

# Integrated Thinking and Reporting for SMEs: The Why and How

Why should SMEs consider integrated thinking and integrated reporting? How can SMEs start their integrated reporting journey?

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The [world's largest companies](#) are often regarded as leading the way for small- and medium-sized entities (SMEs). But that's not how it is or at least not how it has to be. The evidence, from government statistics through to academic research, demonstrates that SMEs not only have the greatest impact on economy and society but they are also the primary drivers of innovation and change. And, where SMEs lead in product and service innovation they can also lead in the innovation for integrated reporting.

There's a fast growing [body of compelling evidence](#) on the substantial benefits organizations gain from integrated reporting. But what about the benefits for SMEs? Perhaps most strikingly, the B20 (the G20's business arm) [recommended](#) promoting integrated reporting as a key means of improving SME reporting with a view to building trust around past and future performance. And some [commentators](#) and

[researchers](#) have written on integrated reporting's relevance and value to SMEs.

There is a clear, concise and persuasive case why SMEs and their stakeholders, from owner managers through to end consumers, stand to benefit greatly from considering integrated thinking and integrated reporting. This article summarizes this case and goes on to provide a starter kit on how SMEs can best go about doing it with suggested initial steps and directions to helpful resources including illustrative examples.

## Small- and Medium-Sized Entities

SMEs globally account for the majority of private sector economic activity, employment, social impact, and environmental footprint. In their midst are tomorrow's largest, most influential, and impactful companies. Amazon, Alibaba, Uber, and Didi Chuxing were yesterday's SMEs. But unlike many larger

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companies, SMEs often have the latitude to take a long-term view and pursue objectives above and beyond simply profit. Many SMEs are run by owner managers who see business as integral to and a reflection of their lifestyle and values. This lends itself to a way of thinking, and corresponding reporting, that stresses the long term over the short term, the future over the past, and principles over profit.

### Integrated Reporting

Integrated reporting is a [generally-recognized international framework](#) that helps SMEs better understand and better communicate how they create value ([see this short video for additional details](#)). It provides a roadmap for SMEs to consider the multiple capitals and connectivity that make up its value creation story. This makes an integrated report much more than a conventional annual report—it's a more complete corporate report. But it need not demand much, if any, more effort to compile. And perhaps more importantly, it will help SMEs understand the core drivers of their business so they can implement a business model that will help them grow.

SMEs, like larger entities, leverage a range of resources and relationships to create value. The International Integrated Reporting Framework calls these “capitals”. There are six capitals, including the familiar, financial, and the less familiar, manufactured, intellectual, human, social and relationship, and natural capital. Properly nurtured, these capitals can release value over time while simultaneously growing

their capacity as a store of value. How these capitals can operate in an SME are detailed in IFAC's [Creating Value for SMEs through Integrated Thinking: The Benefits of Integrated Reporting](#).

The guiding principle of connectivity is critical to understanding and communicating the way SMEs create value. It's about the interplay between three aspects of value creation: the capitals, external environment, and significant internal factors. It prompts consideration of the effects of connectivity. For example, between the SME's strategy and business model and the specific risks and opportunities it's facing. Or between the nature and rate of change in technology and how this affects the capacity of the SME to continue creating value in future.

### Integrated Reporting Benefits

The International Integrated Reporting Council (IIRC) summarizes compelling research findings in [“How Valuable is Integrated Reporting? Insights from Best Practice Companies”](#) and [“Realizing the Benefits”](#). But let's focus on what matters most to SMEs, which include improved risk management and decision making, strengthened internal dialogue and improved stakeholder communication.

#### *Better Understanding, Better Management*

An integrated reporting approach helps SMEs build a better understanding of the factors that determine its ability to create value over time. Using what's called “integrated thinking,” SMEs can make better decisions that result in better outcomes. Integrated thinking is a

connected view of the SME, including its use of and effect on all the capitals central to its business model and future strategies, that enhances strategy planning, execution, and evaluation.

Integrated thinking helps SMEs gain a deeper understanding of the mechanics of their business. This will help them assess the strengths of their business model, spot any deficiencies, and address them quickly. These insights facilitate a forward-looking stance and sound strategic decision making. This may sound familiar to SMEs already using elements of an integrated reporting approach in substance if not in form or name.

#### *Better Reporting, Better Communication*

We live in an age in which information can quickly and easily be collated, summarized, and communicated, and one in which society and stakeholders demand to know more of businesses, big or small. Businesses have a story to tell their stakeholders—from current and prospective equity investors, banks, and other providers of financial capital through to employees, customers, creditors, and other stakeholders—as to their purpose, prospects, profit, principles and planetary impact.

Furthermore, SMEs are increasingly in the business of providing services. Compared with their “mom and pop store” predecessors, these SMEs have few, if any, tangible assets you can see, touch, and hear. Instead, they might rent office space, equipment, and fast internet and pay salaries or consultancy fees to knowledgeable staff. As such, under conventional

accounting rules, such as the [IFRS for SMEs](#), their balance sheets, essentially a snapshot of financial capital, will fail to provide a complete picture as to its ability to create value. The other capitals, which manifest themselves as employee expertise, customer loyalty, and intellectual property, are missing. While past financials can be important where they exist, they are only one aspect of an SME’s value creation story. The upshot is that many SME stakeholders are left with insufficient information to make an informed decision. This is where integrated reporting comes in.

The external communications resulting from integrated reporting, most notably an integrated report, invariably include key financials. But that information is kept in context alongside, and connected to, significant “non-financial” measures and narrative information. By providing the full picture—not just “the numbers” but a succinct story as to how the SME creates and will continue to create value—integrated reporting helps fulfill the communication needs of financial capital and other stakeholders. In so doing, an integrated report can optimize reporting.

#### **Starting Out**

For good reason, SMEs often complain that they are too busy to even consider taking on integrated reporting. But insufficient thought today about tomorrow’s strategy means SMEs may end up simply here today, gone tomorrow. Integrated reporting can help ensure SMEs grow and prosper in a way that can have a positive impact in all senses of the word:

economically, socially, and environmentally. And the integrated reporting journey, with the right road map, need not be a difficult one.

While integrated reporting may differ in an SME context as compared with a large listed entity, especially as to sophistication and extent, the goal of thinking in an integrated manner will be advantageous if not already embedded. The principle of connectivity should inherently be easier for SMEs. SMEs can use the concepts embodied within integrated reporting as a business improvement tool. It does not mean more reporting, rather better reporting: concise, relevant, and accessible. It does not mean more mandatory reporting but rather voluntary reporting that is responsive to the information needs of users. It does not mean yet another report, rather a basis for the rationalization and harmonization of existing reports and communications.

Ultimately, integrated reporting may be better suited to larger SMEs, which have a number of external stakeholders seeking a better understanding of the business and its value story through better communication. In this way, SMEs can lead integrated thinking and reporting's development rather than having to adopt as a result of supply-chain pressure. Let's start by burying a few misconceptions.

### **Removing Barriers to Integrated Reporting**

Integrated reporting is *not* about more reporting or endless detail. While it's important for an integrated report to include sufficient context for a reader to understand your SME's strategy, governance,

performance and prospects, it should not be burdened with less relevant information. Where appropriate, an integrated report can link to information elsewhere, like more detailed information (e.g., full statutory financials), relatively static information (e.g., a list of production sites), or external sources (e.g., economic forecasts on a government website).

Integrated reporting is *not* "just adding another report." The flexibility of integrated reporting means it can be used as a springboard to rationalize and harmonize other reports and communications. Depending on jurisdiction, in time an integrated report may replace some obligatory, but otherwise redundant, reporting requirements. For example, it may enable rationalization of reporting through merging financial, sustainability, and governance reports, and with savings in report production and distribution costs. It may also become part of the supply chain reporting suite demanded of SMEs by larger customers.

An evolutionary step-by-step approach might be the best approach to integrated reporting implementation, [according to Stratton Craig](#). SMEs can transition from conventional annual reporting to integrated reporting over a few reporting cycles. This will enable SMEs to leverage and incrementally adapt existing reporting structures and processes and put new systems in place to engage with staff, stakeholders, and potential investors gradually.

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### Specific Applications of Integrated Reporting to SMEs

The table below looks at three specific applications of integrated reporting to SMEs.

| Application 1: SME Seeks Buyer  |
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| <p><i>A prospective buyer will be paying for future profitability and cash generation. As such, they are interested in knowing the value creation story: about the capital base available for trading and growth (financial capital); the tangible assets available for production (manufactured capital); the processes and intellectual property that can be used (intellectual capital); the expertise and know-how of employees and management that can be leveraged (human capital); the key connections it has with its customers and suppliers (social and relationship capital); and the proximity and access to resources like water, power, and infrastructure (natural capital). A buyer needs to understand the business beyond what can be gleaned from historic financials.</i></p> |

| Application 2: SME Seeks Finance  |
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| <p><i>SMEs may seek funds to acquire a competitor, adopt new technologies, spend on research and development, replace outdated equipment, expand into new markets, etc. It may seek these funds via equity or debt, family, friends, venture capitalists, crowdfunding, banks, the markets, or other sources. Whatever the reason, type and source, the SME will need to convince finance providers of its ability to create sufficient value to pay dividends or interest and repay capital. They'll also want to see evidence of how the business identifies and manages key risks. These financiers, like prospective buyers, need to understand the business beyond what can be understood from historic financials. For service providers with little in the way of tangible assets and for start-ups with little or no financial history, integrated reporting is potentially even more persuasive as it stresses capitals other than financial. According to the <a href="#">B20's Task Force on SMEs and Entrepreneurship</a>, integrated reporting is expected to facilitate the ability of SMEs to raise finance.</i></p> |

| Application 3: SME Seeks Contract   |
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| <p><i>Increasingly, government agencies and not-for-profit organizations seek commercial partners that can supply the goods and services needed and do so in a manner that's both reliable, ensuring continuity of supply in the long-term, and responsible, ensuring reputational risk is mitigated. Tendering processes often seek to understand the characteristics of the businesses that tender that may extend beyond its ability to reliably and cost effectively deliver to include its ethical stance, corporate social responsibility, and community ties. Integrated reporting can provide this.</i></p> |

### Initial Steps

Embracing integrated thinking is the overarching theme: integrated reporting is dependent on, and helps achieve, integrated thinking. Connectivity is critical for the benefits of integrated reporting to be realized.

Let's now examine the initial steps SMEs can take as part of their integrated reporting journey.

**Step 1: Issue a statement of intent.** Advise stakeholders of your intentions: briefly explain the aims, ambitions, and rationale and consider reaffirming a commitment to good governance, transparency, long-term strategic thinking, and sustainability. It should also outline the implementation journey, including timeframe and key milestones.

**Step 2: Conduct a stakeholder mapping exercise.** Identify principal stakeholders, such as primary customers, staff, local community, and bank. SMEs need to understand who its stakeholders are and their expectations of the business today and tomorrow.

**Step 3: Think about value creation.** In what ways does the business create value? Does it manufacture goods or provide services? Does it invest in the local community? How does it look after its employees?

**Step 4: Consider the business model.** Are your stakeholders highlighting any risks or opportunities to be managed or leveraged? How well does your business model and strategy support value creation? Does your business model reflect your stakeholders' expectations? Do you need to adjust your business model and strategy?

**Step 5: Determine what resources are needed.** Now is the time to consider required resources to implement any changes to your business model and strategy. These include attracting and retaining new staff, enhancing product design and innovation, etc.

**Step 6: Improve cross-organization communication.** Are the right people talking to each other internally? Is enough being done to break down silos and encourage cross-organizational communication and engagement with business strategy?

Many businesses, especially SMEs, will reap most of the benefits of integrated reporting from the integrated thinking it demands. For some, if not most, SMEs the final report, if there is one, will be the icing on the cake. The final report will need to pass a litmus test for clarity and conciseness to ensure its benefits far exceed its costs. [Yen-pei Chen outlines](#) some key approaches to passing this test. These include focusing on material items both in terms of length and topics and using various presentation techniques to enhance

navigability and readability, such as cross referencing and links to additional materials online. For the report to yield the greatest benefit, it will need to reflect the [challenges and opportunities unique](#) to the SME.

### SME Starter-Kit

[Introducing Integrated Reporting](#) – a short video

[Creating Value for SMEs through Integrated Thinking: The Benefits of Integrated Reporting](#)

[Integrated Reporting: Focus on Integrated Thinking](#)— a handbook on the change journey step-by-step

[Preparing an Integrated Report: A Starter's Guide](#)

[Integrated Reporting for SMEs. Helping Businesses Grow: Case Studies](#)

[Integrated Reporting Examples Database](#), including [Getting Started](#) section

### ABOUT EFAA

The European Federation of Accountants and Auditors for SMEs (“EFAA”) represents accountants and auditors providing professional services primarily to small and medium-sized entities (“SMEs”) both within the European Union and Europe as a whole. Constituents are mainly small practitioners (“SMPs”), including a significant number of sole practitioners. EFAA’s members, therefore, are SMEs themselves, and provide a range of professional services (e.g. audit, accounting, bookkeeping, tax and business advice) to SMEs.

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