It is widely agreed that open communication about company integrity mechanisms – including internal control mechanisms around the collection and reporting of data – as well as the use of subject matter experts and independent assurance providers helps to establish and confirm the reliability of information. The need for a broader range of credibility-enhancing mechanisms will only grow with the advent of broader information disclosures. The AUASB, in its current deliberations around assurance of sustainability disclosures⁷⁹, could explicitly consider how it deals with the likely emergence of stakeholder demands for credible sustainability information provided by SMEs.

Recommendation 4

Professional accounting associations and industry organisations should consider education for their members who work in or service the needs of SMEs – particularly those in small and medium-sized accounting practices (SMPs) – about the potential benefits of integrated thinking and integrated reporting for SMEs.

A key point to emerge from the research conducted for this white paper is the need for active professional guidance to increase the understanding among SMEs of the value proposition of integrated thinking and reporting, and to help SMEs implement these practices. ACCA and CA ANZ⁸⁰ have done an excellent job to date outlining how SMEs can benefit from the adoption of integrated thinking and integrated reporting. To help realise the opportunities, the professional accounting bodies should consider how to further raise awareness and increase the understanding of their members, especially SMPs, about the benefits of integrated thinking and integrated reporting, and how as trusted advisers they can impart this valuable knowledge to their SME clients. A logical next step would be for the professional accounting associations to develop training and guides for their members on how they can help SMEs benefit from integrated thinking and integrated reporting techniques. Similarly, industry organisations such as the Minerals Council of Australia could develop online guidance or organise networking events which educate SMEs working in or supporting their members on the benefits of integrated reporting and integrated thinking techniques.

Recommendation 5

Accountants as trusted advisors, either working within SMEs or providing services to SMEs, should seek to assess the potential benefits of integrated thinking and integrated reporting for an SME and, where appropriate, encourage adoption.

Accountants employed by SMEs and members of the accounting profession who provide trusted advice to SMEs⁸¹ are ideally placed to encourage and facilitate the widespread adoption of integrated thinking and integrated reporting practices. The provision of advice to SMEs on the adoption of integrated thinking and reporting techniques represents a significant opportunity for accounting practices and members of the accounting profession to add value to their clients/employees. Integrated thinking and integrated reporting can serve to moderate financial stress, which is identified as a major contributor to mental health stress, by highlighting the drivers of business performance and providing a solution for better business reporting. One of the major stressors identified for small business owners arose from lack of access to knowledge and assistance, especially difficulties accessing professional business assistance.⁸² We encourage accountants and accounting practices to explore how integrated thinking and reporting techniques may be beneficial for their clients in the current information and reporting environment. Useful starting points would be for accountants to examine either or both ACCA⁸³ or ACCA and CA ANZ 2021 publication⁸⁴.

Recommendation 6

Government and agencies supporting SMEs should encourage SMEs to explore the value to their businesses of adopting integrated thinking and integrated reporting.

Integrated thinking is often equated with common business acumen, and many SMEs may believe they are already practising it. For example, a board of directors who consider a broader range of information other than just financial performance may think they are practising integrated thinking. But by taking that practice to the next level – through the preparation of an integrated report that communicates a broad range of non-financial information to parties transacting with and interested in the SME – significant further benefits could be reaped, such as a reduction in requests for information from suppliers or customers in the supply chain, an enhanced reputation and image with potential business partners and customers, and attracting or retaining staff. We recommend government and agencies supporting SMEs (such as COSBOA) to encourage SME managers through training and other initiatives to explore how integrated thinking and integrated reporting techniques may be beneficial to their organisation.

We further encourage SMEs undertaking value-adding techniques, such as those shared by Intrepid Travel in this white paper, to share this information with other SMEs. We believe the establishment of a central agency to promote such techniques, as outlined in Recommendation 2, would strongly advance this cause. In the meantime, the SME Centre and or the DIRC at Deakin University would be interested to hear of any innovative value creation techniques being employed, including any associated with integrated thinking and integrated reporting.

Recommendation 7

Software providers should facilitate the development of new products that simplify integrated thinking and integrated reporting processes for SMEs. The new technology solutions should be developed in collaboration with government agencies and other stakeholders, such as financiers and supply chain members, that have an interest in promoting broader, more transparent reporting by SMEs.

Many participants in the November roundtable referred to an expectation for SMEs to fulfil growing information requests from various stakeholders. The roundtable was informed of several initiatives being undertaken globally to develop technology support solutions for both integrated thinking and integrated reporting. In addition, leading software providers in Australia, such as Xero, are exploring how to best support small businesses and adopt more sustainable ways of working. For example, to support sustainable action in the SME sector, Xero has created a small business guide and other practical educational materials.⁸⁵ However, for this to be successful in practice – that is, to meet the information demands of supply chains or financiers and alleviate the need for requests for additional information, which increases the reporting burden – there must be agreement as to what this information is and how it should be reported.⁸⁶ Government agencies have been acting to encourage digital reporting and the development of standardised business reporting in Australia, but SMEs are reluctant to seek advice and support from government.⁸⁷ Therefore, we encourage software developers to facilitate integrated thinking in SMEs and collaborate with government agencies, the accounting profession, and major parties demanding additional information to develop a common structure for integrated reports into software that will simplify the report production process and encourage the adoption of integrated reporting.

Recommendation 8

More research should be undertaken to enhance understanding of the potential benefits and costs associated with integrated reporting for Australian SMEs, and the extent to which integrated thinking and integrated reporting could be adopted across the sector.

Less than a decade after the publication of the first Integrated Reporting Framework, research into integrated thinking and integrated reporting for SMEs remains in its infancy. In preparing this white paper, we found very little in the way of prior studies in the Australian context, with most SME research efforts to date centred on Europe. When considering implications for Australia, any inferences from the European experience must be drawn cautiously. In particular, it must be recognised that definitions and industry compositions of SMEs vary significantly across jurisdictions, as do the drivers and barriers to adopting integrated thinking and integrated reporting. We have also noted in this white paper the difficulty of gaining evidence about the current reporting practices of Australian SMEs. This is different to other jurisdictions around the world where SME reports are accessible, and other sectors, such as the charities and not-for-profit sectors in Australia, which maintain repositories to make such reports generally available and to facilitate evidence-informed policymaking.

To help fill the significant research void in this area, we recommend that studies in the first instance be undertaken into the applicability of integrated thinking and integrated reporting for larger SMEs operating in industries intrinsically exposed to sustainability-related issues, in order to establish the value proposition for such SMEs, and for lessons learned to be communicated to all SMEs. We would also encourage research into the extent to which integrated thinking and integrated reporting can contribute positively to the mental health and financial wellbeing of those operating in the sector. Further research should subsequently be conducted into the extent to which integrated thinking and integrated reporting can benefit all types of SMEs in Australia.

Endnotes

- 1 KPMG 2021
- 2 Cowling and Tanewski 2019
- 3 Department of Industry, Science, Energy and Resources 2020
- 4 Integrated thinking is the active consideration by an organization of the relationships between its various operating and functional units and the capitals that the organization uses or affects (VRF 2021b).
- 5 Capitals are stocks of value on which all organization depend for their success as inputs of their business model, and which are increased, decreased or transformed through the organization's business activities and output. The 'IR' framework refers to six capitals, being financial, manufactured, intellectual, human, social and relationship and natural (VRF 2021b).
- 6 Value Reporting Foundation (VRF) 2021a
- 7 Value Reporting Foundation (VRF) 2021c – Integrated Thinking: A Virtuous Loop
- 8 December 2020, 'Reporting on enterprise value: Illustrated with a prototype climate-related financial disclosure standard'
- 9 Carbon Disclosure Project, Climate Disclosure Standards Board, Global Reporting Initiative, Sustainability Accounting Standards Board, International Integrated Reporting Council Industry Group: All Industry Groups. Refer https://29kjwb3armds2g3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/Reporting-on-enterprise-value_climate-prototype_Dec20.pdf
- 10 ABS 2021
- 11 The Corporations Law require that all companies keep adequate financial records which means that incorporated SMEs are required by law to keep written financial records and comply with all other corporate obligations that usually apply to proprietary companies (such as notifying ASIC of changes to the company's share capital and to its top 20 shareholders).
- 12 Clean Energy Regulator 2019
- 13 Department of Home Affairs (Australia) 2018
- 14 The Australia Institute 2021
- 15 UNEPFI
- 16 For example, the ACCI 2021 recognized unnecessary compliance, complexity and duplication associated with trade support and grants
- 17 Value Reporting Foundations (VRF) 2021b
- 18 Del Baldo 2015
- 19 Eccles and Armbruster 2011; Eccles and Krzus 2010; Hampton 2012; Watson 2013
- 20 James 2013b
- 21 Business Roundtable (i.e., an association of chief executive officers in America) 2019
- 22 Organisation for Economic Cooperation and Development's Business for Inclusive Growth 2019
- 23 Lai et al. 2018
- 24 Dombrovskis 2019
- 25 ACCI and USA 2021
- 26 Principles for Responsible Banking 2019
- 27 South African Institute of Chartered Accountants (SAICA) 2021
- 28 Perry-Smith and Mannucci 2017; Lai et al. 2018
- 29 Adam et al. 1998; Brammer and Pavelin 2008; Rivera-Arrubla et al. 2017; Vitolla et al. 2020
- 30 Such as the Minerals Council of Australia (<https://www.minerals.org.au/>) and the Australian Retailers Association (<https://www.retail.org.au/>).
- 31 James 2013a
- 32 Churet and Eccles 2014
- 33 Adams 2017
- 34 Baboukardos et al. 2021; Mio et al. 2016; Vitolla and Raimo 2018
- 35 Burke and Clark 2016; Vitolla and Raimo 2018
- 36 Del Baldo 2018
- 37 Burke and Clark 2016
- 38 Busco et al. 2021
- 39 Stubbs and Higgins 2014
- 40 Oliver et al. 2016
- 41 Steyn 2014
- 42 Beck et al. 2017
- 43 Simnett and Huggins 2015
- 44 Al-Htaybat and von Alberti-Alhtaybat 2018
- 45 Del Baldo 2017
- 46 Panfilo et al. 2022
- 47 Vitolla and Raimo 2018; Barth et al. 2017
- 48 Del Baldo 2017
- 49 Lodhia 2015
- 50 Dyczkowska et al. 2021.
- 51 Madarasi-Szirmai et al. in Dyczkowska, Madarasine and Tiron-Tudor 2021.
- 52 Dyczkowska and Fijalkowska 2022
- 53 Del Baldo 2017, Gerwanski 2020
- 54 Dyczkowska and Fijalkowska 2022
- 55 Zhou et al. 2019
- 56 IFAC 2017
- 57 Amirrudin et al. 2019; Muslichah et al. 2020
- 58 Vitolla et al. 2019; Girella et al. 2019
- 59 IFAC 2017
- 60 Blackburn et al. 2018
- 61 Bennett and Robson 1999
- 62 Carey 2015
- 63 IFAC 2017
- 64 Krause and Pellens 2017
- 65 IBM 2022
- 66 Oracle 2022
- 67 Krause and Pellens 2017
- 68 IIRC 2016
- 69 Simnett et al. 2022
- 70 The reference to IR Lite can be found in the document available through BRLF website: <https://wordpress-ms.deakin.edu.au/brlf/wp-content/uploads/sites/180/2021/08/BRLF-15-April-2021-Pack.pdf>
- 71 See, for example, Small Business Digital Taskforce 2018 and ASBFEO 2021
- 72 See: <https://treasury.gov.au/small-business>
- 73 See: <https://business.gov.au/>
- 74 <https://www.sba.gov/>
- 75 Yang and Simnett 2022
- 76 A similar recommendation was made by the Small Business Digital Taskforce which recommended the establishment of a central, national point for information and advice on digital opportunities for Australian small businesses and their advisers (Small Business Digital Taskforce 2018).
- 77 Small Business Digital Taskforce 2018
- 78 ACNC
- 79 AASB and AUASB 2021
- 80 ACCA and CA ANZ 2021
- 81 Carey et al. 2005; Carey and Tanewski 2016; Blackburn, Carey and Tanewski 2018
- 82 Department of Industry, Science, Energy and Resources 2020
- 83 ACCA 2021
- 84 ACCA and CA ANZ 2021
- 85 Xero 2021
- 86 There are initiatives underway internationally to develop a common platform for the reporting of non-financial information to meet these information broader needs. Refer <https://www.xbrl.org/news/a-new-standard-for-non-financial-reporting/>. Such initiatives could serve as a base from which a platform designed to meet the information needs in Australia could be developed.
- 87 Small Business Digital Taskforce 2018

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