



Integrated
Reporting
Centre

Supporting Global SMEs for Future Success

Exploring how to improve SMEs' business performance utilising integrated thinking and integrated reporting concepts

Research Team:
Peter Carey and Eka Tan

Research Team

Peter Carey and Eka Tan

*Deakin Integrated Reporting Centre
Deakin Business School, Deakin University*

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PREFACE

Research Partners



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The Deakin Integrated Reporting Centre

The Deakin Integrated Reporting Centre (DIRC) provides strategic and operational leadership in integrated thinking and integrated reporting policy and technical knowledge, as well as academic and executive education and cutting-edge research. The DIRC aims to provide a focus for researchers to identify issues of interest to industry, conduct research and disseminate knowledge about integrated thinking and integrated reporting through publications, education, and professional development courses. The DIRC team and Advisory Board members are drawn from both industry and academia and have many years of experience in integrated thinking and integrated reporting. The DIRC is jointly funded by the Association of Chartered Certified Accountants (ACCA), Chartered Accountants Australia and New Zealand (CA ANZ), KPMG and the Deakin Business School.



Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand (CA ANZ) represents more than 134,420 financial professionals, supporting them to make a difference to businesses, organisations, and the communities in which they work and live. Chartered Accountants are known as Difference Makers. The depth and breadth of their expertise help them to see the big picture and chart the best course of action. CA ANZ actively engages with governments, regulators, and standard setters on behalf of members and the profession to advocate boldly in the public good. CA ANZ's thought leadership promotes prosperity in Australia and New Zealand.



Association of Chartered Certified Accountants

ACCA is a global community of 241,000 members and 542,000 future members based in 178 countries and regions, who work across a wide range of sectors and industries. ACCA believes that accountancy is a cornerstone profession of society and is vital in helping economies, organisations, and individuals to grow and prosper. It does this by creating robust trusted financial and business management, combating corruption, ensuring organisations are managed ethically, driving sustainability, and providing rewarding career opportunities.

PREFACE

CEOs' Message



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In today's complex and ever-changing business environment, it has never been more important for small and medium-sized enterprises (SMEs) to tell their story and explain to stakeholders how they plan to create value and grow over time. By integrating financial performance with other elements that create their value, such as human capital and intellectual capital, SMEs can, over time, streamline internal processes, reduce costs and alleviate their reporting burden.

The Deakin Integrated Reporting Centre (DIRC) presents this white paper, with support from ACCA and CA ANZ, which aims to facilitate our members who work with and within SMEs to transition SMEs from traditional business thinking to adopt an integrated approach to strategising and communicating how their organisations add economic and societal value.



Helen Brand

Chief Executive
ACCA



Ainslee van Onselen

Chief Executive Officer
CA ANZ



PREFACE

Foreword

SMEs are crucially important to societies and economies around the world. Across the Organisation for Economic Cooperation and Development (OECD), 99% of all businesses are SMEs, and they are estimated to employ 2 billion people worldwide.¹

Some of the most urgent innovations that the world needs today are being developed by SMEs. For example, in Finland, 70% of their cleantech businesses are SMEs; while in the UK, that number rises to 90%.²

COVID, the war in the Ukraine, and the ensuing economic crises have hit SMEs hard. With smaller cash buffers to withstand unexpected economic shocks compared to larger organisations, SMEs around the world have struggled to survive. ACCA's SME Recovery Tracker³ revealed that, in the UK, 1 in 4 SMEs were struggling to meet payroll costs in 2022. Surging inflation, heightened supply chain issues, the energy crisis and barriers in access to finance make this an extremely stressful time for SME owners.

ACCA, CA ANZ and the DIRC were keen to find out what kind of support SMEs need to get through this exceptionally difficult period and to thrive into the long term. What kind of support is necessary from policymakers, from financial institutions, from technology providers, their professional advisers and from SMEs' larger business customers, to help them become more resilient?

In seeking answers to this question, we heard from representatives of these constituents at a global roundtable, as well as from ACCA members working in small and medium accounting practices (SMPs) — as SME owners themselves, they're also vital sources of technical, business, and in some cases emotional support for their SME clients. Because just as we consider the kind of support that SMEs need from other parts of the economic system, we also want to think about how SMPs can best support SMEs to become more resilient in themselves.

Which leads us to integrated thinking and integrated reporting, which ACCA considers to be basic tools for good business. Running a future-fit business today means:

- Being very clear about what kind of value the business is here to create: having a crystal-clear understanding of the business model and, above all, the business' purpose
- Managing important non-financial value drivers for the business: taking care of employees and customers, supply chain relationships, the environment, thinking about the business' ability to innovate
- Thinking strategically about the long term, being agile, and proactively pre-empting risks and seizing opportunities.

This is integrated thinking.

As for integrated reporting, as the International Integrated Reporting Framework states, it is 'a process founded on integrated thinking'. Once there is clarity about where the business is and where it wants to go, there can then be more effective communication with employees, business partners and finance providers to get them onboard.

And this is when real benefits start to be realised. In interviewing practitioners for ACCA's *Insights into Integrated Reporting* series⁴, a common theme was that the integrated report could be a key employee engagement tool. By bringing people across the business together in the report planning process, it breaks down silos between teams and unites employees behind a common corporate purpose. Many companies also found that the integrated report opened doors to business partners, contracts, or new investment, thanks to the clarity of strategy that organisations were able to demonstrate in their integrated report. Now most of these companies that we talked to are large corporations. But we always wondered, why wouldn't the same benefits also come through for SMEs?

As access to traditional bank finance looks to remain limited in the current climate, newer forms of finance, such as sustainable finance, are on the rise. This may be an opportunity that SMEs need to seize, and one they can do so with the help of an integrated report.

In many jurisdictions, SMEs are facing growing compliance pressures: regulation, tax, reporting

requirements. In this, we at ACCA have and are continuing to call for policymakers to reduce administrative burdens on SMEs to help them through this recovery phase.⁵ But SMEs can also turn their gaze a little beyond compliance burden, to think about opportunities.

A fitting quote comes from a Business at OECD policy paper⁶:

“A post-COVID world will not be a return to business as usual, as SMEs, hoping for a return to the old normal, are not likely to survive. Small business owners need to be active agents in crafting their own future success by exploiting the opportunities created in building back better.”

As Winston Churchill once famously said: “Never let a good crisis go to waste”. Indeed, many see a real opportunity in the current crisis for building back better by adopting policies that foster digitalisation, secure a green economy, increase resilience and address inequalities. However, to use another famous saying:

“The devil is in the detail”.



Yen-Pei Chen

Senior Manager, Corporate Reporting and Tax
ACCA



EVOLUTION	METRIC	ACTUAL VS TARGET	
		ACTUAL	TARGET
	REVENUE	915.8M	98.0%
	PROFIT	916.5M	108.0%
	ON-TIME DELIVERY	98.0%	95.0%
	AVG. ORDER SIZE	820.5M	80.0%
	NEW CUSTOMERS	937000	99.0%
	MARKET SHARE	65.0%	94.0%
	CUSTOMERS SATISFACTIONS	91.0%	99.0%

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INTRODUCTION

Executive Summary and Recommendations

Integrated thinking and integrated reporting techniques in the SME context

Small and medium-sized enterprises (SMEs) are critical to the economic and social performance of most countriesⁱ. They constitute the vast majority of businesses worldwide and employ a large proportion of the international workforce. While their importance in the global economy is unquestioned, the need to support SMEs and ensure their survival is less widely understood – yet has never been more critical. In the past few years, the economic conditions in which SMEs operate have worsened due to the COVID crisis, rising inflation, and the economic shocks from the war in Ukraine – all of which have combined to add to pressure on SMEs' cash flows and heavily impacted the financial wellbeing of many SMEs. It is therefore critical to consider and explore potential solutions to best support SMEs to survive and, preferably, thrive during this tough period and beyond.

One potential remedy receiving increased attention from researchers, policymakers and practitioners is the power of integrated thinking and integrated reporting techniques to support and enhance SMEs' business performance. Integrated thinking has been described as “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. It leads to integrated decision-making and actions that consider the creation, preservation and erosion of value over the short, medium, and

long term”.⁷ Integrated reporting is defined as “a process founded on integrated thinking that results in a periodic integrated report by an organization about value creation, preservation or erosion over time”. At their core, integrated thinking and integrated reporting involve a broader and more inclusive approach to decision-making. They encourage greater collaboration across firm divisions, leading to more informed and considered decision-making and, ultimately, a more sustainable basis for value creation, future growth and long-term prosperity. Integrated thinking and integrated reporting also entail a strong focus on the integration of both non-financial and financial factors that affect an organisation's ability to create and sustain value over time, and consideration of interactions among multiple stakeholders – from employees to suppliers, customers, financiers, and others – that impact the organisation's business model. As such, integrated thinking and integrated reporting represent a significant advancement from traditionally backward-looking, finance-centric, and silo-based approaches to organisation, collaborative management, communication and reporting.

Integrated reporting not only reflects the practice of integrated thinking occurring inside an organisation, but also plays a key role in driving and sustaining value creation. While the primary intended targets of integrated reports are providers of financial capitalⁱⁱ, integrated reports also provide useful information to a wide range of other stakeholders – including employees, customers, suppliers, business partners, communities, legislators, regulators and policymakers – 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 and process of producing an integrated report motivates the integrated thinking practices that underpin the reporting.

i. SMEs are generally referred to as entities with less than 250 employees. Further discussion on the various definitions used in different jurisdictions is provided in subsection “Defining the global SME sector”.

ii. Providers of financial capital is defined following the Integrated Reporting Framework as the “equity and debt holders and others who provide financial capital, both existing and potential, including lenders and other creditors. This includes the ultimate beneficiaries of investments, collective asset owners, and asset or fund managers” (IIRC, 2021).

Almost a decade since it was first published, the Integrated Reporting Framework has been widely adopted, in most cases voluntarily, by entities in various jurisdictions. To date, the framework has been adopted mostly by larger entities – despite it being designed for entities of various sizes and natures, including for-profit, public sector and not-for-profit organisations. At one level, it should not be surprising that the early adopters tend to be larger organisations; after all, they have the advantage of greater resources and capacity to consider and adapt, and to assess and capitalise on the benefits offered by integrated thinking and integrated reporting.

In the current turbulent business environment, it is a critical time to explore the roles of integrated thinking and integrated reporting techniques in supporting SME business performance. Considerable anecdotal evidence already exists on the benefits for SMEs in adopting integrated thinking and integrated reporting. This raises several important questions: Why is there not greater adoption of integrated thinking and integrated reporting by SMEs? What are the barriers to SME adoption of integrated thinking and integrated reporting techniques? Could specific guidance be created, or barriers to adoption reduced, to assist SMEs to apply the principles of integrated thinking and integrated reporting? Moreover, could large-scale adoption of integrated thinking and integrated reporting among SMEs help to catapult national and global economies into a new era of growth and prosperity, and help to insure them against future adverse impacts? As the sequel to our Australian white paper, *Supporting SMEs in Australia for future success*, which focuses on the same topic, this white paper explores, at an international level, the benefits, barriers and opportunities for SMEs to embrace integrated thinking and integrated reporting techniques and potential policy settings to support SME performance through these techniques.

Target Audience

This white paper has been prepared to provide evidence-based recommendations to those who determine policy, or can provide practical support to SMEs, so they benefit from the implementation of integrated thinking and integrated reporting. The target audience includes international and national accounting and auditing standard setters and regulators, professional accountancy bodies, accounting software providers, and researchers. The white paper also has relevance for the professional firms that service the needs of SMEs – in particular the small and medium accounting practitioners (SMPs) who 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 – would also benefit from reading this white paper.

Evidence informing this White Paper

The potential broad application of integrated thinking and integrated reporting to organisations of all sizes and types is made clear in the Integrated Reporting Framework, which includes guidance on the principles behind integrated thinking and integrated reporting to entities preparing integrated reports. For this white paper, we have identified an emerging body of international research aimed specifically at establishing the case for widespread application of integrated thinking and integrated reporting by SMEs.

We explore and review international academic and practitioner literature to gain a broad understanding of current knowledge about the potential utility of integrated thinking and integrated reporting for SMEs. While acknowledging the extensive research supporting the implementation of integrated thinking and integrated reporting by larger entities, in this paper we concentrate on academic literature with a specific focus on SMEs. A summary of studies

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conducted in various countries is provided at **Appendix 2** to present an international perspective on the arguments and motivations for and against the implementation of integrated thinking and integrated reporting by SMEs. In addition, discussion on the barriers and costs associated with implementing integrated thinking and integrated reporting has been provided to give a balanced picture.

In addition to the literature review, we draw on expert views and evidence presented at an international roundtable, held in March 2022, to canvass the potential for widespread adoption of integrated thinking and integrated reporting by SMEs worldwide. Convened by the DIRC, ACCA and CA ANZ, the roundtable was attended by 31 leading global thinkers and practitioners in accountancy and business from Italy, Greece, the Netherlands, Poland, the United Kingdom, Malaysia, Singapore, Hong Kong, Australia and South Africa. Roundtable participants – including senior academics, representatives from accounting bodies and global accounting networks, government policymakers, technology providers, financial institution representatives, as well as SMP and SME representatives – were asked to identify and discuss:

- The benefits of integrated thinking and integrated reporting for SMEs in the international setting
- Potential barriers to SMEs adopting integrated thinking and integrated reporting
- The sub-groups of SMEs most likely to benefit from integrated thinking and integrated reporting
- How SMEs should approach the implementation of integrated thinking and integrated reporting
- Policy to support the implementation of integrated thinking and integrated reporting by SMEs.

The roundtable participants agreed that SMEs of all types and sizes could reap long-term benefits by taking a broader approach to strategic thinking and corporate reporting, and that the concepts of integrated thinking and integrated reporting were appropriate for SMEs generally. Questions arose, however, as to how to

convince and best support SMEs in their adoption and implementation of integrated thinking and integrated reporting so that it would be widely accepted or embraced across the sector.

Major Findings

Despite the global spread of integrated reporting over the past decade among larger organisations, the professional and academic literature has identified a mere handful of SMEs worldwide that have adopted integrated reporting techniques. This is despite mounting evidence of the potential benefits of integrated thinking and integrated reporting techniques for firms across a broad spectrum of size categories. Research has found that SMEs, as well as larger organisations, that adopt integrated thinking and integrated reporting have much to gain. There are both internal benefits (such as better internal information flow and decision-making, better understanding of the business, increased management effectiveness in creating long-term value, increased employees motivation and collaboration, and improved relationships with stakeholders) and external benefits (such as enhanced brand value, reputation and trust, improved access to capital, and tangible benefits across supply chains and with transacting parties). For many SMEs, the evidence suggests these benefits are likely to outweigh the costs of adoption in the long run.

This raises two fundamental questions: why are so few SMEs adopting integrated reporting? And what can be done to turn the situation around?

Prior studies identified four main categories of barriers to the widespread adoption of integrated thinking and integrated reporting by SMEs globally:

- Limited resources (time, human and financial) typically available to SMEs
- The cost of, and a lack of access to, information systems required to access the broader data collection needed to support integrated thinking and integrated reporting

- Perceptions that integrated reporting is too complex for SMEs – perceptions exacerbated by the limited tailored implementation guidance currently available
- The time lag between adoption of integrated thinking and integrated reporting and the realisation of net benefits, which can take several reporting cycles.

There was broad consensus among roundtable participants that many SMEs, regardless of size or industry type, could benefit from adopting integrated thinking and integrated reporting techniques. However, given the complexity and diversity of barriers to adoption of integrated reporting by SMEs, it was generally agreed by roundtable participants that a combination of different approaches and supporting initiatives was required.

Recommendations

Proposals presented at the 2022 global 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 our recommendations (right). Further discussion of the recommendations is presented in Chapter 4.

Target audience	Recommendations
Government	Recommendation 1 – Governments should act to enable and encourage SMEs to adopt integrated thinking and integrated reporting by supporting and incentivising their service providers to develop the skills, guidance materials and tools to facilitate adoption.
Accountants, especially SMPs	Recommendation 2 – Accountants, as trusted advisers either working within SMEs or providing professional services to SMEs, should seek to assess the potential benefits of integrated thinking and integrated reporting for their SME clients and, where appropriate, encourage adoption.
Professional accountancy and industry associations	Recommendation 3 – Professional accountancy associations and industry organisations, supported by governments, should educate their members who work as trusted advisers to SMEs, particularly small and medium-sized accounting practices (SMPs), about the potential benefits of integrated thinking and integrated reporting for their SME clients.
Software providers	Recommendation 4 – Software providers should work collaboratively with SMEs, SMPs and other relevant stakeholders (such as financiers, supply chain members and government) to facilitate the development of new products that simplify integrated thinking and integrated reporting processes for SMEs.
IFRS Foundation	Recommendation 5 – IFRS Foundation is encouraged to develop simplified tailored guidance materials supporting the International Integrated Reporting Framework and Integrated Thinking Principles, specifically targeted at SMEs.
Academics	Recommendation 6 – 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 globally.



CHAPTER 1: BACKGROUND

The global SME context

Defining the global SME sector

There is no universal definition of an SME. Across different countries and regions, SME can refer to entities of many different sizes, levels of maturity and turnover. But common attributes can be identified.

In most jurisdictions, the term generally applies to non-subsidiary, independent firms that employ fewer than a given number of employees.⁸ Some countries also use turnover and financial assets to define SMEs. For example, SMEs in Brazil, Chile, Peru and South Africa are defined by their level of annual turnover. In the following subsection, we outline different definitions of SMEs used across international jurisdictions.

A list of national statistical definitions of SMEs is provided in **Appendix 1**.⁹ Various factors are considered in the definition of an SME including number of employees, annual turnover and assets. The most common variable used to define an SME is the number of employees. The cap can vary from 100 employees (Georgia, Israel and Thailand, among others) up to 250 employees (European Union) and 500 (Canada and the United States). While some countries use number of employees as the sole determinant of an SME, others use additional measures. Countries in the European Union, for example, define SMEs as enterprises with fewer than 250 employees and either having turnover not exceeding EUR 50 million or total assets recorded in the balance sheet not exceeding EUR 43 million.¹⁰

In a further complication, definitions of SMEs can vary across sectors within a country. In Malaysia and Thailand, for example, manufacturing has a larger SME size threshold than services and other industries. Other countries such as China, Japan and Korea have yet more complex sector division. Korea has five unique SME categories, with different definition criteria for each sector.ⁱⁱⁱ

iii. For example, a manufacturing company has a limit of capital of 8 billion won or less to be considered as an SME while a mining, construction, or transportation company has a limit of capital of 3 billion won or less to be considered as an SME.

iv. For example, there are three ways of categorising SME in Australia. First, number of employees is the basis for the standard statistical definition used by the Australian Bureau of Statistics (ABS). The second 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. The third method used to categorise a proprietary Australian company follows the definition in Section 45A(2) of the Corporation Acts 2001.

The list of national statistical definitions of SMEs in OECD countries (Appendix 1) is not exhaustive and is not intended to cover definitions used in all countries. In some countries (such as Australia), the definition of an SME may differ for different purposes.^{iv}

The current environment for SMEs

SMEs play an important role in global economies and societies. In the OECD countries alone, SMEs account for 99% of all businesses and employ approximately 2 billion people.¹¹

Some of the most urgent innovations that the world needs today will be developed by SMEs. For example, 70% of clean technology businesses are SMEs, and that number rises to 90% in the UK.¹² Further, SMEs accounted for three-quarters of all jobs in sectors most affected by the COVID crisis (including tourism, retail and professional services, and construction and transportation).¹³ Hence, with relatively limited resources and obstacles in accessing capital, SMEs face greater barriers than larger firms to prosperity in the post-crisis period.

As the world moves into a 'new normal' post-COVID phase, the resource constraints faced by many SMEs have worsened. For example, ACCA and The Corporate Finance Network's monthly survey found in March 2022 that UK SMEs were facing significant financial pressures (due to surging inflation, interest rate rises, heightened supply chain issues, the energy crisis, lack of access to finance and the social care levy) and 26% of UK SMEs faced a struggle to meet rising payroll costs in April 2022.¹⁴ JPMorgan Chase Institute (2020) also found that 50% of small businesses in the United States were operating with fewer than 15 days of buffer cash. The combination of economic, operational and financial pressures is also affecting the wellbeing and mental health of SME owners and employees. Self-evidently, integrated thinking and integrated

reporting techniques will not be a complete panacea for all these problems. But evidence presented in this paper and elsewhere suggests SMEs that adopt integrated thinking and reporting may significantly boost their performance levels across key metrics and – critically – strengthen resilience in the face of such existential challenges

Evolving SME reporting requirements

In many jurisdictions¹⁵, SMEs are allowed or required to apply IFRS accounting standards for SMEs, which purports to reduce both the required application of recognition and measurement principles as well as the level of disclosure. However, there has been a continuing backlash from countries that view IFRS for SMEs¹⁶ as still too complex – neither simplifying nor reducing the administrative burden on SMEs.¹⁷

Similar complaints are expected with new non-financial information requirements. For example, the European Union is currently enforcing the Non-Financial Reporting Directive (NFRD) and its extension, the Corporate Sustainability Reporting Directive (CSRD). SMEs are currently exempt from these reporting requirements, but SMEs that supply to larger entities are likely to face a "trickle-down effect" – when big entities need information from suppliers relating to sustainability reporting obligations, and for the disclosures to be validated by rating agencies.¹⁸ Paul Thompson, Director at the European Federation of Accountants and Auditors (EFAA) for SMEs, has stated that the effects on SMEs will be highly dependent on how well European Financial Reporting Advisory Group (EFRAG) modifies the European Sustainability Reporting Standards (ESRS) with reference to SMEs.¹⁹

Many SMEs are already preparing non-financial reports for a variety of purposes and needs, including requests from financial capital providers, for international business engagement purposes, or to satisfy information requirements from larger entities up the supply chain.²⁰ SMEs that already

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report non-financial information are arguably better placed to attract new customers up the supply chain, to meet information requests from further down the supply chain, and to satisfy the information requests of finance providers interested in more than just an organisation's ability to repay debt or provide a financial return. Further, as modern societies continue to demand more social responsibility and transparency from businesses, organisations that communicate beyond traditional financial statements and clearly articulate their mission and purpose, highlight their social and environmental credentials and offer a broader insight of their business through more comprehensive reporting will become more attractive destinations for employees and prospective business partners.

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 almost a decade since the publication of the International Integrated Reporting Framework in 2013. Integrated reporting is defined in the framework as:

“a process founded on integrated thinking that results in a periodic integrated report by an organization about value creation, preservation or erosion over time and related communications regarding aspects of value creation, preservation or erosion.”

Integrated reporting reflects a growing recognition that organisations with a broader and more transparent approach to 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 traditional financial reporting, integrated reporting requires a broad representation of an organisation's performance and activities beyond financial information, including

explanation about the company's long-term ability to create and sustain value across all its resources and relationships, or capitals. While integrated reporting is primarily focused on providing relevant information to capital providers, it also delivers pertinent information to a wide spectrum of other stakeholders.

The Integrated Reporting Framework states that an integrated report should provide insight into the organisation's strategy and its effects on six foundational 'capitals'²¹ underlying an organisation's ability to create value: financial capital, manufactured capital, intellectual capital, human capital, social and relationship capital, and natural capital. An integrated report highlights how the organisation creates, preserves, or erodes value and how value creation for the organisation itself is interrelated with value created for other stakeholders. Hence, an integrated 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. Integrated thinking is defined in the Framework as:

“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”.

The Integrated Thinking Principles²² represent a leadership and management philosophy focusing on the identification and organisation of multiple capitals to create value over time for the enterprise and its key stakeholders.²³ This integration between financial and non-financial capitals is intended to deliver enhanced decision-making and increased transparency, and promote a forward-looking culture.²⁴ The output – the integrated report – is an effective way of communicating an entity's process of value creation, preservation and erosion to its stakeholders.

Advocates of integrated thinking argue that it leads to more informed and integrated decision-making and actions, encouraging the different parts of an organisation to work together more collectively and harmoniously towards the creation and preservation of value over the short, medium and long term. 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. The cycle of integrated reporting and thinking are said to result in more efficient and productive capital allocation, which acts as a force for financial stability and sustainable development.²⁵

The Integrated Reporting Framework²⁶ includes seven Guiding Principles that underpin the preparation and presentation of an integrated report, informing the content of the report and how information is presented. The Framework also includes eight Content Elements that are fundamentally linked to each other and are not mutually exclusive. The Content Elements are pertinent to the organisation's ability to generate value over the short, medium, and long term, and can be posed as a series of questions that might include:

- 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 long-term vision of the former International Integrated Reporting Council (publisher of the Integrated Reporting Framework), which is now consolidated, through the Value Reporting Foundation, into the IFRS Foundation²⁷ 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 aims to provide a complete picture of the business that can serve to enhance its access to capital. In considering the relationship between integrated thinking and integrated reporting, ACCA²⁷ focused on how the integrated reporting process can kick-start integrated thinking, by bringing people together from across the organisation through the reporting process. The following extract from ACCA's report identifies some practical steps organisations can take to improve their corporate reporting.

v. 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 non-profit 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 1 August 2022 the Value Reporting Foundation (VRF) was consolidated into the IFRS Foundation to support the IFRS Foundation's International Sustainability Standards Board's (ISSB) work to develop a comprehensive global baseline of sustainability disclosures for the capital markets.

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Figure 1. Top 10 practice tips by ACCA (2021)

Integrated thinking

1. Collaborate, from the start: Plan the report with a cross-functional team, with teams from across the organisation working together.



2. Tone from the top: Active steering and oversight from a forward-looking board that is willing to learn and embed integrated reporting and thinking across the organisation.



3. Materiality process as a management tool: Use the materiality process to focus on risks and opportunities that have the most impact on value creation, and develop strategy accordingly.



4. Stakeholders and purpose: Understand how each key stakeholder group enables your organisation to fulfil its purpose, and consider their legitimate needs and interests when developing strategy.



Communicating strategy

5. Focus on strategic goals: Identify a core set of long-term strategic objectives, develop rolling targets, and report on these consistently from year to year.



Applying the multi-capitals model

8. Adapt the model: Know which capitals and components of capitals really matter to the achievement of your organisation's purpose and strategy and ability to create value, and report on them in terms that make sense to internal and external stakeholders.



6. Connect strategies: Understand and articulate how topic-specific strategies and operational plans work together to support core strategic goals.



9. Show why you care: Clearly explain the value of different capitals to your organisation.



7. Break out of the template: Think consciously about how your unique business model supports the achievement of strategic goals, and make this link clear in the report.



Ensuring consistency with financial reporting

10. Work at the connections: Put in place active mechanisms to ensure that the integrated report is consistent with the financial statements – in the numbers, the events and transactions reflected, and in its underlying assumptions.



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 2). 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. In contrast, an integrated report is a strategically focused document that concisely presents an organisation's risks and opportunities – including those related to sustainability matters – in the context of organisation's overarching strategy to enhance shareholder value.

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, preservation and erosion over time. A further point of difference is that integrated reporting can cover issues often not included in sustainability reporting, such as interdependencies between capitals or interdependencies between the various capitals and stakeholders.

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 as a framework to support the management of sustainability issues can help business leaders refine the business' purpose

and, from there, refocus on strategic priorities.²⁸ 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 through comprehensive reporting on matters related to value creation. These primary business considerations, of course, intersect with altruistic and social responsibility motivations that also play a part in driving the behaviour of many business owners and operators.

Figure 2. Comparison of sustainability, integrated and financial reporting



CHAPTER 2: THE LITERATURE

Research into SMEs, integrated thinking, and integrated reporting^{vi}

In this chapter, we review findings from the academic and professional literature to gain an international perspective on the motivations for SMEs to adopt integrated thinking and integrated reporting.

Most research in the area is focused on integrated reporting in large, mostly listed, entities. We review findings from the main academic and practitioner literature as well as consider the small but growing body of international literature investigating integrated reporting in SMEs. To date, researchers have identified only a very small number of SMEs globally that have formally adopted integrated reporting techniques. The research method used in this area consists largely of case studies and surveys. Our focus when reviewing this material is on potential benefits as well as costs and barriers to SME implementation of integrated thinking and integrated reporting techniques. The literature helps inform the recommendations outlined in Chapter 4.

Drivers and benefits of integrated thinking and integrated reporting for SMEs

While most research to date has been directed to the implementation of integrated reporting by larger, mostly listed entities, there is broad consensus that entities of all sizes can benefit from adopting integrated reporting.²⁹ The main purported external benefit from organisations adopting integrated reporting is increased transparency (reduced information asymmetry) through the provision of a more complete picture of the strategy, business model and resources that drive business performance.³⁰ Further, by its nature, integrated reporting forces organisations to engage in integrated thinking, which can enhance management effectiveness in creating

long term value. **Table 1** summarises the key research findings on the benefits, both internal and external, from organisations adopting integrated thinking and integrated reporting.^{vii}

A small but growing number of international studies that have specifically explored integrated reporting in SMEs suggests few SMEs have formally adopted integrated reporting.⁵⁰ This literature has, however, identified potential benefits for SMEs adopting integrated thinking and integrated reporting. Research suggests that, internally, integrated thinking can support and assist SME managers to improve their strategies and business models to enhance sustainability and long-term value creation.⁵¹ Integrated reporting can assist managers in planning, budgeting, implementing strategies and allocating resources.⁵² Integrated reports can serve multiple purposes⁵³, including the provision of useful information for multiple stakeholders⁵⁴. Increased transparency⁵⁵ from integrated reporting can boost SMEs' reputations⁵⁶, trust from multiple stakeholders⁵⁷, employee loyalty⁵⁸ and, potentially, create additional financing opportunities.⁵⁹ **Appendix 2** provides a more detailed summary of the empirical evidence supporting the benefits of integrated thinking and integrated reporting for SMEs.

Momentum is building around the world for more reporting of non-financial information, including through the development of the International Sustainability Standards Board (ISSB) and regional initiatives such as the European Union's CSRD. Many larger organisations are now also meeting and reporting on some or all the United Nation's Sustainable Development Goals (SDGs).⁶⁰ Other regulatory initiatives have been launched in various international jurisdictions. In Germany, for example, the government has agreed on a new law to force large companies to respect human rights and environmental issues.⁶¹ In consequence, many larger organisations are asking SMEs in their supply

chains to provide a broader range of information. In Italy, one of three SMEs identified by researchers as having produced an integrated report cited “better positioning at supply chain level”⁶² as one of the benefits resulting from producing an integrated report. Further, greater demand for broader reporting exists in environmentally and socially sensitive industries (such as agriculture, electricity and mining) where stakeholders are demanding greater accountability.^{viii} Similarly, financial providers are increasingly requesting credible information on a broader range of borrower risks, including climate emissions and exposure to climate change risks.⁶³ By adopting integrated reporting, it is argued organisations are better placed strategically to fulfil these information requests on social and environmental performance.⁶⁴ Table 2 provides a summary of key emerging forces and drivers for SMEs to adopt integrated thinking and reporting.

vi. This chapter provides an insight into international research updates the earlier 2022 white paper by Carey et al., titled “Supporting SMEs in Australia for Future Success: Exploring how to improve SMEs’ business performance utilising integrated thinking and integrated reporting concepts”.

vii. For a more complete discussion of the literature on drivers and benefits for SMEs, refer to the earlier white paper, titled “Supporting SMEs in Australia for Future Success: Exploring how to improve SMEs’ business performance utilising integrated thinking and integrated reporting concepts”

Table 1. Summary of key findings on benefits of integrated thinking and integrated reporting

Benefits	
Internal benefits	<ul style="list-style-type: none"> Increases management effectiveness in creating long-term value³¹ Encourages companies to think broadly of their business model, inputs, business activities, outputs and outcomes³² Triggers the use of multiple capitals beyond financial capital³³, which motivates managers to advance corporate reputation and think broadly of various stakeholder needs³⁴ The process brings people together from across the organisation and aligns understanding of business strategy throughout the process³⁵ Builds mutual trust among internal (employees) and external stakeholders³⁶ Encourages employees at all levels of the organisation to become more involved and work collaboratively towards a common goal of long-term value creation, promoting employee retention and enhanced accountability³⁷ Fosters better internal information flows³⁸, enhanced internal decision-making³⁹, more informed decisions⁴⁰ and drives strategic change⁴¹
External benefits	<ul style="list-style-type: none"> Enhances brand value and reputation among stakeholders, and builds greater trust from funders (potentially leading to lower cost of capital)⁴² Facilitates dialogue and increases recognition and support from financial stakeholders⁴³ Communicates an organisation’s mindset, activities and value creation practices⁴⁴ and provides enhanced market visibility, which can help to expand and grow market share⁴⁵ Creates capacity to comprehensively answer external stakeholders’ requests⁴⁶ Provides information that would otherwise remain hidden (such as intangibles, and the expertise and dedication [social capital] of the management and employees)⁴⁷ Encourages the adoption of a more holistic risk-management approach⁴⁸ that could be beneficial for internal and external decision-making purposes⁴⁹

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Table 2. Summary of key findings on emerging forces driving SMEs to adopt integrated thinking and integrated reporting

Drivers
<ul style="list-style-type: none"> • Larger organisations, facing increasing legal requirements to report on non-financial information such as their environmental and social performance (i.e., ISSB, CSRD, SDGs)⁶⁵, are asking SME suppliers to provide a broader range of information • SMEs that produce integrated reports are in a stronger position to respond to increasing information requests from larger organisations⁶⁶ • Firms in environmentally and socially sensitive industries, such as agriculture, electricity and mining, are facing greater pressure from stakeholders for broader information reporting and accountability • Financial providers are increasingly requesting credible information on a broader range of borrower risks, including climate-related issues⁶⁷

Barriers to and costs of integrated thinking and integrated reporting for SMEs

Literature exploring integrated thinking and integrated reporting by SMEs has identified various barriers and costs.

Literature exploring integrated thinking and integrated reporting by SMEs has identified various barriers and costs. In **Table 3** below, we summarise the key barriers and costs deterring SMEs from adopting integrated thinking and integrated reporting. Major barriers identified include the knowledge required to implement integrated reporting, the complexity of the Integrated Reporting Framework and the time lag between implementation and realisation of the benefits. A more complete summary of the literature can be found in Appendix 2.

Table 3. Summary of key findings on barriers and costs associated with integrated thinking and integrated reporting for SMEs

Barriers	<ul style="list-style-type: none"> • Complexity associated with the implementation of Integrated Reporting Framework, which makes it difficult for SME managers to understand and implement integrated thinking and integrated reporting⁶⁸ • It can take many years before firms realise any benefits from adopting integrated reporting⁶⁹ • Pressure and expectations on SMEs to implement non-financial reporting are much lower than on larger entities⁷⁰ • SME owners and managers typically lack knowledge or understanding of how integrated thinking and integrated reporting could benefit value creation⁷¹
Costs	<ul style="list-style-type: none"> • Developing systems to capture the information required for broader reporting⁷² as well as the cost of preparing an integrated report⁷³ • Establishing credibility-enhancing techniques for reported information, such as external and internal assurance, to ensure the information can be relied upon by the intended users⁷⁴



Supporting SMEs to implement integrated thinking and integrated reporting

The literature identifies various parties that might support SMEs in overcoming barriers to integrated thinking and integrated reporting.

First, research finds **external accountants** – particularly SMPs – are the most trusted⁷⁵ and preferred advisers to SMEs⁷⁶, and that SMEs receiving business advice from their external accountants benefited through enhanced firm performance.⁷⁷ SMPs are therefore well placed to support SMEs to adopt integrated thinking techniques and draft integrated reports.⁷⁸

Second, SMEs implementing integrated thinking and integrated reporting face additional challenges because the information relevant to their value creation story needs to be collected, integrated and processed in a timely manner.⁷⁹ Therefore, **information technology providers** have an important role in developing software platforms that simplify and assist SMEs in the adoption of integrated thinking and production of integrated reports.

Third, **academics** can support SME adoption of integrated thinking and integrated reporting by conducting innovative research investigating best practice and disseminating their findings. A good example is ‘*INTEREST – INTEgrated REporting for SMEs Transparency*’, a 30-month collaborative project between Erasmus University, several other European universities, and other partners to help SMEs become familiar with integrated reporting and prepare them for completing their own integrated reports.⁸⁰

viii. Some industries are more exposed to climate-related initiatives, some being large CO2 emitters (Scope 1 emissions) while others are large CO2 consumers (scope 2 emissions), while many other industries have a high exposure to social issues through extensive outsourced supply chains. The importance of these industry is recognised by initiatives such as the Sustainability Accounting Standards Board (SASB) standards, which, for 77 industries, identify the subset of environmental, social, and governance issues most relevant to financial performance in each industry.



CHAPTER 3: EXPERT OPINION

The future of integrated thinking and integrated reporting across the global SME sector

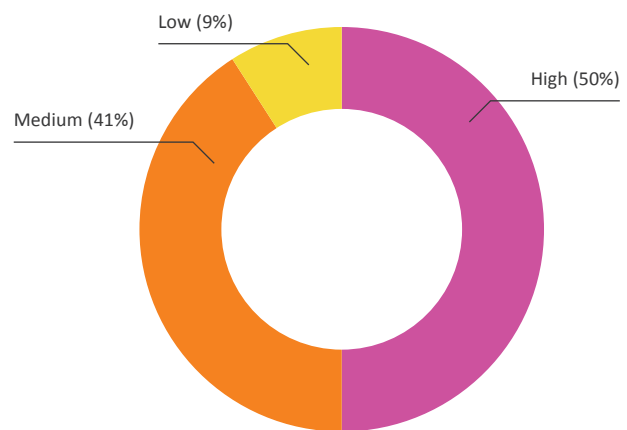
An international roundtable hosted by ACCA, CA ANZ and the DIRC was held with key SME stakeholders on 29 March 2022 to identify a potential role for integrated thinking and integrated reporting to support SMEs.

The roundtable heard a diverse range of views from 31 leading thinkers including business owners, industry representatives, investors, accounting practitioners, representatives from professional accountancy and other membership bodies, representatives from global accounting networks, technology providers, accounting standard setters, academics and government policymakers. Participants joined from Italy, Greece, the Netherlands, Poland, the United Kingdom, Malaysia, Singapore, Hong Kong, Australia and South Africa. Held under Chatham House rules, the roundtable aimed to identify:

- The benefits of integrated thinking and integrated reporting for SMEs across international settings
- Potential barriers to SMEs adopting integrated thinking and integrated reporting
- The sub-groups of SMEs most likely to benefit from integrated thinking and integrated reporting
- How SMEs should approach implementation of integrated thinking and integrated reporting
- Policies to support the adoption of integrated thinking and integrated reporting by SMEs.

The roundtable comprised two sessions. The first canvassed the benefits, drivers and impediments associated with SMEs applying integrated thinking and integrated reporting in the current environment. The second session considered how to best support SMEs to realise the benefits of integrated thinking and integrated reporting.

Figure 3. Polling results of "How well do you understand the concept of integrated reporting and integrated thinking?"



Roundtable participants were initially asked a series of poll questions about their perceptions of integrated thinking and integrated reporting, and its potential applicability to SMEs. In the first question, participants were polled on their familiarity with integrated reporting. The results indicated that 91% had either a medium or high knowledge of integrated thinking and integrated reporting concepts – laying the foundations for a rich and varied discussion of the extent to which these concepts could be applied to SMEs and used as a basis to provide them with support, both in the current environment and into the future.

As discussed in Chapter 2, the adoption of integrated thinking and integrated reporting globally has occurred mainly among large companies, with a limited evidence base examining whether SMEs can also reap long-term benefits by taking a broader approach to their reporting. Results from this roundtable have added significantly to this evidence base.

Amid a diverse range of views presented at the roundtable, broad consensus emerged on some key themes and issues, including:

- Integrated thinking and integrated reporting are beneficial for SMEs.
- While most SMEs would stand to benefit from integrated thinking and integrated reporting, uptake is hampered by lack of knowledge and understanding, and perennial resource constraints
- SMEs need targeted support to facilitate adoption of integrated reporting and integrated thinking
- SMEs need tools to facilitate adoption of integrated thinking and integrated reporting.

Table 3. Summary of key findings on barriers and costs associated with integrated thinking and integrated reporting for SMEs

Themes	Key Points
<p>Theme 1: Integrated thinking and integrated reporting are beneficial to SMEs</p>	<p>External benefits:</p> <ul style="list-style-type: none"> • SMEs can use integrated reporting to meet various information requests and to enhance their credibility and prospects with finance providers. • Amid the global trend towards ESG (environmental, social and governance) reporting, integrated reporting can support SMEs in responding to ESG-related information requests from larger entities to which they are suppliers • Integrated reporting can be used as a communication tool to enhance external stakeholders' understanding of the businesses. <p>Internal benefits:</p> <ul style="list-style-type: none"> • Integrated thinking and integrated reporting can help SMEs to better understand and internally communicate their value-creation processes. • By better articulating the businesses' purpose and strategy, integrated reporting can help attract and retain staff. • Integrated thinking and integrated reporting can help SMEs to build and maintain their relationships with stakeholders.
<p>Theme 2: While most SMEs would stand to benefit from integrated thinking and integrated reporting, uptake is hampered by lack of knowledge and understanding, and perennial resource constraints</p>	<ul style="list-style-type: none"> • Integrated thinking and integrated reporting can benefit all SMEs irrespective of size or type. • SMEs owners/managers are busy and resource-constrained, making it a struggle to implement integrated reporting – despite purported benefits. • The SMEs most likely to formally embrace integrated reporting are those already thinking in an integrated way. • While firms with low profit margins may lack the resources to invest in integrated reporting, some struggling firms might be forced to think in a more integrated way to survive.
<p>Theme 3: SMEs need targeted support to facilitate adoption of integrated reporting and integrated thinking</p>	<ul style="list-style-type: none"> • SME adoption will require coordinated support from government, professional organisations and business groups. • There is support for government policy settings that encourage SMEs to adopt integrated reporting. • Professional accountancy associations need to support and encourage accountants (particularly SMPs) to engage with their clients to support and enable adoption of integrated reporting.
<p>Theme 4: SMEs need tools to facilitate adoption of integrated thinking and integrated reporting</p>	<ul style="list-style-type: none"> • Software providers should be encouraged to develop products that can facilitate and simplify integrated thinking and integrated reporting adoption by SMEs. • SMEs would benefit from an information-sharing platform giving practical and simplified insights and guidance on integrated reporting and integrated thinking adoption. • An online tool should be developed to explain the benefits that SMEs can derive from integrated thinking and integrated reporting over time. • SMEs require more simplified guidance and support. • SMEs need to be educated about the benefits of integrated thinking and integrated reporting approach, and encouraged to adopt by their advisors, financiers, and investors

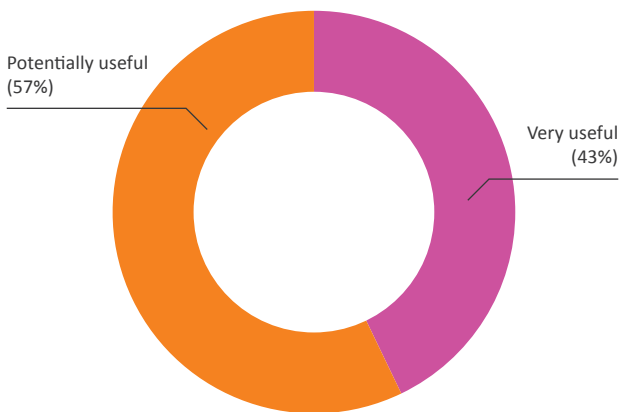
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Theme 1: Integrated thinking and integrated reporting are beneficial to SMEs

Consistent with the literature, and in response to a second poll question, roundtable participants agreed that integrated thinking and integrated reporting were either potentially useful (57%) or very useful (43%) to SMEs.^{ix}

Given the background of participants, unanimous acknowledgement of potential benefits to SMEs was not unexpected. Having established this consensus, discussions turned to the detail of potential benefits, focusing on two broad categories: external benefits and internal benefits.

Figure 4. Polling results of "To what extent do you think integrated thinking and integrated reporting are beneficial for SMEs?"



External benefits

Access to capital. Several participants in the global roundtable raised the issues of financial resource constraints and cash flow difficulties commonly faced by SMEs. The World Bank has stated: "Access to financing remains one of the most significant constraints to the survival, growth, and productivity of micro, small, and medium enterprises. ... Many SMEs

are reluctant to seek or cannot access credit due to the reams of financial documentation and collateral requirements for obtaining a loan; high costs and interest rates; and multi-week decision timeframes". One participant highlighted how crises such as COVID and the war in Ukraine had added to demand by SMEs for increasingly scarce sources of finance. As access to traditional bank financing looks to remain limited in the current climate, and financial providers are increasingly requiring credible information about companies' broader range of risks (see Chapter 2), SMEs using integrated reporting can better meet these additional information requests and distinguish themselves from other SMEs seeking financial capital.

The value of the integrated report as a disclosure tool to assist in raising finance was cited by several roundtable participants. One participant who works closely with start-ups noted: "When you see a company apply for venture capital funding or early-stage investors, they have business reports that look at governance, overview of environment, risks and opportunities, business model, etc. [They are] not necessarily integrated reports, but venture capital firms are quite demanding for this kind of information and demanding more accountability from these companies... If companies are able to see the benefits and if all these shareholders are willing to sort of put that pressure and demand for a better accountability from these companies... they would definitely adopt integrated reporting since it is not too dissimilar [to] what these companies are actually doing [now]." An accounting practitioner observed: "They [SMEs] do not know where to start and who should do the work... However, with all of that there, there is a really big opportunity now for change".

Respond to value chain pressure and reporting landscape given the trend around ESG (environment, social, governance) reporting and practices.

Participants highlighted the growing pressure on SMEs to demonstrate their ESG credentials across

ix. In the poll, participants were given four options: 'Very useful', 'Potentially useful', 'Not useful', and 'Not sure on the benefits'

their value chain. An accounting practitioner said: *“I think the combination of more awareness around environmental change, diversity, equity and inclusion, pressures from their own staff base and trying to attract [staff], and then, there is [pressure] coming from customers as well, through supply chains, as big companies pushed it out to the small. Therefore, there is a great opportunity to actually engage around integrated thinking and integrated reporting now”*. Participants noted the potential for integrated thinking and integrated reporting to put SMEs at a competitive advantage for attracting new business – when the integrated report demonstrates a strategy aligned with the values of their customers. A manager from a large company said: *“Coming from a company that procures products or services from SMEs, having that value alignment feels very important for us to align and foster our sustainable strategy. SMEs that can demonstrate that they align, through their reports or strategies, with our policies, green policies or social policies... that would put them in very good standing when tendering or for projects with us. (Firms can gain a) competitive edge if they can demonstrate integrated thinking”*. The manager stated further: *“For companies like us that are very into ESG rankings, ratings and questionnaires... being able to gather and update more information through SMEs’ integrated reporting would also benefit us and it would put the SME in good standing with us”*.

Integrated thinking and integrated reporting can also be used in response to emerging pressures for broader reporting on environmental, social and governance issues. One practitioner noted: *“Audit and accounting firms have real expertise and understand their clients’ businesses intimately. While they may have been nervous to engage in discussions around environmental issues as they didn’t consider themselves experts, integrated reporting could provide a good place for the firms to start conversations with their clients”*. An SMP owner from South

Africa reflected on experience in his country, where integrated thinking and integrated reporting have been widely championed, but mainly for publicly-listed companies operating in highly regulated industries. It had been an easy transition for those already following an integrated reporting approach. For those never exposed to it, they *“migrated to integrated reporting out of necessity ... with a host of other benefits that go with it”*. This view was supported by a representative from an Italian SME, who referenced mandatory sustainability reporting and other non-financial reporting required for larger organisations, and how integrated thinking and integrated reporting, while not without their implementation challenges, helped their organisation mature its reporting processes around non-financial information.

A marketing tool. The roundtable heard that some SMEs see integrated reporting as a marketing or promotional tool to communicate the positive aspects of their businesses. One academic said: *“Reactions we got from the firms that expressed an interest in our SME support project... some of them were purely interested in storytelling. They [just] wanted a document to be able to show off. They were not thinking at all in terms of integrated or interested in integrated thinking. Give me a document that I can use to boast on my website, with my community, with my workers, etc.”* The implication here is that while integrated reporting might be successfully used for impression management, firms that do not actually engage in integrated thinking as well will likely forgo the broader range of potential benefits.

Internal benefits

Better understanding of the business. As previously discussed, most roundtable participants acknowledged that integrated thinking and integrated reporting can help SMEs to better understand and articulate their value creation process internally. A representative from an Italian SME that has adopted integrated

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reporting described how the organisation continues to experience incremental benefits. The representative said integrated thinking and integrated reporting had encouraged collaboration and integration of functions, helping with business management and, in particular, with the identification of risks and opportunities. With greater interactions, connectivity and shared knowledge of all aspects of the business' value creation process, the company had strengthened its internal reporting process. Another SME manager said integrated thinking and integrated reporting helped firms identify their strengths and weaknesses, as well as better understanding the opportunities and risks faced. The roundtable was also told how integrated thinking helped SME managers to achieve more clarity of purpose and, through the integrated report, to better articulate the firm's value creation story to a range of stakeholders, including financial capital providers.

Attract and retain staff. A European accounting practitioner highlighted staff shortages as a common problem for many SMEs, which had recently been aggravated by the “*great resignation*” phenomenon, which refers to the large number of workers who have, or are expected to voluntarily leave their jobs as the world moves to a new normal post-COVID environment. In many countries, staff shortages are driving the need for SMEs to better articulate their purpose to recruit new talent. It was argued that adopting an integrated thinking and reporting approach could help SMEs do just that. The European practitioner stated: “*To attract people into an SME, you need to articulate what you are about, and what you stand for as an organisation. It does not matter what size. It is just what is your purpose and for many, many people, particularly the next generation coming through, they want to know ... what are they going to do, which is going to have an impact. That is a real opportunity now to have conversations with SMEs to help them define that and describe it better.*” A related claimed benefit for SMEs that adopt integrated reporting is that over time, the business runs more effectively, and this helps it to retain staff. An SME

industry representative stated: “*Although integrated reporting is good in itself, it becomes a significant factor in becoming more effective as a business. ... and they become a better place for people to work*”.

Relationships with stakeholders. The importance of stakeholder relationships is one of the seven Guiding Principles of the Integrated Reporting Framework. It is argued that the value of relationships is amplified by an integrated thinking and reporting approach. SMEs are often family-owned, and strongly linked to the stakeholders they serve, engendering trust through close relationships developed with customers, suppliers and communities they interact with, as well as employees. The important relationships can create wider value for the organisation itself, and for others.

Business model transformation through integrated thinking

A representative from a financial institution in the Netherlands shared an example of a Dutch family-owned mattress business with more than 300 employees. The representative described how the company created a circular relationship with suppliers and customers to help address the huge waste issue created by millions of mattresses discarded annually – despite many of their components being recyclable.

“For instance, suppliers of materials suddenly also became receivers of the waste materials and therefore the relationship with the corporate [suppliers] in this case changed a lot. ... Capital providers in this case literally had their capital laying around as mattresses, with the ultimate clients of that corporate. So it took a capital investment, and they need to also forgo a bit of dividends to support the business case in cash flow terms, it's cash negative at first... so this to me is a great example of value creation that took all the relationships into account”.

The company requested the government impose tighter environmental regulations to support their business model. The company also invited competitors to visit its factories and study their processes to support the wider ecosystem, which would not have been possible without trusted relationships as the foundation of the company's business.

Theme 2: While most SMEs would stand to benefit from integrated thinking and integrated reporting, uptake is hampered by lack of knowledge and understanding, and perennial resource constraints

While the global roundtable did not produce a consensus that any one subgroup of SMEs would benefit more from adoption of integrated thinking and integrated reporting, indeed there was a consensus that integrated thinking and integrated reporting would benefit all SMEs, irrespective of their size or type.

But SMEs, particularly owner-managed firms, would struggle to find time to implement innovations such as integrated reporting. One accounting practitioner said: *“So, they are looking at this and they said: yes, we love it! This is where we want to go, and the purpose and values as a whole are there. But then they get distracted with firefighting.”* Another accounting practitioner observed: *“Firms... are living in the now and the now is very difficult. It's going from one crisis to the next. So... having time for them to step back and even consider this, it is challenging. They do not have the people who have dedicated roles to look at this. So in a way it can get a little bit overwhelming”.*

By contrast, other participants observed that big opportunities for change exist in times of disruption. Agile organisations able to pivot and adapt to changing circumstances, as well as communicate effectively with their stakeholders, had a much better chance of both standing out from the crowd and surviving over the long term. An SME manager argued that, from experience, despite the clear economic benefit from adopting integrated reporting, resistance was largely cultural. *“I think that there are surely more benefits than barriers, but the barriers are more cultural than economic”.* The manager also cited economic barriers – particularly the costs of investment in human and

financial capital for successful implementation of integrated thinking and integrated reporting.

Several participants indicated that the SMEs most likely to adopt integrated thinking and integrated reporting were those already thinking in an integrated way, if not having formally adopted integrated reporting. There was widespread agreement around this proposition – but not for the notion that some specific SME characteristics, such as industry type or size, might be more suited to adopting integrated reporting than others. A financial institution representative observed that some businesses were already practising integrated thinking without formally labelling it as such. An academic working on a project supporting SMEs agreed, saying: *“The only players who are seriously working with us that embarked wholeheartedly on this area are a very small number of companies. What is the commonality? We identified the owners are already kind of thinking in an integrated perspective”.* Hence, SMEs that are already thinking in an integrated way are more open to the opportunity to formally embrace integrated reporting and integrated thinking techniques.

Another participant indicated SMEs that were both owned and managed by the same individual or family may have a greater incentive to adopt integrated thinking and integrated reporting, as they would directly benefit from improved business performance and other positive impacts. This view is supported by the December 2018 publication, *“Integrated Reporting for SMEs: Implementation Guidance”* by the Network Italian Business Reporting (NIBR), which notes: *“In an SME, it is usually the entrepreneur or the Board who decides to adopt integrated reporting, by taking into account its advantages, benefits and challenges”.*

Lastly, there were mixed views on the influence of profitability on the likelihood of SMEs adopting integrated thinking and integrated reporting. One view was that firms with low profit margins did not have the resources to invest in adoption of integrated reporting. A financial institution representative said that a *“low margin business, a low margin environment is a barrier to do more in terms of stewardship ... or integrated thinking”.* A contrary view suggested that the need

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to survive during challenging times was driving SMEs to think in a more integrated way. An accounting practitioner stated: *“Out of necessity, in response to particularly the COVID pandemic, many businesses have been forced, actually need, to go into integrated thinking mode... so that is nothing to do with size... just they need to survive”.*

Theme 3: SMEs need targeted support to facilitate integrated thinking and integrated reporting

Despite broad agreement on the potential benefits to SMEs from adopting integrated thinking and integrated reporting, roundtable participants emphasised the challenges presented by SMEs’ time and resource constraints, and a short-term survival focus that has taken hold among SMEs globally in recent difficult economic circumstances.

The literature review in Chapter 2 identified the very small number of SMEs that have voluntarily adopted integrated reporting – a finding echoed by anecdotal testimony from roundtable participants. Participants suggested that the challenges of drawing SMEs away from short-term issues and constant *“firefighting”* to keep their organisations running, regardless of size, would be a critical consideration when designing initiatives to encourage integrated thinking and integrated reporting awareness and adoption.

It was broadly agreed by roundtable participants that targeted initiatives were needed. An industry association representative said: *“I am thinking what we really need is a combination of push and pull because... SMEs to a large degree, especially the smaller among them, live on a day-to-day basis. So, unless you have a very determined leadership from the wider community, which includes the government, professional organisations and business associations, it is very difficult to have them [SMEs] focus on the need to explore the idea of adopting integrated thinking*

and integrated reporting techniques. That is the push factor.” An SME owner said regulators could play a key role by encouraging the disclosure of broader, non-financial information, and strengthen regulators’ oversight of non-financial reporting.

Support was expressed for government policy settings actively encouraging, or even requiring, SMEs to adopt integrated reporting. An SME representative said: *“We have to think about making it obligatory because most SMEs in Italy, I think, are not ready to adopt this method in the normal company life.”* A financial institution representative stated: *“Of course there is a lot that should be also taken up by government policy framework”.* An SME representative observed that regulations in South Africa requiring larger companies to adopt integrated reporting had delivered significant benefits to these companies. *“They [listed entities] have migrated to integrated reporting out of necessity obviously with a host of other benefits that go with it”.* Some participants advocated tightly targeted government support to facilitate adoption of integrated reporting. A financial institution representative said: *“The government can play a role in that they can provide subsidies for this kind of... training.”*

Participants also cited a need for the accounting profession to encourage integrated reporting. A financial institution representative stated: *“The professional accountancy bodies can also play a role in advocating such kind of initiatives.”* Several participants emphasised the importance of SMPs in this context. An SMP representative said: *“IFAC has a responsibility as well through the smaller medium practices committees and work there to kind of really push SMPs to get more confident, to engage with their clients”.* The representative argued SMPs should be encouraged to embrace integrated thinking and integrated reporting in their own practices so they would be better equipped to explain the benefits to their SME clients.

Theme 4: SMEs need to be supported with tools to enable adoption of integrated thinking and integrated reporting

As a starting point for discussion about how to support SMEs, roundtable participants were introduced to a set of recommendations that emerged from a previous Australian roundtable session on integrated reporting for SMEs.⁸¹

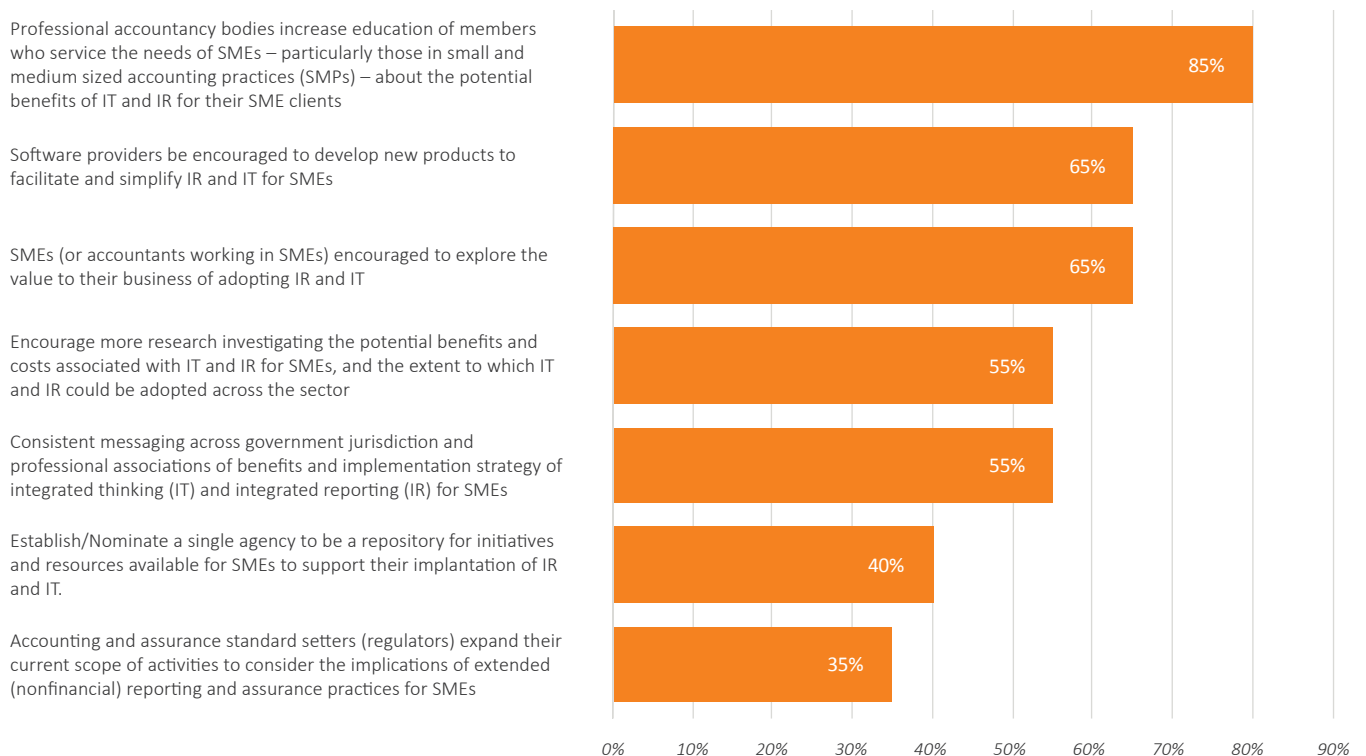
Participants were polled for their views on the relevance of these recommendations in an international setting. Of those who responded, 80% saw a role for professional accountancy bodies to increase their focus on education of members who service the needs of SMEs – particularly SMPs – about the potential benefits of integrated thinking and

integrated reporting for their SME clients, which was one of the key proposals to emerge from the previous roundtable. Initiatives to encourage SME managers (or accountants working in SMEs) to explore the value to their businesses of adopting integrated thinking and integrated reporting were also ranked highly – with 65% of participants supporting education for SMEs. The importance of encouraging software providers to develop new products to facilitate and simplify the process of adopting integrated thinking and integrated reporting for SMEs was also rated highly (65%).

Technology solutions

As discussed in Chapter 2, digital technologies can help SMEs overcome complexities in their businesses – in operations, financial administration, logistics management and other areas. Technology plays a particularly big role in the preparation and distribution of corporate reports, and in helping stakeholders receive and consume reports. With the incremental adoption of digitalisation into SME operations, an

Figure 5. Support levels among global roundtable participants for recommendations that emerged from the previous Australian roundtable



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industry association representative stated: *“When SMEs are doing the digitalisation, it might also make sense at the same time to implement and integrate the integrated reporting and thinking systems at the same time”.*

There was clear consensus among roundtable participants that software providers should be encouraged to develop products that facilitate and simplify integrated thinking and integrated reporting adoption by SMEs. A participant with a background in artificial intelligence (AI) and natural language processing noted that financial institutions have used AI to automate mapping, detection and report generation related to money laundering and risk management. When it comes to integrated thinking and integrated reporting, software providers could develop programs that detect commonly used headings across different companies and that enable information to be encoded and replicable. Software providers could also consider utilising machine learning to build algorithms, map information and identify core information across different reporting frameworks (such as GRI and SDGs). Such developments, along with digitalisation, could help to minimise the time and effort needed by SMEs to gather the information to be disclosed in an integrated report.

Information-sharing platform. An SMP owner strongly advocated the creation of an information-sharing platform for SMEs that would provide practical guidance on implementing integrated thinking and integrated reporting – something that could be particularly valuable for smaller and micro entities. The SMP owner added: *“More localised information is useful and could help demonstrate scalability of integrated thinking and integrated reporting, which the Integrated Reporting Framework was designed to be”.*

Tools to capture the benefits of integrated reporting and integrated thinking adoption over time. A related suggestion was the development of a tool for SMEs that captures the impact of adopting integrated thinking and integrated reporting. Currently, most studies on integrated thinking and integrated reporting

rely on anecdotal evidence. As one standard-setter told the roundtable: *“We need to show them [SMEs] in a systematic, credible, methodologically sound way that the benefits [of integrated thinking and integrated reporting] outweigh the costs. Otherwise, we will have a very hard time in promoting these beyond a few pilot companies”.* Such a tool could both help to convince SMEs about the benefits of implementing integrated reporting and provide feedback throughout the process of implementing integrated thinking and integrating reporting. A financial institution representative supported this view, citing anecdotal evidence that SMEs were not ready to pay to do business differently – and that they therefore needed to be convinced.

Simplified guidance

Given the scarcity of human and financial resources for most SMEs, solutions and guidance must be as simple and easy to implement as possible, presented in succinct and simple language to capture the time-constrained attention of the target audience. Several roundtable participants felt that current integrated thinking and integrated reporting guidance was primarily directed at larger organisations and did not *“translate well to SMEs”*, with *“too many acronyms”*. This potentially encouraged SME managers to adopt a *“wait and see approach”*. An accounting practitioner noted that SMEs might almost be *“waiting for legislation to make changes, which was quite dangerous because it becomes a tick-box”*.

There was consensus among participants that SMEs require more simplified guidance and support. A technology provider said: *“We also notice there is a huge barrier of the basic knowledge and understanding of terms as well as the confusion over the various frameworks and standards that they can actually turn to. So... standards and frameworks speak to SMEs in a way that they are supposed to have a certain level of understanding already while they do not. So, we really focus on simplifying the whole integration, so it is not over complicated for them.”* A representative from what was formerly called the Value Reporting Foundation (now part of the IFRS Foundation) stressed that the need for

SMEs to understand that integrated thinking and integrated reporting are “*about better business*”. It was imperative to keep the messaging very clear to help SMEs realise that both integrated thinking and integrated reporting were not “*the end*” but rather “*a means to an end*”. The representative cited publicly available resources including implementation guidance produced by the VRF that was simple and practical, including *Integrated Thinking: A Virtuous Loop*⁸² and *Transition to Integrated Reporting: A guide to getting started*⁸³, as well as the imminent release of a guide to integrated thinking. A representative from a global accounting network noted the joint academic and European Union funded project the INTEREST (discussed in Chapter 2) that offered free support via basic training to SMEs.

Education initiatives

Roundtable participants agreed that SMEs needed to be educated about the benefits of integrated thinking and integrated reporting. Some believed education initiatives would be best channelled through advisers (such as accountants), financiers and investors, who would then motivate and support SMEs to adopt integrated thinking and integrated reporting.

The close relationships between SMEs and the accountants or advisers who helped them from day-to-day were seen as an opportunity to encourage adoption of integrated thinking and integrated reporting in the current environment. Amid the COVID pandemic and other pressures, an accounting practitioner said: “*The relationship has been enhanced because SMEs have turned to their accountants to help them survive ... [and] make key decisions as a business*”. Thus, roundtable participants felt that encouraging SMPs to learn about and better understand integrated thinking and integrated reporting could be a game-changer in encouraging adoption by SMEs. An accounting practitioner also noted: “*They [SMPs] have to get used to that kind of integrated thinking in the way they run their practices because once they can do it themselves, they have confidence to go and talk [to their SME clients]... this is something you really need to start looking at and doing*”.

Education initiatives might also be focussed on potential investors and financiers, who might then incentivise SMEs to present additional, especially non-financial, information. A practitioner said: “*Investors are starting to prioritise the different types of reporting, which I think is a push in the right direction. We just need to get the right people educated... not just the SME themselves, but also the people who are financing the SMEs... as they are always going to do what is beneficial for them and what is potentially profitable and help them grow. So, instead of pushing the SMEs [only], you might want to push the people that put the money in their pocket*”. Another practitioner argued similarly: “*But then how do you turn that into something in the reporting that is actually attractive to the investors... that kind of ties back to... educate the investors on what should be valued and how they can rate companies in a different way*”.



CHAPTER 4

Conclusions and recommendations

Drawing on our literature review in Chapter 2 and discussion from the global roundtable in Chapter 3, this final chapter presents a series of recommendations to support the adoption of integrated thinking and integrated reporting techniques by SMEs globally.

The primary source of direction and content for the recommendations came from the insights of 31 experts and leading thinkers who took part in our roundtable in March 2022. The recommendations have a strong focus on frictions currently preventing or discouraging SMEs across all global jurisdictions from adopting integrated reporting, and how these barriers might be overcome. While our recommendations should be seen as neither final nor definitive, we hope they become a catalyst for change – a prospect alluded to in our final recommendation that further research be conducted into this area.

Table 5. Recommendations at a glance

Target audience	Recommendations	Source of Recommendation	
		Literature	Roundtable
Government	Recommendation 1 – Governments should act to enable and encourage SMEs to adopt integrated thinking and integrated reporting by supporting and incentivising their service providers to develop the skills, guidance materials and tools to facilitate adoption.	✓	✓
Accountants, especially SMPs	Recommendation 2 – Accountants, as trusted advisers either working within SMEs or providing professional services to SMEs, should seek to assess the potential benefits of integrated thinking and integrated reporting for their SME clients and, where appropriate, encourage adoption.	✓	✓
Professional accountancy and industry associations	Recommendation 3 – Professional accountancy associations and industry organisations, supported by governments, should educate their members who work as trusted advisers to SMEs, particularly small and medium-sized accounting practices (SMPs), about the potential benefits of integrated thinking and integrated reporting for their SME clients.	✓	✓
Software providers	Recommendation 4 – Software providers should work collaboratively with SMEs, SMPs and other relevant stakeholders (such as financiers, supply chain members and government) to facilitate the development of new products that simplify integrated thinking and integrated reporting processes for SMEs.	✓	✓
IFRS Foundation	Recommendation 5 – IFRS Foundation is encouraged to develop simplified tailored guidance materials supporting the International Integrated Reporting Framework and Integrated Thinking Principles, specifically targeted at SMEs.	✓	✓
Academics	Recommendation 6 – 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 globally.	✓	✓

Given the considerable barriers to SMEs adopting integrated reporting, governments should act to enable and encourage SME adoption of integrated thinking and integrated reporting.

As discussed in earlier chapters of this white paper, the main barriers to SMEs adopting integrated thinking and integrated reporting are their limited resources, and the pressure of being too busy and “firefighting” in their daily operations. There is a key role for governments to help SMEs better understand their businesses and to support them to better communicate their value creation processes to stakeholders. The adoption of integrated thinking and integrated reporting would assist SMEs to survive and prosper in the current turbulent international business environment and into the future. Specifically, national governments might fund a variety of initiatives to support adoption, such as:

1. Providing start-up and SME funding grants that incentivise integrated thinking and integrated reporting adoption
2. Incentivising private sector funding (including through tax policies) for SMEs that focuses on long-term strategies
3. Incentivising the development of technology tools (including tools to simplify the process of responding to large corporate information requests)
4. National governments might provide a central database of learning materials to facilitate peer learning among SMEs
5. Funding educational initiatives targeting SME financiers and investors who in turn can encourage SMEs to implement integrated thinking and integrated reporting.
6. Funding academic programs like the European Union funding of the INTEREST project by Erasmus University, which provides education to SMEs in integrated reporting and prepares them to complete their own integrated reports.

Accountants, especially SMPs

Accountants employed by SMEs, and members of the accounting profession who act as trusted advisers to SMEs⁸⁴, are well placed to encourage and facilitate the adoption of integrated thinking and integrated reporting practices by SMEs. Accountants working inside SMEs are encouraged to explore how integrated thinking and reporting techniques can be beneficial to their own practices. By understanding and being aware of such benefits for their own operations, the accountants, especially SMPs, can subsequently encourage their SME clients to consider the implementation of integrated thinking and integrated reporting as a response to help them meet current and future information and reporting requests. The provision of advice to SMEs on the adoption of integrated reporting techniques represents an opportunity for accounting practices to add value to their clients. Useful starting points would be for accountants to examine the materials in this white paper along with ACCA⁸⁵ and joint ACCA and CA ANZ (2021)⁸⁶ publications.

Professional accountancy and industry associations

Both the literature review and the roundtable discussion yielded broad consensus on two key points: the need to educate SMPs on the benefits of integrated thinking and integrated reporting for their SME clients, and the need for practical processes and systems to guide SMEs in implementing such techniques. Professional accountancy bodies, with support from government, might consider how to further raise awareness and increase the understanding of their practitioner 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 International Federation of Accountants (IFAC),

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supported by professional accountancy associations, to develop training and guidance for their members on how they can help SMEs implement, and benefit, from integrated thinking and integrated reporting techniques. As a starting point, training might focus on how SMPs can implement integrated thinking and integrated reporting within their own practices, which could empower them to be experienced advocates of integrated reporting and integrated thinking for their SME clients. Similarly, professional accountancy associations and industry organisations could develop online guidance tailored to SMEs and/or organise networking events among their members to educate SMEs on the benefits of integrated thinking and integrated reporting techniques. Professional accountancy associations may also develop online training for SMEs in short, modular formats, focusing on the Fundamental Concepts, Guiding Principles and Content Elements of the Integrated Reporting Framework, so as not to overwhelm SMEs with implementation materials.

Software providers

The roundtable was told of several initiatives globally to develop technology support solutions for SMEs, and how to best support SMEs to adopt more sustainable ways of working. One roundtable participant suggested the use of machine learning to build algorithms, map the information requirements, and identify the core information across different reporting frameworks to minimise the time spent gathering and reporting information. However, for this to succeed in practice, there must be agreement on information content and how it should be reported. We therefore encourage software developers to collaborate with the accounting profession and key players, especially SMEs and SMPs, to create a common structure for integrated reports that will simplify the reporting process. Software designers should also be made aware of the importance of connectivity among the capitals and stakeholders, and consideration should be given to designing software that encourages integrated thinking.

IFRS Foundation

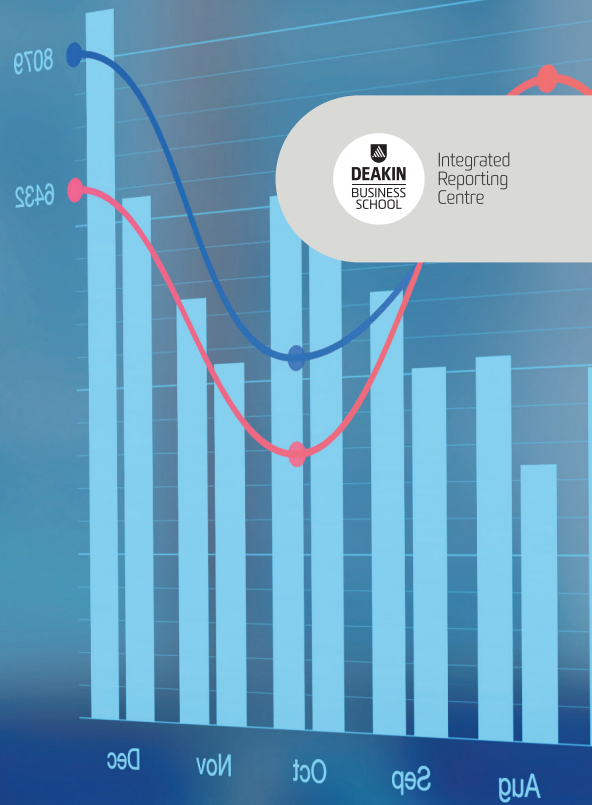
While the former International Integrated Reporting Council and, more recently, the Value Reporting Foundation, along with professional accountancy bodies have provided guidance for implementing integrated thinking and integrated reporting, the evidence from our literature review and the roundtable suggests that the Integrated Reporting Framework is difficult for SMEs to digest and implement. Further, much of the current implementation guidance is directed toward large, listed entities^x, creating an obstacle for SMEs to both understand and adopt integrated thinking and integrated reporting. It suggests a need for simplified guidance designed specifically for SMEs to increase their understanding of the value proposition of integrated thinking and integrated reporting and, importantly, to encourage adoption of these techniques in their businesses. The IASB, ISSB and the SME Implementation Group, in collaboration with professional accountancy and industry associations, may consider in future developing more simplified guidance for SMEs to produce broader reports that cover both financial and non-financial information, and support SMEs to adopt integrated thinking and reporting. The IFRS Foundation should also assign a specific body to provide oversight over the post implementation review of the revised guidance.

Academics

Less than a decade after the publication of the Integrated Reporting Framework, research into integrated thinking and integrated reporting for SMEs remains in its infancy. In preparing this white paper, we found few global studies on IR for SMEs, with most SME research efforts to date centred in Europe. While SMEs across the globe face similar challenges, deriving the implications from one country to another must be done with caution. In particular, it must be recognised that definitions and industry compositions of SMEs vary significantly across jurisdictions.

x. As noted in Chapter 2, some of the guidance specifically directed for SMEs include the guide by Italian Network of Business Reporting (NIBR) and IFAC

To help fill the significant research void in this area, we recommend that studies in the first instance validate and articulate the value proposition for SME adoption of integrated reporting and integrated thinking, and that this be effectively communicated to as many SMEs as possible. Academic research is also needed to investigate actual or perceived barriers currently preventing SMEs from benefiting from the adoption of integrated reporting, and how these barriers might be overcome.



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2. ACCA, ICC and Sage, 2021
3. ACCA, 2022b
4. ACCA, 2019
5. For example ACCA, 2022a
6. OECD, 2021c
7. VRF, 2021b
8. OECD, 2005
9. OECD, 2022
10. OECD, 2006
11. OECD, 2019b
12. ACCA, ICC and Sage, 2021
13. OECD, 2020
14. ACCA, 2022b
15. At 31 August 2022 the IFRS website indicated 84 out of 167 jurisdictions require or permit IFRS for SMEs.
16. European Commission, 2011
17. AASB, 2009
18. EFRAG, 2021
19. Huck, 2022
20. Ortiz-Martinez and Marin-Hernandez, 2022
21. 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 Integrated Reporting framework refers to six capitals, being financial, manufactured, intellectual, human, social and relationship and natural (VRF, 2021b).
22. 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, 2021a).
23. VRF, 2021a
24. VRF, 2021c
25. IIRC, 2021
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70. Dyczkowska et al., 2021.
71. Madarasi-Szirmai et al., 2021.
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73. Dyczkowska and Fijałkowska, 2022
74. Zhou et al., 2019
75. Blackburn et al., 2018
76. Bennett and Robson, 1999
77. Carey, 2015
78. Pozzoli and Attolini, 2014
79. IIRC, 2016
80. Erasmus University, 2022
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Appendices

Appendix 1. National statistical definition of SMEs among OECD countries

Country	Key Points	Country	Key Points
Australia	Size of firm: Enterprises with less than 200 employees		
Austria	Size of firm: Enterprises with less than 250 employees	Hungary	EU Definition— Size of firm: Enterprises with less than 250 employees Annual turnover: Enterprises with less than EUR 50 million <i>and/or</i> Balance sheet: Enterprises with less than EUR 43 million
Belgium	Size of firm: Enterprises with less than 250 employees		
Brazil	Annual turnover: Enterprises with less than BRL 4.8 million	Ireland	EU Definition— Size of firm: Enterprises with less than 250 employees Annual turnover: Enterprises with less than EUR 50 million <i>and/or</i> Balance sheet: Enterprises with less than EUR 43 million
Canada	Size of firm: Enterprises with less than 500 employees		
Chile	Annual sales: Enterprises with less than UF 100,000	Israel	Size of firm: Enterprises with less than 100 employees Annual turnover: Enterprises with less than NIS 100 million
China	The definition of SMEs differs according to sector.		
Colombia	Size of firm: Enterprises with less than 200 employees	Indonesia	Annual turnover: Enterprises with less than Rupiah 50 billion <i>or</i> Assets (excluding building land asset): Enterprises with less than Rupiah 10 billion
Czech Republic	Size of firm: Enterprises with less than 250 employees		
Denmark	Size of firm: Enterprises with less than 250 employees	Italy	EU Definition— Size of firm: Enterprises with less than 250 employees Annual turnover: Enterprises with less than EUR 50 million <i>and/or</i> Balance sheet: Enterprises with less than EUR 43 million
Estonia	Size of firm: Enterprises with less than 250 employees		
Finland	EU Definition— Size of firm: Enterprises with less than 250 employees Annual turnover: Enterprises with less than EUR 50 million <i>and/or</i> Balance sheet: Enterprises with less than EUR 43 million	Japan	The definition of SMEs differs according to sector.
France	EU Definition— Size of firm: Enterprises with less than 250 employees Annual turnover: Enterprises with less than EUR 50 million <i>and/or</i> Balance sheet: Enterprises with less than EUR 43 million	Kazakhstan	Size of firm: Enterprises with less than 250 employees Annual income criterium
Georgia	Size of firm: Enterprises with less than 100 employees Annual turnover: Enterprises with less than GEL 1.5 million	Korea	The definition of SMEs differs according to sector.
Greece	EU Definition— Size of firm: Enterprises with less than 250 employees Annual turnover: Enterprises with less than EUR 50 million <i>and/or</i> Balance sheet: Enterprises with less than EUR 43 million	Latvia	EU Definition— Size of firm: Enterprises with less than 250 employees Annual turnover: Enterprises with less than EUR 50 million <i>and/or</i> Balance sheet: Enterprises with less than EUR 43 million
		Lithuania	EU Definition— Size of firm: Enterprises with less than 250 employees Annual turnover: Enterprises with less than EUR 50 million <i>and/or</i> Balance sheet: Enterprises with less than EUR 43 million

Country	Key Points
Luxembourg	<p>EU Definition— Size of firm: Enterprises with less than 250 employees Annual turnover: Enterprises with less than EUR 50 million <i>and/or</i> Balance sheet: Enterprises with less than EUR 43 million</p>
Malaysia	<p>Manufacturing Sector— Size of firm: Enterprises with not more than 200 employees <i>or</i> Annual turnover: Enterprises with less than RM 50 million Services and Other Sector— Size of firm: Enterprises with not more than 75 employees <i>or</i> Annual turnover: Enterprises with less than RM 20 million</p>
Mexico	<p>Size of firm: Enterprises with less than 100 or 250 employees depending on the sector</p>
Netherlands	<p>EU Definition— Size of firm: Enterprises with less than 250 employees Annual turnover: Enterprises with less than EUR 50 million <i>and/or</i> Balance sheet: Enterprises with less than EUR 43 million</p>
New Zealand	No unique national definition
Norway	<p>EU Definition— Size of firm: Enterprises with less than 250 employees Annual turnover: Enterprises with less than EUR 50 million <i>and/or</i> Balance sheet: Enterprises with less than EUR 43 million</p>
Portugal	<p>EU Definition— Size of firm: Enterprises with less than 250 employees Annual turnover: Enterprises with less than EUR 50 million <i>and/or</i> Balance sheet: Enterprises with less than EUR 43 million</p>
Peru	Annual Turnover
Serbia	<p>Size of firm: Enterprises with less than 250 employees Annual turnover: Enterprises with less than EUR 10 million <i>and/or</i> Assets: Enterprises with less than EUR 5 million</p>
Slovak Republic	<p>EU Definition— Size of firm: Enterprises with less than 250 employees Annual turnover: Enterprises with less than EUR 50 million <i>and/or</i> Balance sheet: Enterprises with less than EUR 43 million</p>

Country	Key Points
Slovenia	<p>EU Definition— Size of firm: Enterprises with less than 250 employees Annual turnover: Enterprises with less than EUR 50 million <i>and/or</i> Balance sheet: Enterprises with less than EUR 43 million</p>
South Africa	Annual Turnover
Spain	<p>EU Definition— Size of firm: Enterprises with less than 250 employees Annual turnover: Enterprises with less than EUR 50 million <i>and/or</i> Balance sheet: Enterprises with less than EUR 43 million</p>
Sweden	<p>EU Definition— Size of firm: Enterprises with less than 250 employees Annual turnover: Enterprises with less than EUR 50 million <i>and/or</i> Balance sheet: Enterprises with less than EUR 43 million</p>
Switzerland	<p>Size of firm: Enterprises with less than 250 employees</p>
Thailand	<p>Manufacturing Sector— Size of firm: Enterprises with not more than 200 employees <i>or</i> Annual turnover: Enterprises with less than THB 500 million Services and Other Sector— Size of firm: Enterprises with not more than 100 employees <i>or</i> Annual turnover: Enterprises with less than THB 300 million</p>
Turkey	<p>Size of firm: Enterprises with less than 250 employees Assets: Enterprises with less than TRY 40 million</p>
Ukraine	<p>Size of firm: Enterprises with less than 250 employees Turnover: Enterprises with less than EUR 50 million</p>
United Kingdom	<p>Size of firm: Enterprises with less than 250 employees</p>
United States	<p>Size of firm: Enterprises with less than 500 employees</p>

Appendix 2. Empirical research on benefits, barriers and costs associated with integrated reporting in an SME environment

Authors (Year)	Country of study	Focus	Benefits	Barriers and costs
Kaya and Turegun (2014)	Turkey	Understanding the benefits and costs SMEs can attain by implementing integrated thinking and reporting	Integrated thinking supports and assists SME managers to improve strategies and business models that promote sustainability and concentrate on long-term value creation. It also provides valuation information for SME executives for planning, budgeting, and implementing strategies as well as resource allocation. Integrated reporting is more cost efficient for SMEs in producing one single report for multiple purposes and, at the same time, increase transparency. It also provides users with broader information related to governance, strategy, economic, social, and environmental factors, and increases customer and employee loyalty as well as providing additional financing opportunities.	Broader adoption of integrated thinking and integrated reporting by SMEs requires more effort to increase awareness of the benefits of integrated thinking and integrated reporting to SMEs. The authors argue that training needs to be provided to SMEs throughout the integrated reporting development process.
Del Baldo (2017)	Italy	Understanding the Integrated Reporting Framework effectiveness for SMEs and how the guidelines should be presented.	Integrated reporting implementation enhances reputation among stakeholders, builds trust and improves employee loyalty and motivation. It further strengthens the internal/ external dissemination of values and vision and improves the communication strategy and the disposition to measure performance in medium- to long-term perspective.	Issues related to the implementation of integrated thinking and integrated reporting by SMEs often arise because of the lack of understanding by the entrepreneur on how to adopt the philosophy of integrated thinking and integrated reporting. The lack of guidance specifically developed with SME considerations in mind may further inhibit the widespread adoption of integrated reporting. Consequently, there is a need for specific integrated reporting implementation guidance for SMEs and it is important to create a specific working group to support SMEs in their integrated reporting journey.
Amirrudin, Abdullah, Aris, and Mohammed (2019)	Malaysia	Assessing usability and benefits of IR for SMEs in Malaysia	Integrated thinking is a management control model that helps SMEs to better understand their strengths and weaknesses. It is cost-efficient for SMEs to produce one single integrated report for multiple purposes which, at the same time, increases transparency.	Broader adoption of integrated reporting by SMEs requires more effort to increase awareness among SMEs of its importance and value. Simplification of integrated reporting requirements for SMEs is needed, and training for SME personnel needs to be provided to fill in the knowledge gap.

ENDNOTES, REFERENCES & APPENDICES

Authors (Year)	Country of study	Focus	Benefits	Barriers and costs
Girella, Zambon and Rossi (2019)	Italy	Understand and analyse if and to what extent new forms of reporting are adopted by SMEs in their journey to sustainable development.	Integrated reporting is an approach to respond to corporate demands for legitimacy through the disclosure of non-financial impact in a more cost-effective way. It is a strategic marketing tool to represent the firm in positive way to society (i.e., to support a change of image) or even repair the corporate image in society, and is potentially relevant for dialogue with professional investors, such as financial analysts or bankers. It can further serve as an important and strategic signalling tool in employee recruitment in times of talent and skill shortage.	Inhibiting factors for SMEs adopting integrated reporting can be classed as intrinsic and extrinsic. Intrinsic factors include that SMEs suffer from a lack of information and data necessary to implement new reporting practices and they face limited human and financial resources to dedicate to these initiatives. This results in some of the Content Elements in the Integrated Reporting Framework being perceived as difficult to implement by SMEs. Extrinsic factors include the fear of disclosing strategic information to competitors and/or potential market entrants.
Gerwanski (2020)	Germany	Understanding the actual reason for integrated reporting (dis-) engagement by 16 managers of large German SMEs	Integrated reporting enables SMEs to demonstrate their performance and create trust and a positive reputation with stakeholders. It can be used as a tool to create a competitive advantage through enhanced transparency.	There are some reasons why German SMEs disengage integrated thinking and integrated reporting: <ol style="list-style-type: none"> 1. Lack of interest by public – Most managers believed that most stakeholders were not willing to read yet another report to engage with the firm. 2. Infeasible to address users' needs – Most readers lack both time and deep economic background to extract value from integrated report. 3. Scarce financial and human resources of SMEs – SMEs have insufficient resources and expertise, which result in fear of disproportionately high costs and administrative burden.
Muslichah, Wiyarni and Nursasi (2020)	Indonesia	Understanding the perspective of SME in Indonesia	The authors assert that the benefits from adopting integrated reporting increase as more stakeholders, including large companies requesting information along their supply chain), demand sustainability-related information. At the same time, the current digitalization of business may reduce the cost of implementation. Further, integrating non-financial information with the financial information may positively affect the valuation of a business by professional investors. Thus, integrated reporting should not be seen solely as an external reporting tool but also, and more importantly, as a management tool that assists with business restructuring and value creation.	Factors limiting the implementation of integrated thinking and integrated reporting by SMEs include the lack of guidance for adopting integrated reporting in Indonesia and the fact that integrated reporting is perceived to be mainly prepared for the benefit of investors, while SMEs in Indonesia tend to not have multiple owners (investors).

Authors (Year)	Country of study	Focus	Benefits	Barriers and costs
Schorn, Tempel, Bauer and Klapdor (2021)	Germany	Integrated reporting adoption by SMEs in Germany	While there is no evidence of integrated reporting adoption by SMEs in Hungary, the authors claim that there is growing pressure for Hungarian SMEs to further internationalise and innovate, and that integrated reporting could be used to respond to the increasing complexity of the business environment.	There is no evidence of integrated reporting adoption by SMEs in Germany. One of the factors contributing to the lack of adoption is SMEs' limited disclosure requirements, for example, they are not required to disclose a non-financial declaration. Thus, owners are reluctant to disclose information voluntarily considering that the costs of disclosure are likely to exceed the benefits from that disclosure.
Madarasi-Szirmani, Losoncz, Gyori, Sagi and Hegedus (2021)	Hungary	Integrated reporting adoption by SMEs in Hungary	Focusing on three Italian SMEs producing integrated reports, the authors find a considerable improvement in the overall quality and applicability of reporting. The movement in Italy is supported by representatives of Italian SMEs actively pushing the adoption of integrated reporting. This movement may result in SMEs dealing with larger firms being asked to supply their non-financial reporting or integrated reporting.	At this stage, most of the medium-sized firms in Hungary have not voluntarily produced non-financial corporate reporting. Given that Hungarian regulation is based on rules rather than principles combined with the neutral stance of Hungarian government towards non-financial reporting, the implementation of principle-based integrated reporting is less likely to occur.
Brusati, Fuso, and Garlatti (2021)	Italy	IR adoption by SMEs in Italy	—	While Italian SMEs have started to approach integrated reporting, the SMEs are initially hampered by the actual and perceived burden of management and structural costs.
Dyczkowska, Dyczkowski, Nita, Oleksyk, and Piotrowska (2021)	Poland	IR adoption by SMEs in Poland	The authors stress the importance of integrated thinking for SMEs in tackling issues faced by this sector. For example, adopting integrated thinking enable SMEs to better understand the connectivity and interrelationships between various factors that affect SMEs value creation over time. Integrated reporting is also important for SMEs as they need to continually develop their relationship network and both integrated thinking and integrated reporting may increase the quality of dialogue with financial capital providers and other stakeholders.	There is no evidence of integrated reporting adoption by SMEs in Poland, although SMEs in Poland need to submit many reports and forms which acts as a barrier to any other reporting considerations.
Zanellato and Tiron-Tudor (2021)	Romania	IR adoption by SMEs in Romania	The authors argue that integrated reporting adoption may help Romanian SMEs to attract foreign investors and qualified labour and demonstrate how their business model meets sustainable expectations.	There is no evidence of integrated reporting adoption by SME in Romania, but some SMEs disclose corporate social responsibility information. The authors find that SMEs in Romania primarily disclose some corporate social responsibility report, but those reports are not following any international guideline or framework.

ENDNOTES, REFERENCES & APPENDICES

Authors (Year)	Country of study	Focus	Benefits	Barriers and costs
Robertson, Jones and Rasha (2021)	UK	IR adoption by SMEs in the UK	There is no evidence of integrated reporting adoption by SME in the UK, with small companies and micro-entities being exempted from needing to produce a strategic report.	To encourage such adoption, the authors suggest that there should be a simplified and operative guidance produced for SMEs to adopt integrated reporting. There is also a need to clearly articulate the benefits of integrated reporting for SME and provide training for SMEs. Academics should work together with organizations to better understand and apply key integrated reporting concepts to SMEs.
Basak (2022)	Bangladesh	IR adoption by listed SMEs in Bangladesh	Examines reporting of 11 SMEs listed on a small capital platform for companies seeking to be listed on stock exchanges in Bangladesh. The author finds no evidence of reporting in accordance with integrated reporting principles.	The author asserts that Bangladesh is slow to embrace integrated reporting due to limited resources, culture and leadership, stakeholder demand, regulatory requirements, and lack of awareness about integrated reporting



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Contact us

Inquiries about this White Paper
and the DIRC can be directed to:

Professor Peter Carey

Director

*Deakin Integrated Reporting Centre
Deakin Business School, Deakin
University*

Email: p.carey@deakin.edu.au

Telephone: +61 3 9244 6267

—
Deakin University
221 Burwood Highway
Burwood VIC 3125
Australia

deakin.edu.au



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