

# Integrated Reporting for SMEs: Implementation Guidance

---

in collaboration with the World Intellectual/Assets Initiative – WICI Global Network

Preface by Richard Howitt, CEO, International Integrated Reporting Council (IIRC)

Presentation by Stefano Zambon, Chair, WICI, and Secretary General, NIBR



December 2018

**NIBR**  
*Network Italiano  
Business Reporting*



# Preface

---

Small and medium-sized companies represent the beating heart of the global economy. When I think of an SME, I think of their entrepreneurship, their talent, their innovation - and their potential. A thriving economy must nurture SMEs and encourage their innate ability to create value. We must also strive to remove barriers so that they can achieve their potential. SMEs are the most trusted type of business, often family-owned and they are close to the communities they serve. SMEs are an integral part of the global value chain and can become trusted partners of larger companies or academic institutions where they offer a route to the commercialization of intellectual capital.

For SMEs, high quality relationships with customers, suppliers, employees and the local community underpin their value.

So it is no surprise to see such powerful and practical SME case studies in this guidance. Novamont: using integrated reporting to demonstrate its commitment to sustainable development. Showa Denki: illustrating its value creation process in a concise 20-page integrated report, highlighting the cultural openness of the business. Dellas: setting out its corporate reporting evolution roadmap over three or four years.

Because we know integrated reporting demonstrates a commitment from the company's management, but it is also an investment in the future. It is an investment in the quality of engagement with stakeholders, and a strong signal that purpose, governance, business model and strategy matter - whatever the size of the company. And providers of financial capital need the security of knowing that risks and opportunities are being identified and managed, wherever they exist in the business. Integrated reporting is emerging as the global transparency

tool for connecting resource management to the business model and strategy, helping businesses of all sizes to explain how they create value and how they are preparing for the future.

The evidence shows that companies that break down internal silos, instill a culture of integrated thinking and make linkages between different drivers of value creation are better prepared for the future; they are more resilient in the face of short-term challenges and more flexible because they are managing risks in real time. It transpires that non-financial reporting is no longer peripheral, but instead is a valuable predictor of long-term financial performance.

I would like to thank the Network Italiano for Business Reporting (NIBR) for their strong commitment to working with companies, guiding them to adopting integrated reporting by providing practical support, knowledge and best practice. We are also indebted to Stefano Zambon personally, as Secretary General of NIBR and Chair of the World Intellectual Capital Initiative (WICI) Global Network. Stefano's energy to bring about change, not just to corporate reporting, but by creating the conditions for more sustainable business models is evident throughout this guidance. I commend it without hesitation to SMEs. They have everything to gain from adopting integrated reporting and this guidance shows that its benefits can be released quickly and it can be adopted with ease.

**Richard Howitt**  
*Chief Executive Officer*  
*International Integrated Reporting Council*



# Presentation

---

It is not without a touch of pride that I am presenting to international readers and stakeholders this NIBR-WICI Global Network Implementation Guidance to the Integrated Reporting of SMEs realized in collaboration with the International Integrated Reporting Council (IIRC).

Indeed, for many countries, SMEs represent the backbone of the economic system. In 2017, only Europe counted around twenty-three million SMEs, around 99% of the overall companies, with a level of employment in the private sector that represented two thirds of jobs and more than 50% of the value added generated in the EU. Compared to them, the share of large companies was and still is marginal.

In addition to this large presence, SMEs have inherent characteristics that can allow them to move more easily towards the implementation of integrated reporting. Owing to their very nature, they are rooted in the territory of origin, sharing values and culture with the local communities and stakeholders. They also tend to pay attention to details, thanks to their smaller size, which generally grants a less complex and more agile structure. The frequent presence of the entrepreneur and his/her family in company operations and governance roles may assure a relatively “natural” application of an integrated thinking in the running of the organization. Relational and organizational intangibles as well as human qualities and skills are basic resources for the vitality and long-term survival of SMEs.

In terms of benefits that SMEs can reach in implementing integrated reporting, this may represent not only an advanced accountability device, but also a management tool that gives entrepreneurs and managers a more complete view of the company. Thus, it can help demonstrate where and to what extent the company creates value. SMEs interact with various public and private entities, and the adoption of an integrated report can become

the main instrument that shows how important these are and how the company communicates with them, possibly achieving a better image and reputation. Banks and more generally all financial institutions are the most traditional stakeholders for SMEs: integrated reporting meets their information needs on the past, but also on the future of the company in a strategic perspective. The holistic view of the organization rendered by an integrated report facilitates the comprehensive recognition and appreciation of company issues, while driving and reinforcing integrated thinking.

In view of the above reasons, with this Implementation Guidance the Italian Network for Business Reporting (NIBR) has aimed to read the International <IR> Framework from a specific angle designed to ‘translate’ its principles and contents into a language understandable by small businesses. To put it differently, it has reinterpreted the Framework ‘through the eyes’ of SMEs. In this respect, not only the <IR> Fundamental Concepts, Guiding Principles and Content Elements have been here illustrated and explained using this particular viewpoint, but also a roadmap for their adoption by an SME has been illustrated by recurring also to five case studies out of those Italian SMEs that are currently going through their ‘integrated reporting journey’.

I would like to warmly thank the IIRC in the persons of Richard Howitt, Lisa French and Laura Girella, the Japanese Cabinet Office, and Paul Thompson of the EFAA (European Federation of Accountants and Auditors for SMEs) for the precious support and collaboration, as well as the members of our Working Group at NIBR for the hard, long and patient work.

**Prof. Stefano Zambon (PhD, London)**  
*Secretary General, Italian Network for  
Business Reporting (NIBR),  
WICI Chair, and University of Ferrara*

# About the Italian Network for Business Reporting

## NIBR

---

The Italian Business Reporting Network (NIBR) - [www.nibr.it](http://www.nibr.it) - started its activity in December 2010 and was then formalized in February 2012. It represents in Italy the Global Network "World Intellectual Capital Initiative" (WICI - [www.wici-global.com](http://www.wici-global.com)), an international global network that works to improve corporate reporting on the subject of intangibles and the representation of resources and processes of value creation.

The original institutional members of the NIBR were the Italian Association of Financial Analysts (AIAF), the National Association of CFOs (ANDAF), the Italian Stock Exchange, the Professional Network "International Consortium on Intellectual Capital" (IC2), the Italian Association of Auditors (ASSIREVI) and the University of Ferrara.

Currently NIBR is going through a phase of institutional transformation in order to become an open foundation with the new name of "Organismo Italiano Business Reporting" (OIBR).

The main purposes of the NIBR - which will be taken up and pursued also by the OIBR - are:

- a. to contribute to improving the content, effectiveness and transparency of business and integrated reporting in Italy and abroad, through the development of new guidelines and best practices documents;
- b. to participate in the definition, dissemination and updating of the WICI-KPIs (Key Performance

Indicators), centred on company key-value drivers, and in particular on intangible resources, to better represent and measure the value creation story of an organization;

c. to spread knowledge among Italian private and public organizations of the best principles and contents of business reporting and integrated reporting;

d. to collaborate with regulators and national and international institutions on the rules and guidelines issued by them concerning business reporting, KPIs and integrated reporting.

In line with its mission, in 2012 NIBR started to have an interest also in integrated reporting, understood as the most sophisticated and advanced form of business reporting, and which is of particular interest to NIBR due to the presence in this document of several financial and non-financial indicators, the measurement and disclosure of intangible assets and key-value drivers and the representation and measurement of corporate value creation processes.

On the 6 July 2015 a formal multi-year agreement for collaboration and recognition was signed between the NIBR and the IIRC, (International Integrated Reporting Council). This is obviously an important step forward for both the NIBR and the evolution of integrated reporting in Italy. It is also worth pointing out that the NIBR is the only Italian organization that has this recognition.

## NIBR Activity

### The strands of activity

The operation of the NIBR is divided into two main strands, although closely related to each other:

A. International level: at this level NIBR

contributes to the definition and updating of both the WICI Framework for the reporting of intangibles, and the sectorial WICI-KPIs (industries). It also participates in the actions of the Global WICI and of WICI Europe aimed at improving existing collaborations with international entities. NIBR prepares and

participates in comments and responses to international corporate reporting documents, such as those issued by the European Commission, EFRAG, IIRC and ESMA.

B. National level: in this area of activity NIBR intends to offer its own contribution to the experimentation of KPIs, as well as to the definition of an Italian vision of business reporting, in particular through the involvement of Italian companies, as well as dissemination - through seminars and initiatives - of a more transparent and advanced culture towards internal and external communication of company information. In this context, specific activities pursued at national level are as follows:

- 1) With a view to increasing the involvement of the various players in the Italian context, NIBR organizes, on a regular basis, meetings open to all interested parties, in order to outline and discuss recent national and international developments in the field of business reporting and to present the progresses of the NIBR Working Groups;
- 2) At least once a year NIBR organizes or co-organizes public meetings and seminars, such as workshops, seminars and conferences of national and international relevance, on targeted and topical issues related to business reporting. Since 2013, NIBR has organized three National Conferences on a biennial basis on the topics of business reporting, KPIs and value creation.

## Working Groups

Amongst the activities of NIBR an important role is assigned to the Working Groups (WG) focused on broad and converging interests, with specific reference to the Italian reality, in order not only to deepen relevant themes on business/integrated reporting, but also to produce specific documents, of practical application, to be brought to the attention of operators, companies, professionals, institutions, investors, regulators, academics and research centres.

The Working Groups that have been activated over time are the following:

- WICI-KPIs aimed at representing value creation for each of the following industrial sectors: Fashion & Luxury, Oil & Gas, Electricity, Telecommunication (<http://www.wici-global.com/kpis#project>);
- Integrated Reporting: Focus on Integrated Thinking (<http://integratedreporting.org/resource/nibr-focus-on-integrated-thinking/>);
- Guidelines for the Representation of the Business Model in Integrated Reporting (<http://integratedreporting.org/resource/nibr-business-model-representation-in-integrated-reporting-best-practices-and-guidelines/>);
- Guidance for Integrated Reporting of SMEs;
- Guidelines for Reporting of Benefit Companies (B-Corp).





# Integrated Reporting for SMEs: Implementation Guidance

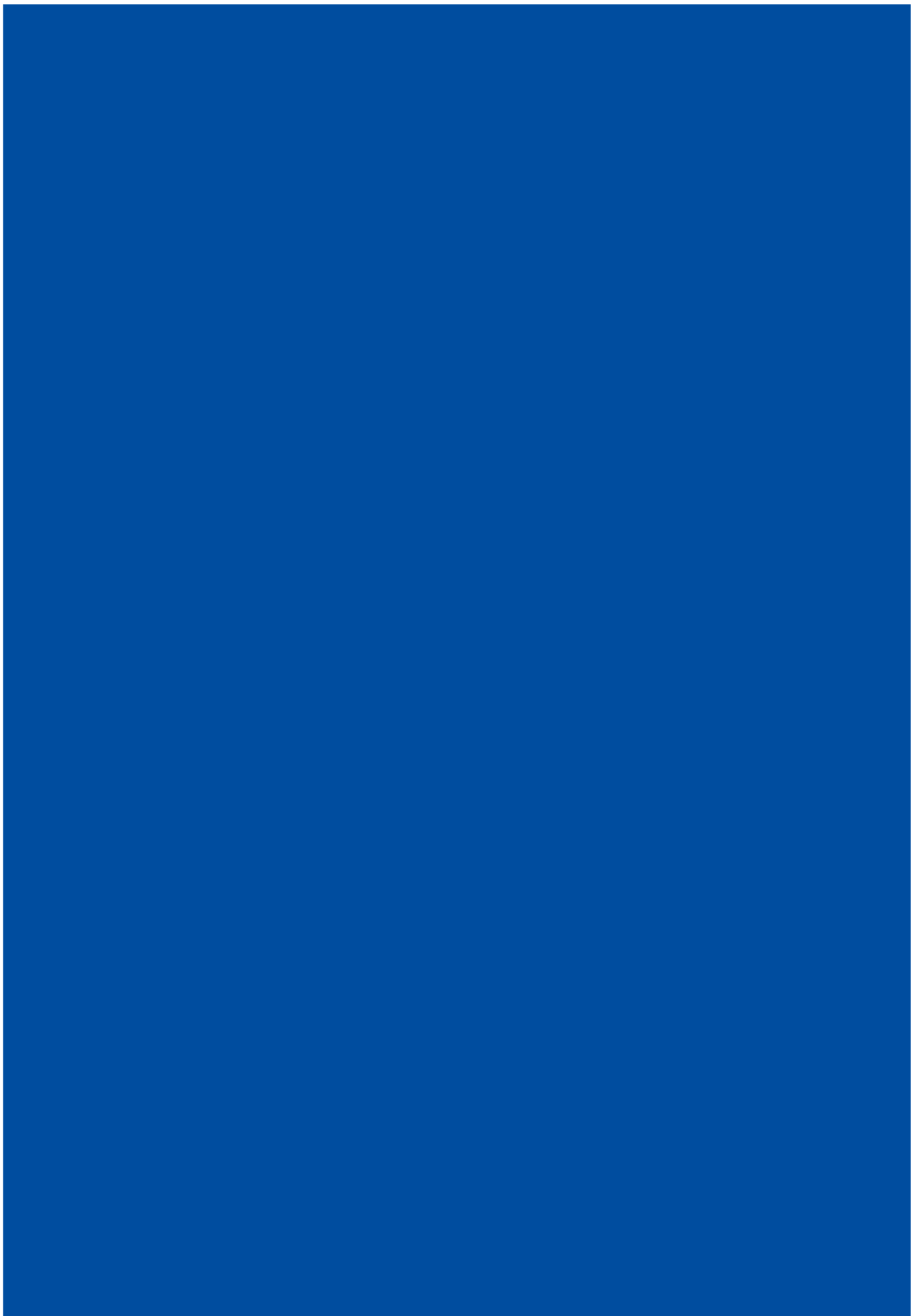
---

This document is the result of work started in 2016 by the NIBR Working Group on integrated reporting for SMEs, which has witnessed the collaboration of Italian academics, consultants and small and medium-sized enterprises that have undertaken the “integrated reporting journey”.

The Group is composed of the following members:

Andrea Panizza	<i>AP &amp; Partners (Coordinator)</i>
Mara Del Baldo	<i>University of Urbino (Co-Coordinator)</i>
Vittorio Santacroce	<i>IC<sup>2</sup> (Co-Coordinator)</i>
Simona Bondanza	<i>Costa Edutainment</i>
Isabella Cristina	<i>Mixura</i>
Susanna Galli	<i>Novamont</i>
Pietro Gasparri	<i>Banca Akros</i>
Laura Girella	<i>International Integrated Reporting Council &amp; University of Genoa</i>
Marco Pasquotti	<i>Dellas</i>
Giuseppe Marzo	<i>University of Ferrara</i>

We would also like to take this opportunity to thank all the companies and people who were so kind to share their experiences and models with us during the research phase for this Guidance. A special thank to Paul Thompson (EFAA) for his precious suggestions.



# Table of Contents

---

The Purpose of this Guidance	10
Introduction	12
<i>Business Report(ing), Integrated Report(ing) and Financial Report: Terminological and conceptual clarifications</i>	
<b>1.</b> Getting Started with integrated reporting and thinking: some preliminary information	14
<b>2.</b> Integrated reporting for SMEs	18
<b>3.</b> The Implementation of an Integrated Report in SMEs: Four Case Studies	38
Appendices to the integrated reporting guidance for SMEs	51
<i>Appendix 1</i>	
<b>A.1</b> Proposed Key Performance Indicators (KPIs) for SMEs	52
A1.1 Methodology	52
A1.2 Comparability and specificity of KPIs	53
A1.3 Key Performance Indicators for SMEs	55
A1.4 Key Risks Indicators for SMEs	56
<i>Appendix 2</i>	
<b>A.2</b> A synthetic approach to the implementation of Integrated Reporting for SMEs suggested by the Japanese Government	62

# The Purpose of this Guidance

---

Although the International <IR> Framework was initially adopted by large listed companies, interest in this new form of reporting has also grown amongst the non-listed ones. Being a principles-based document and including the concept of 'providers of financial capital' to also cover private companies/SMEs and take into account other types of entities, it should be pointed out that the International <IR> Framework released by the IIRC in December 2013 (<http://integratedreporting.org/resource/international-ir-framework/>) can be applied to the requirements and constraints of SMEs that, like their larger counterparts, can adopt integrated reporting and thinking. Both the methodology and the basic concepts are in fact universal, even though some of these can be partially applicable to SMEs, due to the type of company, the non-availability of data or the limited number of resources and company's information. Accordingly, the purpose of this Guidance is to give the International <IR> Framework a specific connotation addressed to small sized entities.

Integrated reporting is not only an advanced instrument of reporting but also a management tool that provides entrepreneurs and managers a complete and comprehensive view. So, it can render visible where and to what extent a company creates value. SMEs interact with, and relate to, different public and private organizations, and the adoption of integrated reporting can be the main tool that shows how these interactions are important. Banks, and more generally all financial institutions, are the more traditional stakeholders for SMEs; integrated reporting satisfies their need to have information about the past but also about the future in a strategic way.

As for the preparation of the report, the establishment of a small working group in an SME should not be a problem because the available resources can be few and they can be employed part-time. Their time should not be

seen as a cost but rather an investment that produces returns on organizational efficiency, regarding optimization of the resources and capitals, development of strategies, sharing of objectives, and measurement of performance. At least initially, the methodology used for the preparation of the document may represent a critical aspect that is solved in part with this Guidance and in part with the support of specialists, the academic and professional literature and the best practices available on the web visiting the Integrated Reporting Examples Database (<http://examples.integratedreporting.org>).

In consideration of the principles-based nature of the International <IR> Framework, this Guidance is not intended to define a quality benchmark but a methodological orientation tool that can support small and medium-sized enterprises in their implementation of integrated reporting. Therefore, the structure of the Guidance is the following. First, a clarification of the conceptual differences that exist between the notions of Business Report(ing), integrated report(ing) and Financial Report(ing) will be illustrated. Then, some fundamental information in order to understand integrated reporting and integrated thinking will be presented. How integrated reporting can be implemented by SMEs will represent the core section of the Guidance. In particular, after defining what is an SME and some other operational aspects, the fundamental concepts, guiding principles and content elements of the International <IR> Framework will be recalled and analysed through the lenses of SMEs. A final section on the journey experienced by four Italian SMEs will conclude the Guidance. In Appendix 1 a list of proposed KPIs and KRIs that could be adopted by SMEs is also present. In Appendix 2 two diagrams developed by the Cabinet Office of Japanese Government that represent a possible approach to integrated reporting of SMEs is illustrated.

## How to use this Guidance:

It is assumed that entrepreneurs and managers of SMEs have read the International <IR> Framework that can be downloaded free of charge from the IIRC website <http://integratedreporting.org/resource/international-ir-framework/>.

This Guidance can therefore be used by both those SMEs that have already started to implement integrated reporting and thinking and those that are intended to do so. It can

also be beneficial to other organizations and professionals that surround the activities of SMEs. In fact it can be adopted to:

- develop a deeper understanding of integrated reporting and thinking;
- develop a staff-manual to be used for day-to-day reference, and as a basis for internal training courses and individual study and discussion; and
- help ensure that the staff adopts a consistent approach to integrated reporting and thinking.

## Focus on:

### **The Task Force of the B20/G20 “ME & Entrepreneurship” and the European Directive 2014/95/EU**

In recent years, political, institutions and academics have recognised the importance and the validity of the integrated reporting approach and the importance of its adoption also by SMEs.

The Taskforce of the B20/G20 “ME & Entrepreneurship Taskforce” aims to address this challenge. Therefore, under its premises the *World SME Forum (WSF)* has been created to make concrete recommendations and to support SMEs in overcoming the challenges that integrated reporting can pose.

In particular, the Task Force emphasized that the integrated reporting is an essential practice that has to be implemented in SMEs, because it provides complete information on the performance and it reduces the loan risks. The Task Force also solicited the World SME Forum to develop tools and solutions (also online) that allows access to all information needed for the adoption of integrated reporting.

In this context, CIMA (Chartered Institute of Management Accountants) published in August 2015 a document (*“Integrated reporting for SMEs - Helping Business Grow - Case Studies”*) which aims to provide practical examples of the experience of SMEs that are using the integrated reporting, in August 2017 IFAC (International Federation of Accountants) released a document (*“Creating Value for SMEs through Integrated Thinking: The Benefits of Integrated Reporting”*) highlighting the benefits of integrated reporting and thinking for SMEs and the role that professional accountants can have in it and in December 2017 EFAA (European Federation of Accountants and Auditors for SMEs) released a Summary Guidance (*“Integrated Thinking and Reporting for SMEs: The Why and How”*) aimed to practically support SMEs in their ‘integrated reporting journey’.

As for the European Directive 2014/95/EU (regarding the communication of non-financial and diversity information), it has to be pointed that despite the fact that the directive applies to companies with more than 500 employees, it is expected that it will be of interest even for the smaller companies, which operate as subcontractors of larger companies.

# Introduction

---

## Business Report(ing), Integrated Report(ing) and Financial Report(ing): Terminological and conceptual clarifications

This introductory section of the Guidance is intended to briefly clarify the terminological and conceptual differences existing amongst the concepts of Business Report, Business Reporting, integrated report, integrated reporting and Financial Report.

The **Business Report**<sup>1</sup> is a document aimed to represent, measure and illustrate the strategic and operational activities of an organization as well as their impacts on the financial, economic, and social performances.

Typically, the information included in a Business Report is related to various aspects, such as corporate strategies, the competitive environment, the ownership and governance structure, the relationship with customers and the community and so on. It also includes issues related to the company culture, the organizational climate and the corporate procedures.

A relevant feature of the Business Report is that it combines the descriptive aspects/narrative explanations with quantitative indicators and metrics.

Most of the data mentioned above do not directly derive from the organization's accounting system. Therefore, they can take the form of Key Performance Indicators (KPIs) which are expressed by non-financial metrics, thus in non-monetary units (e.g., percentages, physical measures, Likert scales).

According to a broad interpretation, the Business Report also encompasses the financial statements, whilst using a more restrictive view that is consistent with this Guidance - it exclusively refers to information that is not strictly related to financial statements and to accounting information required by national and international regulations.

**Business Reporting** is intended as the whole process that an organization puts in place to prepare a Business Report.

An **integrated report** is a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation

<sup>1</sup> Although in some regions, the terms annual report, financial report and business report are often used synonymously, in the context of this document they are conceived as different.

of value over the short, medium and long term (International <IR> Framework, 2013: 7)<sup>2</sup>.

The integrated report relies on integrated thinking which can represent both its main driver and synthesis (see Chapter 1.2, “The concept of integrated thinking”).

The integrated report can, therefore, be seen as a particular form of Business Report characterised by the emphasis on the following aspects:

- a multi-capitals approach, according to which value is created through six capitals, such as financial, manufactured, intellectual, human, social and relationship, and natural capitals (IIRC Framework, 2013: 11, 2C);
- connectivity between information and the capitals to represent how an organization creates value over time;
- a principles-based approach;
- a combination of quantitative and qualitative information;
- a communication that is prepared with the purpose to communicate how an organization creates value primarily to providers of

financial capital and to all stakeholders interested in an organization’s ability to create value over time.

As the characteristics above outline, the integrated report may be seen as a document that integrates and complements the traditional **financial report**. Traditional financial statements provide partial evidence of what can be considered the value of the company. Moreover, they are backward-looking, because they report information about the performance of previous years, and they have a short-term view. Therefore, the integrated report may be either included in the financial report (also within the management commentary<sup>3</sup>), presented as a separate and distinct part of another report or as a standalone document.

**Integrated reporting** is the process founded on integrated thinking that results in a periodic integrated report by an organization about value creation over time and related communications regarding aspects of value creation.

<sup>2</sup> The International <IR> Framework, The International Integrated Reporting Council (IIRC) (2013) London.

<sup>3</sup> Following the international accounting standards, financial statements must/could be accompanied by a management commentary which provides a reliable and comprehensive analysis of an organization’s performance by including both financial and non-financial information and indicators.

# 1.

## Getting Started with integrated reporting and thinking: some preliminary information

---

### The integrated report of an organization

As previously illustrated, the integrated report is the result of an organizational and cultural process. Its aim is to extend traditional financial reporting, i.e., it intends to be a concise communication concerning value creation, encompassing different types of capitals, including the financial one.

The integrated report should allow an organization to represent and to concisely communicate how it operates and how it intends to pursue its goals – creating short, medium and long-term value. In this respect, of particular importance is the performance that can be expressed by both financial and non-financial qualitative and quantitative indicators that are useful internally and externally to understand and monitor the operational efficiency and the competitive effectiveness.

### The concept of integrated thinking

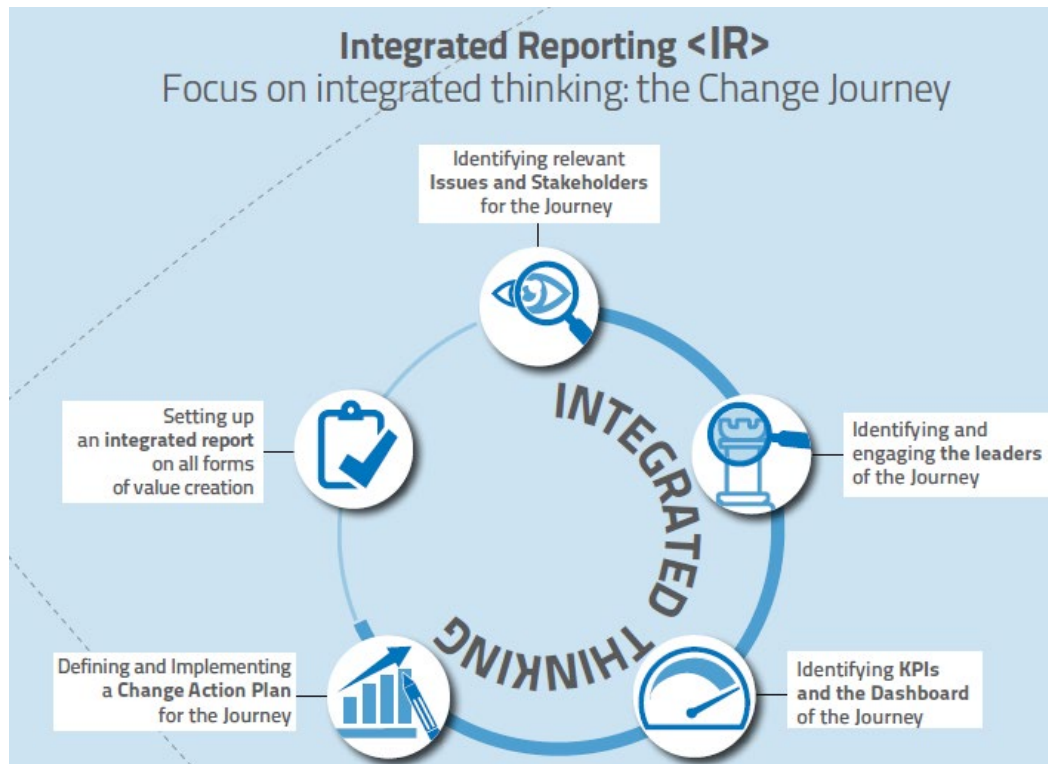
“To think in an integrated way” means that the manager should take into account, in everyday decisions, the impacts of the resources and capitals he/she intends to use. Therefore, the entrepreneur or the manager should embrace this concept and spread it to the decision makers, who manage the allocation of corporate resources. In other words, integrated thinking is the reference model that the manager should follow in managing resources for assessing the consequences and implications that the use of capitals can have on the value creation process. It is a holistic approach to business management and in particular to the control of financial and non-financial capitals.

It can represent both the starting point or the result of the integrated report preparation (see Figure 1).



Fig. 1

Integrated Reporting <IR> Focus on Integrated Thinking: The change journey



Source: *Integrated Reporting <IR>: Focus on Integrated Thinking. A Handbook for the Change Journey*, NIBR (November, 2016).

This concept of integrated thinking is now in use in many large organizations, but, thanks to its validity, it is also spreading to SMEs (IFAC, 2017)<sup>4</sup>. In particular, some SMEs already apply part of the concept of integrated thinking, in particular, those with a strong need to maintain close relations with their stakeholders (customers, suppliers, banks).

#### **Audience and Information Users**

As previously mentioned, the primary information users of an integrated report are

the providers of financial capitals. For them, the most interesting aspects of and information included in this type of report can (but are not exclusive to) be:

- the quality of the report, which reflects the quality of management;
- clear and concise information that can enable a comprehensive evaluation of the organization regarding credit access;
- a clear representation of strategies, risks, and opportunities, which can have a direct impact on capital;

<sup>4</sup> IFAC (2017), *Creating Value for SMEs through Integrated Thinking: The Benefits of Integrated Reporting*.

## 1. Getting Started with integrated reporting and thinking: some preliminary information

- illustration of the organizational business model and of its connection with the strategy, which allows the reader to understand how the company generates cash flows and how it creates value;
- the dependencies between internal and external resources and the strategic partnerships the organization has built;
- how operational and market risks are identified, managed and mitigated;
- the priorities of the actions and continuous monitoring of these to achieve the objectives;
- the procedures and the processes used to make strategic decisions;
- the prospects and the longer-term viability and resilience (tied to the dynamism and flexibility) of the organization; and
- the remuneration policy linked to medium and long-term performance.

Therefore, it can be maintained that for analysts and financial capital providers in general, the integrated report can fulfill primary tasks, such as:

- it enhances the relationship with institutional investors;
- it can improve the understanding of the organization' strategy;
- it documents how the company creates value in the short, medium and long term;
- it expresses evaluation elements for bearers of interest in financial and non-financial information;
- it provides with a more complete and detailed representation of the value of the company;
- it can facilitate less costly and easier access to sources of finance;
- it can improve the evaluation of the company in the medium and long term;
- it gives greater long-term visibility on the validity of the business model adopted; and
- after its publication, the integrated report can generate positive returns from stakeholders and thus, enhance corporate reputation.

In addition to providers of financial capital, stakeholders that can be interested in integrated reporting could include employee customers, suppliers, trade and technology partners, local communities, legislators, regulators and policy makers.

### Benefits from the adoption of an Integrated report

The benefits arising from the use of an integrated report for an organization are both internal and external.

Amongst the internal benefits the following ones can be identified:

- creation of an accountability culture and of management control systems which support the information monitoring and analysis;
- removal of barriers between different business' segments and knowledge sharing within the different areas, functions, and departments of the company;
- development of a more collaborative organisational environment;
- improvement in the relationship/conversation/sharing of information between officers and management;
- detection of the performance more synthetically and intuitively;
- increased awareness of how the company creates value;
- the growth of respect, esteem, and confidence in the company (attractiveness of the talents);
- opportunities for professional growth;
- increased awareness of the quality and the amount of available resources;
- more effective identification of priorities for actions; and
- articulation of the company's management in goals or projects and timely monitoring of the progresses obtained;
- improvement of the company's image, visibility, and reputation.

The following benefits could be of particular interest for the management:

- improved internal decision-making process;
- transmission of strategic vision at all levels;
- development of collaborative thinking between different departments;
- easier identification of priorities for action;
- increase in stakeholder engagement;
- increased awareness of the risks and opportunities that an organization faces, particularly in the medium and long term;
- increase in internal engagement;
- increased visibility of the Board and management; and
- the growth of corporate reputation.

As for external benefits, they could be:

- information on how the company creates value over the short, medium and long-term;
- description of the strategies and their implementation;
- representation of the business model in a complete and transparent way;
- illustration of the distinctive elements of the company, as well as of its competitiveness and its ability to monitor and to manage risks and opportunities;
- explanation of how the capitals are allocated, as well as of how they are used and processed;
- information on how the company is governed and what control systems are implemented;
- information on social and environmental sustainability;
- it shows the relationship between performance and management's remuneration policy;

- it represents an effective window into reporting, thinking about metrics that are material to business performance and prospects and those that may not be but are required by regulators, sector disclosures or through the supply chain;
- it allows management to highlight the contribution of intangible resources to the creation of company's distinctive elements and, therefore, how they contribute to the increase in the competitiveness;
- improvement of the orientation for growth, especially if Initial Public Offering (IPO) is envisaged;
- it shows to potential customers how the company has been working to achieve high international standards of transparency; and
- increase in engagement and trust with society.

## Reporting boundaries

In the preparation of an integrated report, it is necessary to identify its reporting boundaries.

According to the International <IR> Framework, the determination of the reporting boundary has two aspects, namely, the financial reporting entity and the risks, opportunities and outcomes that are attributable or associated with entities and stakeholders other the financial reporting entity and that have a material impact on the ability of the organization to create value in the short, medium and long term (International <IR> Framework, para. 3.30).

# 2.

## Integrated reporting for SMEs

---

### Defining and Classifying SMEs

With the Recommendation 2003/361/EC of the 6th May 2003, the European Commission updated the criteria according to which a company can be defined as an SME. These criteria are based on the number of employees<sup>5</sup> and turnover.

Accordingly:

- a medium enterprise is one in which the number of employees is less than 250; the annual turnover does not exceed 50 million EUR or total assets of the balance sheet does not exceed 43 million EUR;
- a small business is an organization whose number of employees is less than 50, the annual sales or total assets of the annual balance sheet do not exceed 10 million EUR;
- a microenterprise is an organization whose number of employees is less than 10, the annual sales or total assets of the annual balance sheet do not exceed EUR 2 million.

However, the classification mentioned above depends on the national and local economic environments in which integrated reporting is applied.

Also, although the Recommendation defines also the concept of microenterprise, for the purpose of this Guidance, the implementation

of integrated reporting in microenterprises is not taken into consideration.

### Setting up the integrated reporting working group

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. After this decision is made, he/she could create a Working Group that can implement the integrated thinking and reporting culture and diffuse them within the organization.

The first task to set up the integrated reporting working group is to identify who can take the lead of the project inside the organization. Normally, the project can be run by a senior executive from the financial area or by someone who has multidisciplinary roles inside the board of directors. Once the leader is identified, the working group - albeit limited in number - could include an external consultant (optional), and may involve internal employees operating in the finance, risk, communications, strategy, governance, and sustainability areas. Depending on the nature of the activities carried out by the company the group could at least include an administrative representative (who is often in charge of human resources management), a

<sup>5</sup> The Recommendation 2003/361/EC introduced the FTE principle (full time equivalent).

commercial or marketing and communication professional, as well as a representative of technical or operational activities.

It is necessary to keep in mind that the benefits expressed in the previous chapter, in particular, the internal ones, can be obtained only with the maximum involvement of the organizational structure, taking into account the number of available resources.

The tasks of the Working Group's leader can include, but are not limited to:

- ensure the cooperation amongst participants and the access to all sources of information;
- guarantee reliability and quality of the data in a transparent way;
- allocate roles, responsibility, and lead-times to all participants;
- establish the meetings schedule and the reporting date of completion;
- identify the key issues to work on;

- agree on an action plan in which all activities and who are responsible for them is defined;
- determine the role and relationship with both internal and external stakeholders;
- identify the significant aspects that influence the firm's ability to create value by assessing different priorities;
- check if the report preparation follows the guiding principle and content elements provided by the <IR> Framework;
- ensure the conciseness, the balance, and completeness of the narrative; and
- ensure the continuity of the reporting process that should be improved over time.

The tasks of the Working Group can include, but are not limited to:

- define the business model and how it responds to the strategic objectives of the organization, through the use of available capital;
- identify KPIs and KRIs.

# Implementing the International <IR> Framework in SMEs

For the preparation and presentation of an integrated report, the Fundamental Concepts, the Guiding Principles and Content Elements as set out by the International <IR> Framework should be followed. The <IR> Framework determines the content of the report and the mode of presentation of the information. In the paragraphs below the content as presented in the <IR> Framework are reported in boxes, and their meaning and implications are illustrated through the lenses of SMEs.

## Fundamental Concepts

### The Value creation process

The value creation process can be a valuable principle for all public and private organizations, large, medium or small-sized.

The external environment is the context in which the organization operates, and it includes economic conditions, technological changes, social and environmental considerations.

The mission and vision concern the whole organization and they define its purpose and aim. They could be described in clear and concise terms.

The governance's members must manage the company responsibly and create an appropriate supervisory structure able to support the value creation process of the organization.

The focus of the organization is its business model, which relies on the various capitals used as primarily as inputs. These capitals are then processed, increased or consumed through the activities carried out by the company. The activities' results are represented both by the output (concerning products and services, including by-products) and by the enterprise evolution and transformation which modifies its value over time. Outcomes mean internal

and external consequences (both positive and negative) of the company's activities on the capitals.

The integrated report should contain all those material financial and non-financial results of the activities, and in particular, it should represent the relationship between outcomes and capitals used as inputs.

From the previous, it is clear that the organization creates value when the overall stock of capitals is increased, while it destroys its value when the value of the overall stock of capitals decreases.

### The Capitals

According to the <IR> Framework, the success of any organization depends on various types of capital or resources, both internal and external, which are available to the company. In particular, the <IR> Framework refers to six capitals, being financial, organizational, intellectual, human, social and relationship and natural.

In preparing an integrated report, it should be clear that not all the capitals may be present in an organization, but it depends on the company and its activities, that is on its business model.

Regarding definition, the capitals are considered as the basis of value creation, and they are stocks of value that are increased, decreased or transformed through the activities and outputs of the organization (<IR> Framework, 2013: 2.11).

The capitals are categorized and described as follows (<IR> Framework, 2013, § 2.15: 13).

### Financial capital

The pool of funds that is:

- available to an organization for use in the production of goods or the provision of services;
- obtained through financings, such as debt, equity or grants, or generated through operations or investments.

### Manufactured capital

Manufactured physical objects (as distinct from natural tangible objects) that are available to an organization for use in the production of goods or the provision of services, including:

- Buildings;
- Equipment;
- Infrastructure (such as roads, ports, bridges, and waste and water treatment plants).

### Intellectual capital

Organizational, knowledge-based intangibles, including:

- intellectual property, such as patents, copyrights, software, rights, and licenses;
- “organizational capital” such as tacit knowledge, systems, procedures, and protocols.

### Human capital

People’s competencies, capabilities and experience, and their motivations to innovate, including their:

- alignment with and support for an organization’s governance framework, risk management approach, and ethical values;
- ability to understand, develop and implement an organization’s strategy;
- loyalties and motivations for improving processes, goods, and services, including their ability to lead, manage and collaborate.

### Social and relationship capital

The institutions and the relationships within and between communities, groups of stakeholders and other networks, and the ability to share information to enhance individual and collective well-being. Social and relationship capital encompasses:

- shared norms, and common values and behaviours;
- key stakeholder relationships, and the trust and willingness to engage that an organization has developed and strives to build and protect with external stakeholders;
- intangibles associated with the brand and reputation that an organization has developed an organization’s social license to operate.

### Natural capital

All renewable and non-renewable environmental resources and processes that provide goods or services that support the past, current or future prosperity of an organization. It includes:

- air, water, land, minerals, and forests;
- biodiversity and eco-system health.

## 2. Integrated reporting for SMEs

As previously mentioned, in an integrated report it is not necessary to document all categories of capitals described above, while it can be useful to represent the main components, and if possible, to measure them through KPIs.

On the basis of their business model SMEs could use all the capitals, but not all to the same extent or substantially enough to be included in the value creation model, due to the many differences in terms of dimension and organization. For example, the elements of

natural capital (water, land, air etc.) may not be entirely used for production or only marginally, the productive capital or physical (sheds, buildings, plants, etc.) may be divided between the enterprise and third parties, because they are used only in the productive activities.

In any case, any company, regardless of the size, requires a minimum capital endowment and all companies use capitals that cover financial, human, organizational and relationship elements, which are necessary to create value.

# Guiding principles

## Strategic focus and future orientation

**Strategic focus and future orientation:** An integrated report should provide insight into the organization's strategy, and how it relates to the organization's ability to create value in the short, medium and long term and to its use of and effects on the capitals (<IR> Framework, 2013: § 3.3).

The implementation of this principle becomes important in the representation of the company's business model because it describes its alignment with the changes that occur in the market. In addition, the principle allows an organization to illustrate how the availability of and the various types of capitals contribute to the achievement of strategic objectives.

For SMEs it is essential to represent how the strategy can support the value creation process over time and how it will develop in the future, giving a comprehensive overview of the possible ways forward and opportunities that the organization intends to achieve.

The information about the strategic focus and future orientation should not be particularly difficult either for small or for medium-sized companies because they tend to have clear their strategy and how they intend to move and develop it in the future. Nonetheless, it is important to highlight the risks and opportunities arising from the market position and the business model adopted.

In the trend's representation is essential to present past, present and future performances and to relate them to the factors from which they are influenced. The organization's ability to capitalize on experience could be decisive in determining the future strategic direction.



## Connectivity of information

Connectivity of information: An integrated report should show a holistic picture of the combination, interrelatedness and dependencies between the factors that affect the organization's ability to create value over time (<IR> Framework, 2013: § 3.6).

Compared to traditional financial statements, the integrated report contains a particular element: the connectivity between different the types of information.

The connectivity of the information can represent an initial difficulty for those small businesses that have not yet matured the concept of integrated thinking. However, the entrepreneur tends to have a holistic view of the enterprise and the small size of the company can help reducing the 'silos approach'.

As reported in the Framework (para. 3.8), examples of connectivity that also an SME can be inspired to are (but are not limited to):

- Connectivity between objectives and capitals: the relationship between the six capitals available to the company and business goals. This relationship can be presented through a performance connectivity matrix.
- Connectivity between strategy and business model: the relationship between the external environment changes (market, competitors, regulations, and laws) the business model and business strategy.

- Connectivity between capitals and value creation: the relationship between the capitals and the way in which their change of levels or their availability affect the quality and the ability to create value.
- Connectivity between the past, present, and future: as already described, this is an analysis of the past and the present that concerns the company's activities. This analysis can provide useful information to evaluate the strategy, the adaptability to changes of conditions external or internal, and that leads to chart out a plan between the present and the future.

For improving the connectivity of the information, and more generally the quality of the report indications about how to present the connectivity principle and the report, in general, is provided in the <IR> Framework.

The Report should be logically structured and well presented. It should be written in clear language and understandable, as well as it should be free of technical jargon and it should contain navigation tools (such as defined sections and cross-references). The use of information and communication technologies is also suggested (<IR> Framework, para. 3.9).

## 2. Integrated reporting for SMEs

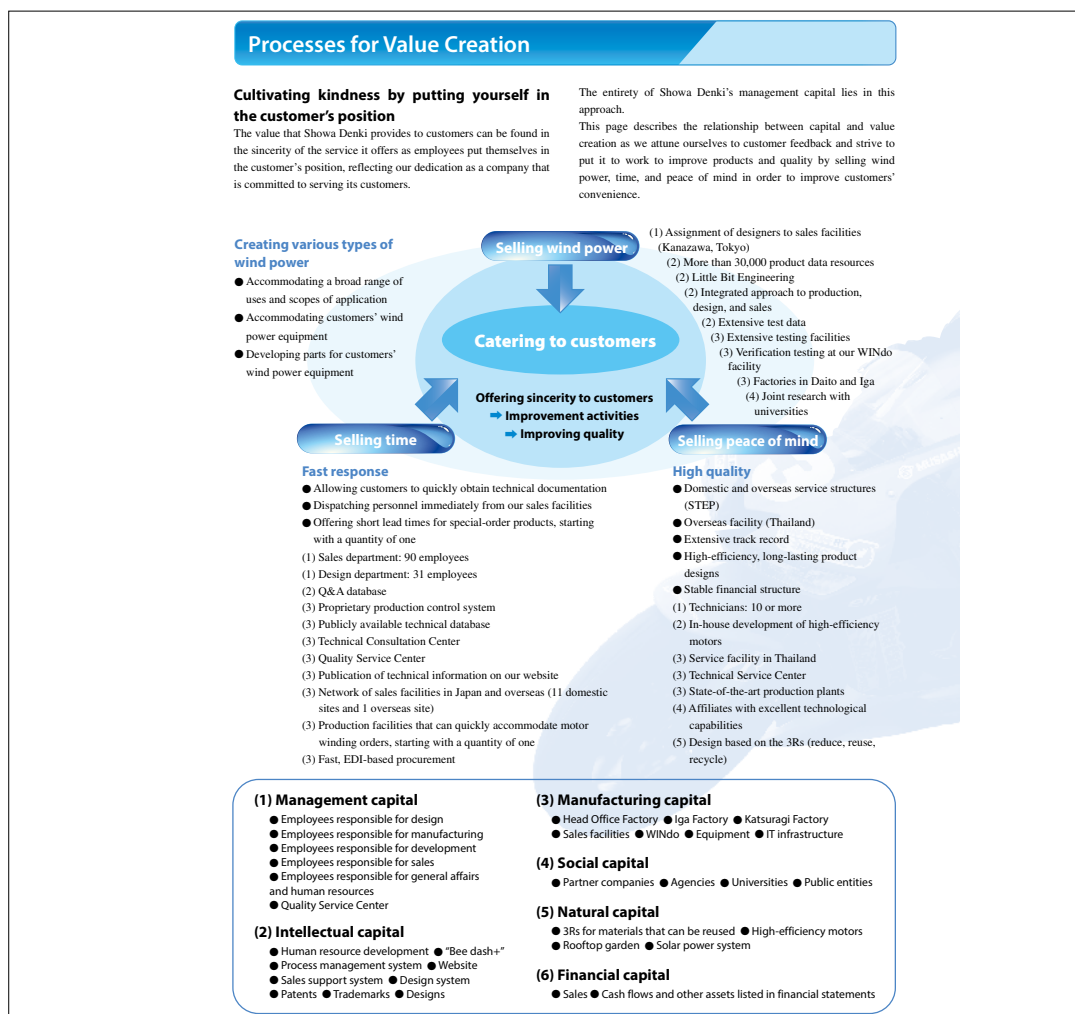
### Focus on:

#### Showa Denki Co. Ltd - Japan

Showa Denki is a privately held and unlisted company founded in 1950 and based in Daito (Osaka, Japan). It manufactures electric blowers, mist collectors, and other industrial equipment (ranging from dust collectors, and other environmental equipment based on technologies for airflow and rotators) sold worldwide. It occupies 183 employees and it has a registered capital of 88.5 million yen. In 2014, it reached gross sales to ¥ 6.07 billion (FY2013). Showa Denki stands out for a strong commitment to excellence (relative to quality, customer relations, environmental protection, innovation, and human resources management) and a great disclosure of information to stakeholders. It adopts a lean integrated report (formed by 20 pages only) based on the following basic principles envisaged by the <IR> Framework: Strategic focus and future orientation; Connected information; Accommodation of stakeholders; Importance and brevity; Reliability and completeness; and Consistency and facilitation of comparisons.

Showa Denki's integrated report provides a good example of a systemic representation of the flow of capitals, the key activities and the company's strengths. The following illustrates the infographic representation, i.e. a graphic narrative that shows how the principle of connectivity (understood in terms of linkage and interdependence within the key activities) is manifested through the value creation process and the business model.

The graph represents the Processes of Value Creation. The value that Showa Denki provides to customers takes the form of customer convenience with products that make a task easier, play a useful role, or increase expedience. The specific mechanisms by which Showa Denki implement this value include: product groups with a high level of safety and optimal design; fast delivery and small-lot, multiple-model production capability; the ability to respond quickly to inquiries; and a willingness to enter into ongoing partnerships with customers. Showa Denki is aware of the importance to be knowledgeable about customers' needs and expectations in order to more effectively pursue the "customer convenience" goal. The graphic narrative puts these mechanisms into practice.



Process for Value Creation (Source: Showa Denki Group Integrated Report, 2017: 3, [http://www.showadenki.co.jp/files/pdf/ShowaDenki\\_IntegratedReport2017\\_en.pdf](http://www.showadenki.co.jp/files/pdf/ShowaDenki_IntegratedReport2017_en.pdf)).

## Stakeholder relationships

Stakeholder relationships: An integrated report should provide insight into the nature and quality of the organization's relations with its key stakeholders, including how and to what extent the organization understands, takes into account and responds to their legitimate needs and interests (<IR> Framework, 2013: § 3.10).

Both small and medium enterprises develop important relationships with customers, suppliers, partners, competitors, banks, investors and many stakeholders with whom they interact in the development of their activities.

For the reader of the report of an SME, it is crucial to understand that the company creates value through the relationships it undertakes with internal and external stakeholders, and in particular by responding to their needs. Consequently, the organization should document how it meets, communicates and interacts with them.

Also, in this case, the role of integrated thinking is fundamental. The more integrated thinking is embedded in the corporate strategy, the higher is the probability that key stakeholders' needs and interests are fully considered during the normal course of business.

The company should also analyse the risks and the opportunities arising from its relationship with stakeholders, and for each type of risk/opportunity (that could be of various nature, such as financial, operational, regulatory, etc.) it should identify, in relation to the category of stakeholders, the likelihood of the event and the actions planned to mitigate/take up the consequences.

Even if SMEs do not have relationships with a wide range of stakeholders, they have the responsibility of reporting how the resources are managed. Indeed, they can achieve important benefits by disclosing and being transparent on where the business currently is in terms of how it measures, manages, and communicates performance.

## Materiality

Materiality: An integrated report should disclose information about matters that substantively affect the organization's ability to create value over the short, medium and long term (<IR> Framework, 2013: § 3.17).

In the report, it is necessary to identify the relevant aspects that may impact on strategy, governance, business model, performance, and prospects.

To create value, the company should identify the most relevant issues about the objectives set out. For doing this, it is necessary to (<IR> Framework, para. 3.18):

- To identify the relevant aspects based on their ability to affect value creation. To identify them the company should consider

their impact on the strategy, governance, and prospects;

- To evaluate the importance of the relevant aspects related to its effects on value creation;
- To attribute to these issues a priority based on its importance. This helps the firm to focus on what matters most; and
- To determine the information to be provided about the material aspects from both perspectives: internal and external.

## 2. Integrated reporting for SMEs

The most relevant elements can be represented through a materiality matrix in which the elements are analysed about their probability of occurrence and their impacts on value creation. Small businesses could have initial difficulties in implementing the materiality principle and a materiality matrix because there is a small number of elements that could have an impact on value creation. However, this limitation does not prevent implementation, when appropriately simplified, taking into account their peculiarities.

For its effectiveness, the materiality determination process could be integrated

into the organization's management processes and, in so doing, regularly involve providers of financial capital. Also, for this reason, it can be initially difficult for small enterprises to implement it.

On the contrary, medium enterprises should not have difficulties in assessing the probability of occurrence because it gives relevance to elements that should already be well known, such as customer satisfaction, product quality, development of the sales network, financial strength, logistics, employment, employee satisfaction, and environmental impacts.

### Conciseness

Conciseness: An integrated report should be concise (<IR> Framework, 2013: § 3.36).

The integrated report should be concise and include that relevant information and data that can facilitate the assessment of strategy, governance, business model, performance, and prospects.

Small and mid-sized businesses should have no problems in finding the right balance between the conciseness and completeness of information, considered that the principle of materiality should prevail.

The principle of conciseness also involves the clarity, that is understood as the simplicity of reading and comprehensibility. The clarity is

necessary, but not sufficient, to get a unified and straightforward terminology, which is sometimes difficult due to different types of market and specializations in which SMEs operate. Therefore, it is necessary to express the concepts in a simple way, and this means using clear language without the use of overly technical terms and without generic information that is not strictly related to the company.

To meet the need of clarity and comparability of the information, it can be useful to conclude the integrated report with the Section "Glossary", which contains the definition of main terms used and the related units of measurement.

## Reliability and completeness

Reliability and completeness: An integrated report should include all material matters, both positive and negative, in a balanced way and without material error (<IR> Framework, 2013: §3.39; 3.40; 3.47).

The principle of reliability is pursued when the overall content of the integrated report and its individual components are compatible, consistent and rational. In addition, information should be consistent over time and comparable with those of other similar organizations.

A comprehensive integrated report includes any information considered relevant for understanding the activities performed by the organization. Completeness refers both to the drafting of the document

(substantial completeness) and documentary content (formal completeness).

The entrepreneur and his/her closest collaborators could support the person in charge of the report in the identification of the most significant parameters, by providing certain data that are complete and reliable.

In SMEs, the implementation of this principle can be hindered by the presence of an internal information system that is not able to provide what is necessary for a comprehensive narrative.

## Consistency and comparability

Consistency and comparability: The information in an integrated report should be presented: (a) On a basis that is consistent over time; (b) In a way that enables comparison with other organizations to the extent it is material to the organization's own ability to create value over time (<IR> Framework, 2013: § 3.54; 3.55; 3.56).

While consistency can be pursued through the implementation of regular reporting policies with the use of the same KPIs over a number of years, comparability mainly concerns the comparison amongst organizations.

The use of the same KPIs for the reporting of how the performances change over time is easy for SMEs, although the number of KPIs may be limited. While the comparison with

other organizations could present problems for them, in particular for the small enterprise that operates in a niche market where the company often creates value in a unique way.

For improving comparability, SMEs can use industry or regional benchmark data, but also indexes or rates and quantitative indicators that are commonly used by other organizations with similar activities, although dimensionally different.

## Content Elements

### Organizational overview

**Organizational overview:** An integrated report should answer the question: What does the organization do and what are the circumstances under which it operates? (<IR> Framework, 2013, §4A, 4.4).

This section introduces the enterprise by showing a general overview of the organization and of the market context in which it operates. In particular, it can be appropriate to point out the following information:

Inside the organization:

- history, mission, vision, culture, and values;
- ownership and operating structure;
- strategies and fundamental targets;
- activities, markets, main products, and services;
- primary quantitative information (e.g., number of employees, revenues, number of states in which the organization operates), pointing to the principle changes occurred over time.

Outside the organization:

- legal, commercial, social, environmental and political context affecting the capacity of

the organization to create value in the short, medium and long term;

- needs, expectations and legitimate interests of the organization's stakeholders;
- market competitive context (considering possible weaknesses depending on the entrance of new competitors and substitutive products or services, customers and competitors' aggressiveness);
- rapidity and effectiveness of technological changes.

As reported below, in referring to internal factors, SMEs can be often characterised by family connections, both for their history and for their ownership. These important characteristics should be well represented in this section of the integrated report, to let the audience of the document realise the peculiarities of these enterprises

### Governance

**Governance:** An integrated report should answer the question: How does the organization's governance structure support its ability to create value in the short, medium and long term? (<IR> Framework, 2013, § 4B, 4.8).

An integrated report should be able to highlight how the governance structure supports the business' ability to create value in the short, medium and long term.

Information on governance and organizational structure could, therefore, cover the following aspects:

- leadership structure, organigram and key figures of management and control;
- entrepreneurs' and employees' shares;
- processes through which the management elaborates its strategic decisions;
- organisational culture, including the basic entrepreneurial attitude ("tone of the top") and risk attitude;
- specific measures adopted by the management to affect and monitor the organisational strategy and its approach to risk attitude;
- systems by which culture, ethics, and values of the organization reflect on the use of the many types of capitals, including relationships with key stakeholders and their effects;
- whether and how the organization implements management best practices exceeding legal requirements;
- initiatives undertaken by the governing team to promote and enable innovation;
- links between remuneration and incentives and value creation in the short, medium and long term, including how they are linked to the organization's use of and effects on the capitals.

## Family organizations governance

The main characteristic of a large number of SMEs is family ownership and control. It could, therefore, be useful to define governance that regulates both economic relationship among the family (Family Governance) and links between the family and the enterprise (Governance of the Family Business).

In the Family Governance, it can be useful to define the rules of the family governance paying attention to both patrimonial assets and family properties. Extraordinary events such as business sale and the possible repurchase from the inactive part of the family (maybe

with the help of external investors) should be regulated.

In the Governance of the Family Business, rules are mainly oriented to define: a) the value and the contribution of the family in business management; b) the value of intangibles made available by the family; c) the involvement of the family members in operative activities and their role in the Board of Directors.

With reference to values, business continuity is a very relevant topic. It refers to the capacity of the organization to create value and has fundamental implications for the control system, above all in generational changes.

Some financial and non-financial KPIs are able to represent characteristic elements of the Governance. For example:

- Median age of Management
- % of the cost of Management on Revenues
- % of the cost of Management on total cost of employees
- % of managers on overall number of collaborators
- Number of management communications in one year

### Business Model

**Business Model:** An integrated report should answer the question: What is the organization's business model? (<IR> Framework, 2013: § 4.10).

This means describing business model adopted and particularly:

**Inputs** on which the organization depends, or that provide a source of differentiation, and their relationship to other forms of capital;

**Business activities**, considering factors such as:

- the way the organization differentiates itself in the market (e.g., through product differentiation, market segmentation, and channels used to communicate to potential customers and give market offers);
- the circumstance that can impact on the possibility for an organization to create value;
- the way the organization continues to evolve and innovate;
- flexible elements that allow the business to adapt to changes.

**Outputs**, illustrating products and services that the organization puts on the market, as well as by-products and waste;

**Outcomes**, that represent key-results for capitals, including both internal (e.g., revenues and cash-flow) and external results (e.g., customer satisfaction, tax payment, brand loyalty, environmental and social effects).

**Features** that may increase effectiveness and readability of the model description are particularly important in describing the business model, such as: (<IR> Framework, 2013: § 4.13).:

- explicit identification of the key elements of the business model and their representation, even by a simple diagram, supported by a clear explanation of the relevance of those elements for the organization;
- a descriptive logic flow that highlights specific aspects of the organization, the identification of key stakeholders and other essential factors (e.g., critical success variables, raw material availability in time, at compatible prices); principal factors that promote value creation and factors that affect external environment, that may be under control of the organization or not);
- the position of the organization in the value chain; and
- connection to available information in other relevant content elements, such as strategy, opportunities, risk and performance (including KPIs and financial considerations like revenue and cost containment).

Also in representing strategy and business model adopted by the organization, some KPIs may be useful in determining how defined and strategic purposes can be achieved. For example:

- Clarity of the strategy perceived by employees
- Degree of alignment to business strategy
- % of employees participating in internal surveys
- Number of Business Partners and their trend
- Numbers of key suppliers and their trend
- Produced quantities and their trend
- Customer Satisfaction Index



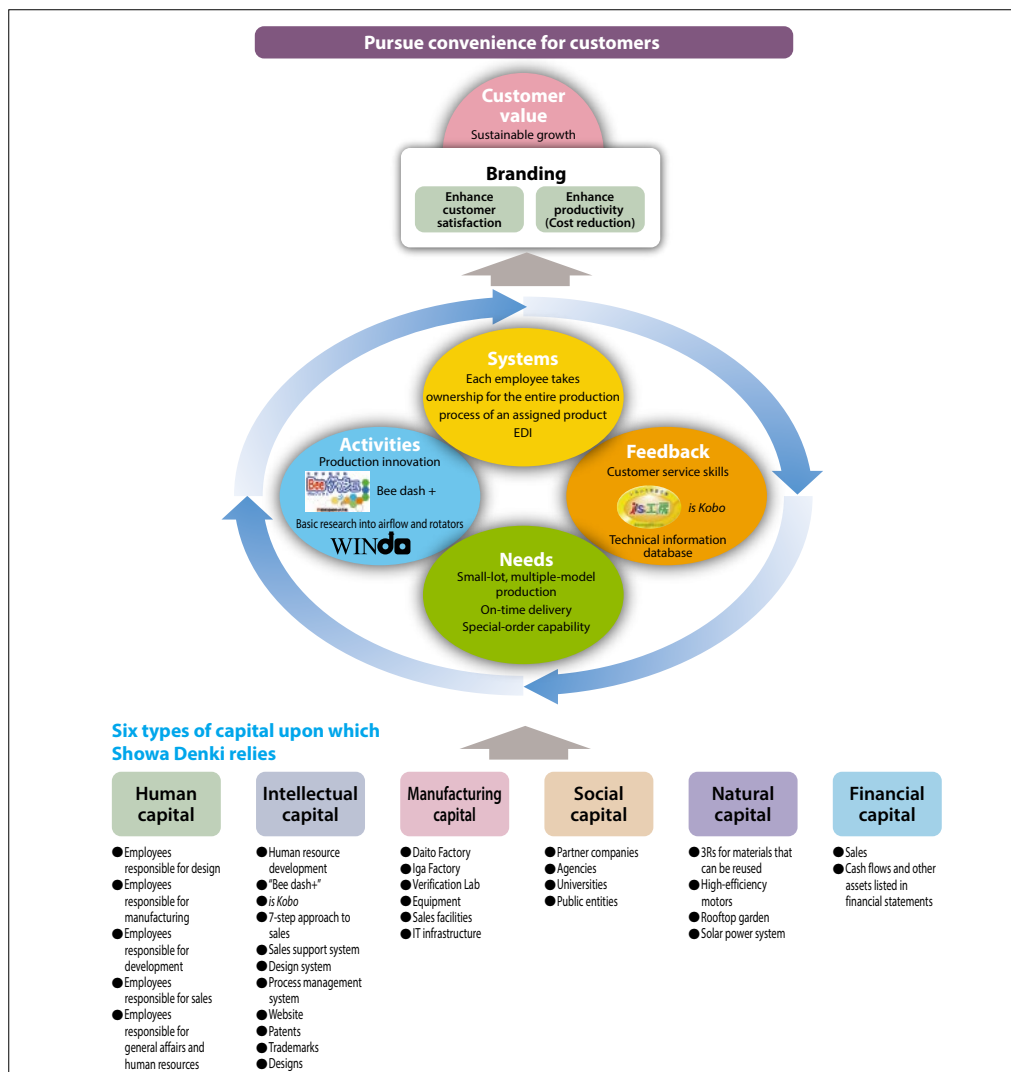
Focus on:

## Showa Denki Co. Ltd - Japan

The following graph describes the Business Model. Showa Denki creates customer value through the continuous enhancement of productivity and customer satisfaction, using its key intellectual assets (technologies, skills, R&D abilities, leadership of management, collaboration with partner companies/customers and sound finance) and leveraging the expertise and capabilities in each Department and business function. The business model underlines how the creation of lasting value rests on a circular process, which is critical to ensuring business success.

Through interactive communications with its key stakeholders (customers, partners and employees) Showa Denki applies a systematic and integrated approach to improving the corporate brand, taking full advantage of the significant capitals, notably, the intellectual capital, the manufacturing capital and human capital.

Each type of capital upon which Showa Denki relies - distinguished by a different color - is easily identifiable and allows the reader to understand the integrated report: how the capitals are combined into the business processes through which the company refines the skills and capabilities to produce customer solutions; the way Showa Denki develops and uses human and financial resources; and the central role of stakeholder relations



Business Models (Source: Showa Denki Integrated Report 2014 (Intellectual Property Management Report) Providing Hospitality to the Environment: 5-6 [http://www.showadenki.co.jp/news/ShowaDenkiIntegratedReport\\_2014\\_20140909.pdf](http://www.showadenki.co.jp/news/ShowaDenkiIntegratedReport_2014_20140909.pdf))

## Risks and Opportunities

**Risks and opportunities:** An integrated report should answer the question: What are the specific risks and opportunities that affect the organization's ability to create value over the short, medium and long term, and how is the organization dealing with them? (<IR> Framework, 2013: § 4.23).

The integrated report should identify the opportunities and main risks that are specific to the organization, including those related to:

- continued availability of financial and non-financial resources,
- quality of products and services,
- the sustainability of the business model,
- the representation and reputation,
- the access to pertinent capitals, and to
- the consequences of organization on these ones.

This section will identify:

- origin and nature of opportunities and risks that can be internal, external or, as frequently, a combination of both elements; externals include the ones originated from the operating environment, while internal origins include the ones arose from business activities of the organization;
- whether and how an enterprise can evaluate the probability that the opportunity or the risk will arise and, in case, its effects; this evaluation may include peculiar circumstances that allow the opportunity or risk to be verified;
- specific actions to create value from key opportunities and to restrict and manage main

risks, including the identification of strategic purposes, strategies, politics, targets and related KPIs.

To have a complete vision of how internal (strengths and weaknesses) and external (opportunities and threats) factors may affect the business activity, it is recommended to periodically overhaul the SWOT analysis to identify, prevent or limit the impact of its risk factors. In addition, management and functions responsible should constantly monitor risk factors in the main exposed units.

It is opportune to concentrate on the information included in the report that can have a practical utility (relevant and/or significant) for the recipients. For this aim, matrix of meaningfulness and relevance can be created, particularly for mapping risks for stakeholders, by classifying risks to customers, suppliers, partners, banks, employees, Public Administration and on type of risk that may depend on internal or external factors, such as financial, organizational, operative, markets or competitor risks.

To better explain the above from an SME's perspective, the A1.4 Appendix will show some SMEs Key Risks Indicators (KRIs): they can be useful for SMEs to represent some business risk factors in drawing up an integrated report.













For example, some KPIs and KRIs indicators are below mentioned:

- % of use of bank trusts
- Customer solvency Index
- Price risk and supply availability
- Check on products quality
- Risk of loss of know-how consequent to key-personnel loss
- Inadequate protection of intellectual properties
- Reputational risk

Focus on:


## Anglo African Investments Ltd

Anglo African Investments is a technology-based, privately-owned group based in Mauritius. It has started its journey towards integrated reporting in 2014 when it has decided to be listed on the Stock Exchange. The following table describes the risk register of its integrated report 2018. It illustrates the Risk ID, a brief description of the related risk, the mitigation activities undertaken, the risk owner, the strategic priority and the capitals impacted.

Risk ID	Risk	Mitigation	Risk Owner	Strategic Priority* Impacted	Capital Impacted
1	Product Risk	-	-	-	-
2	Product Obsolescence	-	-	-	-
3	Claims by Clients v/s Directors & Officers in overseas operations	<ul style="list-style-type: none"> <li>Clear contractual escalation process as part of communication management</li> <li>Dispute mechanism in contracts</li> <li>Adequate insurance cover in operating countries</li> </ul>	GMs	1	 
4	Kidnap & Ransom	<ul style="list-style-type: none"> <li>Educating employees on safety measures</li> <li>Favouring agents as introduced by our local partner</li> <li>Avoidance of high risk countries</li> </ul>	GMs	1, 2, 3	 
5	Cyber Liability Risk	<ul style="list-style-type: none"> <li>Clear Information Security (Info Sec) policies, awareness &amp; training</li> <li>Enforcing Info Sec controls on employees devices</li> <li>Starting ISO27001 in NanoBNK</li> </ul>	Mgt	1, 2, 5	 
6	Overstretched resources	<ul style="list-style-type: none"> <li>Implemented better Project Management process</li> <li>Strengthened relationships with Partners for Staff augmentation in different countries during peak period</li> </ul>	GM - NanoBNK	2, 3, 5	  
7	Business Continuity failure	<ul style="list-style-type: none"> <li>Daily backups of system data, which are replicated regularly off-site</li> <li>Optimised operational process for employees' ability to work off-site</li> </ul>	Mgt	5	 
8	Delivering not up to client expectations	<ul style="list-style-type: none"> <li>Implemented customer feedback on projects as part of ISO 9001 initiative</li> <li>Overall customer satisfaction survey carried out independently, once yearly</li> </ul>	GMs & Managers	1, 2	  
9	Non-compliance to Legal & Contractual laws & regulations in overseas operations	<ul style="list-style-type: none"> <li>Used specialised local partners in countries where we operate</li> <li>Optimising business model by using staff augmentation</li> </ul>	CEO	1, 5	  
10	Information Security Risks	<ul style="list-style-type: none"> <li>Adopted overseas strategic partner's best practice</li> <li>Clear Info Sec policies</li> <li>Info Sec awareness</li> <li>Starting ISO27001 in NanoBNK</li> </ul>	GM - InfoSystems	1, 5	   
11	Underquoting	<ul style="list-style-type: none"> <li>Review of quotes by GMs</li> <li>Review by a committee for large project</li> </ul>	GMs & Managers	1, 5	 
12	Risks of our principals going directly to market and bypassing us	<ul style="list-style-type: none"> <li>Diversified into other businesses, involving own IP</li> </ul>	Mgt	1	 

**Strategic Priority\*** 1. Driving Growth 2. Engaging Customers 3. Empowering our people 4. Enhancing Partnerships 5. Embedding best practices

**Colour of the risk ID defines our risk appetite** ● Low risk appetite ● Medium risk appetite ● High risk appetite

 Financial Capital
  Human Capital
  Intellectual & Digital Capital
  Relationship & Social Capital
  Technological Capital

Risks and Opportunities (Source: Anglo African Investments Ltd Integrated Report 2018: 52-53 <https://angloafrican.com/wp-content/uploads/2018/12/AA%20IR2018.pdf>)

For the full story see <https://www.accaglobal.com/uk/en/professional-insights/global-profession/Insights-into-integrated-reporting-2-walking-the-talk/making-integrated-reporting-work-in-an-sme-anglo-african.html>.

## Strategy and Resource Allocation

Risks and opportunities: An integrated report should answer the question: Where does the organization want to go and how does it intend to get there? (<IR> Framework, 2013: § 4.23).

It is, therefore, necessary to identify:

- Strategic targets of the organization in short and medium/long term;
- Strategies used or to be used to achieve strategic purposes;
- Plans for allocating resources to implement the strategy;
- Systems for measuring targets and expected results in the short and long-term;
- Factors that give the organization a competitive advantage and let it create value in future, for example:

- the role of innovation, particularly as for technical, organizational, commercial and productive aspect;
- how the organization develops and uses intellectual capital;
- how environmental and social elements are included in the organization's strategy, to give a competitive or strategic advantage.

Once strategy and purposes are defined, it is necessary to represent how to reach them, referring to mode and resources.

## Performance

**Performance:** An integrated report should answer the question: To what extent has the organization achieved its strategic objectives for the period and what are its outcomes in terms of effects on the capitals? (<IR> Framework, 2013: §. 4.30).

This section contains the main qualitative and quantitative information of financial and non-financial nature regarding the whole enterprise and its capacity to continue creating value over time.

Performance can be measured through the use of a matrix that intersects the business objectives with the material capitals employed. Each array of the intersection of the matrix is associated with a set of quantitative and qualitative performance metrics (key financial information and significant "non-financial" measures and narrative information) normally expressed through the most suitable KPIs. These should be consistent with the KPIs employed to manage the company.

A short explanation for each quantitative and qualitative indicator facilitates the comprehension of information, while, as for data comparability, it is particularly useful to compare historical data (usually 3 earlier periods) and target data and, when possible, market benchmarks.

Indicators may include, for example:

- Quantitative indicators related to targets (revenues, marginality, results, cash flow), elements promoting value, opportunities and risks, illustrating the meaning and implications, methods, measure units and criteria used in representing such indicators;

- Measures of the (positive and/or negative) effects produced by the organization on capital, including material impact on upstream and downstream value chain;
- Indicators regarding relationship capital (customers, suppliers, business partners, customer satisfaction, reputation and representation of the organization), human capital (numbers of collaborators, competences, schooling, seniority, collaborators' satisfaction), intellectual capital (procedures, process management, infrastructures, IT, software);
- The quality of the connection to key stakeholders, frequency, and channel of communication, e.g., how the organization satisfies needs, expectations and legitimate interests of stakeholders;

Relationships among earlier, actual and future performances.

Often the concept of value relates to actual and expected cash flows, while "value creation" means the impact of several aspects of performances on the measure of such value. It is important to emphasize that measured value does not represent the whole enterprise value, but it is an indicator connected to objective elements that allow one to measure this value and to highlight how it changes in time.

Usually, indicators are adequate when they are:

- relevant to organization circumstances;
- coherent to indicators used by those charged with governance;

- connected to them (for example, they show the connection between financial and non-financial information);
- shown with purposes and predictions for two future periods or more or related to target and predictions elaborated in previous periods;
- coherent to applicable benchmarks, to give the recipients of the report a basis for comparison;
- coherently shown in subsequent periods, even if emergent trends and comparison results are positive or negative;
- shown for three periods or more, to let the recipients of the document examine trends;
- shown with qualitative information to better contextualize and for a better understanding. Relevant qualitative information includes a description of:
  - technical measurement and basic hypothesis;
  - reasons for significant deviations from targets, trend or benchmarks, and the probability that corrective actions will be taken (or will be effective).

When quantitative measurement of the capital material changes is impossible, explanations should be given by illustrating the modifications occurred in the availability, quality and accessibility of capitals.

As for the definition of indicators, organizations can decide to refer to extant ones, depending on the sensibility of the entrepreneurs and of its collaborators.

The appendix A1.3 shows some examples of Key Performance Indicators (KPIs) that may be useful for representing the performance in drawing up an integrated report.

## 2. Integrated reporting for SMEs

Listed below are commonly used performance indicators:

- Total revenues and relative trend
- Total number of employees
- Number of customers
- Number of registered trade marks
- Value added for employee
- % of revenues invested in professional training
- % of revenues invested in R&D
- % of revenues invested in Marketing and Communication
- Customer Loyalty rate.

## Future Outlook and Prospects

**Future outlook and prospects:** An integrated report should answer the question: What challenges and uncertainties is the organization likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance? (<IR> Framework, 2013: § 4.34).

This section should allow the audience of the report to understand the effective development perspectives better and to know which assumptions are the base for predictions and potential risks for the organization.

Future perspectives show changes over time. Basing on a detailed and transparent analysis, they give information about:

- prospects as set out by owners and key figures of the organization regarding both to development programs in a short and medium/long term and external environment in the considered period;
- available instruments to face uncertainties and challenges.

When possible, it is also opportune to give basic indicators, KPIs related to targets, projections, relevant information coming from the external environment and the sensitivity analysis.

It is also necessary to notice that expectations and declared intentions have been built on realistic and concrete elements. Those

perspectives should be related to the capacity of the organization to use opportunities (that include availability, quality, and accessibility of appropriate capitals) and should be based on a realistic evaluation of competitors and market position, considering risks have to be managed. An integrated report should include a representation of possible implications, such as ones related to future financial performance about:

- the external environment, opportunities, and risks, by analyzing how these factors may affect the achievement of strategic targets;
- availability, quality, and accessibility of capitals used by an organization or affected by it (for example, continued availability of qualified employees or natural resources), illustrating the management of key relationships and the reasons for which they are important for value creation in time.

In this chapter, it is necessary that the recipients of the report can understand the effective development perspectives related to potential development risks.

# Proposed Key performance and risks indicators for SMEs

As above mentioned, the **Appendix A1** shows a proposed methodology for choosing and representing performance indicators (KPIs) and risks indicators (KRIs) usually used and included in the report. In particular, KPIs

may be divided in general level KPIs and specific KPIs. Detailed KPIs may be chosen by the organization to represent better its competences of particular components creating value.

# 3.

## The Implementation of an Integrated Report in SMEs: Four Case Studies

---

In this section, an illustration of the integrated report implementation process through the experience of four Italian companies, namely Costa Edutainment SpA<sup>6</sup>, Dellas SpA, Novamont SpA, Stafer SpA will be provided. Further cases may be presented in later versions of the Guidance. Moreover, the IIRC Database containing examples of emerging practice in Integrated Reporting could be accessed by visiting the Integrated Reporting Examples Database at <http://examples.integratedreporting.org>.

A brief company profile for each organization is firstly presented, then, an explanation of the steps followed and results achieved in the journey towards the integrated report implementation are described.

According to the experience of the four SMEs, to prepare an integrated report, an organization could initially organise and formalise three fundamental aspects:

- definition of the Business Model and of the Strategies;

- involvement of a team that represent the main business functions;
- set targets, time and costs for the Integrated Reporting implementation.

Then, its initial process can be structured around 3 basic steps (Figure 2):

- a) Materiality Analysis: definition of the areas that are relevant in terms of value creation and that at the same time represent those areas where risk can create the greatest losses.
- b) Value Creation: ways in which the organization uses its capitals (inputs) for creating value (outputs and outcomes) for the providers of financial capital and its stakeholders.
- c) Impact Evaluation: measurement of the impacts through the relevant indicators and definition of the objectives to be achieved in the future to ensure the continuity of value creation.

Fig. 2 – Roadmap to integrated reporting for SMEs

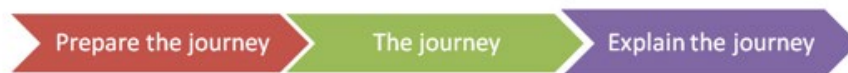
---

<sup>6</sup> It should be marked that Costa Edutainment Spa started the implementation of the Integrated Report in 2014, when it was included within the SMEs parameters. Dellas Spa still belongs to the middle-class category, according to the parameters set out in the EU/EC Recommendation 2003/361, while Novamont Spa is a medium to large-sized company



**FOUNDATIONS**

**POSSIBLE ROADMAP**



<p><i>Definition of Strategy and Business model</i></p> <p><i>Team Involvement</i></p> <p><i>Action Plan (targets, time and cost for integrated reporting implementation)</i></p>	<p><b>MATERIALITY ANALYSIS</b></p> <p>STEPS</p> <p>Definition of relevant topics about business/company</p> <p>Identification of internal and external stakeholders</p> <p>Internal and external <u>stakeholders</u> engagement about relevant topics</p>	<p><b>VALUE CREATION</b></p> <p>STEPS</p> <p>Prioritisation of the 6 capitals for the company</p> <p>Intersection between material topics and capitals</p> <p>Individuation risks and opportunities for each relevant topic</p> <p>Action plan</p> <p>Choice of financial and non-financial KPIs for each material topics</p>	<p><b>IMPACT EVALUATION</b></p> <p>STEPS</p> <p>KPIs measurement (dashboard)</p> <p>Valuation achievement of the objectives and set-up next targets (future perspective)</p> <p>Integrated performance rewarding</p>
	<p><b>OUTPUT</b></p> <p>A Materiality matrix construction (axes: impact on value creation and likelihood of occurrence)</p> <p>Relevant topics map for stakeholders</p>	<p><b>OUTPUT</b></p> <p>Construction of an integrated dashboard</p>	<p><b>OUTPUT</b></p> <p>Integrated report realization</p>

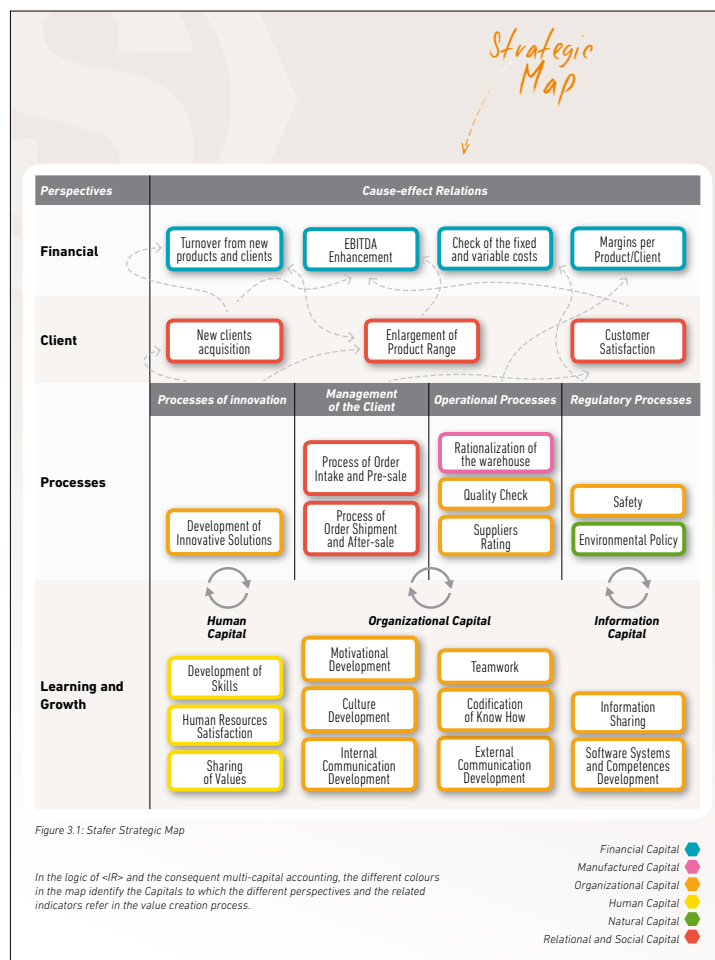
Source: Elaboration by the NIBR Working Group on <IR> for SMEs

### 3. The Implementation of an Integrated Report in SMEs: Four Case Studies

**Definition of Strategy and Business model**

**STAFER EXPERIENCE ON DEFINITION OF STRATEGY AND BUSINESS MODEL**

Founded in 1960 in Faenza and situated in the mechanic industrial district of Emilia-Romagna (Italy), Stafer, even if part of the small and medium enterprises with its 60 employees, is addressed to the Italian and international markets, offering its products through a diversified network of international distributors and, for this reason, it can be considered a “BtoB” organization. In particular, the activity of Stafer is addressed to all the components and instruments that allow the support, the opening and the closure of roller blinds and awnings, with manual, partially automatic and also totally automatic handling in respect to certain systems. Its journey towards integrated reporting started in 2016 and continued in 2017, even though innovation has always accompanied the development of the organisation. This approach can be noted also in the way ‘strategy’ and ‘business model’ have been defined in the preparation process of its first integrated reporting. A particular tool that has been of support is the ‘strategic map’, that the organisation was already using, which has been adapted to the International <IR> Framework through the inclusion of the six capitals. This way, the linkages between the different perspectives, the indicators and the multi-capital approach of integrated reporting have been identified.



Stafer, Integrated Report 2017, p. 29.

In terms of definition of the organization’s business model, the inputs, activities, outputs and outcomes have been identified, defined and illustrated through the use of graphs and tables where the reference to the six capitals, the description of each element and the related indicators are provided.

[www.stafer.com/en](http://www.stafer.com/en)

## DELLAS EXPERIENCE ON TEAM INVOLVEMENT

Dellas is an Italian industrial group founded in 1973 and headquartered in Lugo Grezzana (Verona). With over 40 years of activity it has become an international market leader in the manufacturing and sales industry of diamond tools for marble, granite and agglomerate.

Since its very beginning Dellas has been strongly inclined towards research and development, dynamism, innovation of processes and products. Its excellence derives from human resources and distinctive entrepreneurial and managerial capabilities. In 2017 Dellas achieved a consolidated turnover of around €17 million, and its employees are 122.

Through an evolution of its corporate reporting process started in 2011 it has released its first Integrated Report in 2012. Drawing on the international trends in business reporting, along a series of subsequent steps, in 2014 Dellas applied the principles of the International <IR> Framework (December 2013) in order to disclose its value creation model.

In order to illustrate in the Report the way in which the company works and its processes, and to ensure a real and complete narration of the company story, Dellas considered as necessary to involve different organisational department.

For this purpose, it has identified a team of six leaders:

- Chief Executive Officer (CEO) and Chief Sales Officer (CSO);
- Chief Financial Officer (CFO);
- Chief Operations Officer (COO);
- Chief Human Resources Officer (CHRO);
- R&D Manager.

The key point that has been relevant to clarify to the team since the beginning is related to the understanding that the results of the reporting can be useful both for each business function (for better focusing on their KPIs), and for the investors (for the evaluation of the strategies and of the key processes in each business area).

In order to achieve a good level of reporting it was also indispensable to ensure to the team an external information support so that the six key leaders would have been capable to implement the 'principles-based' indications of the International <IR> Framework.

The information support was provided by a specialised consulting and training firm expert on Sustainability, Social Responsibility and Integrated Reporting. In order to overcome the costs associated with this service, Dellas has received a financial support from the Veneto Region.

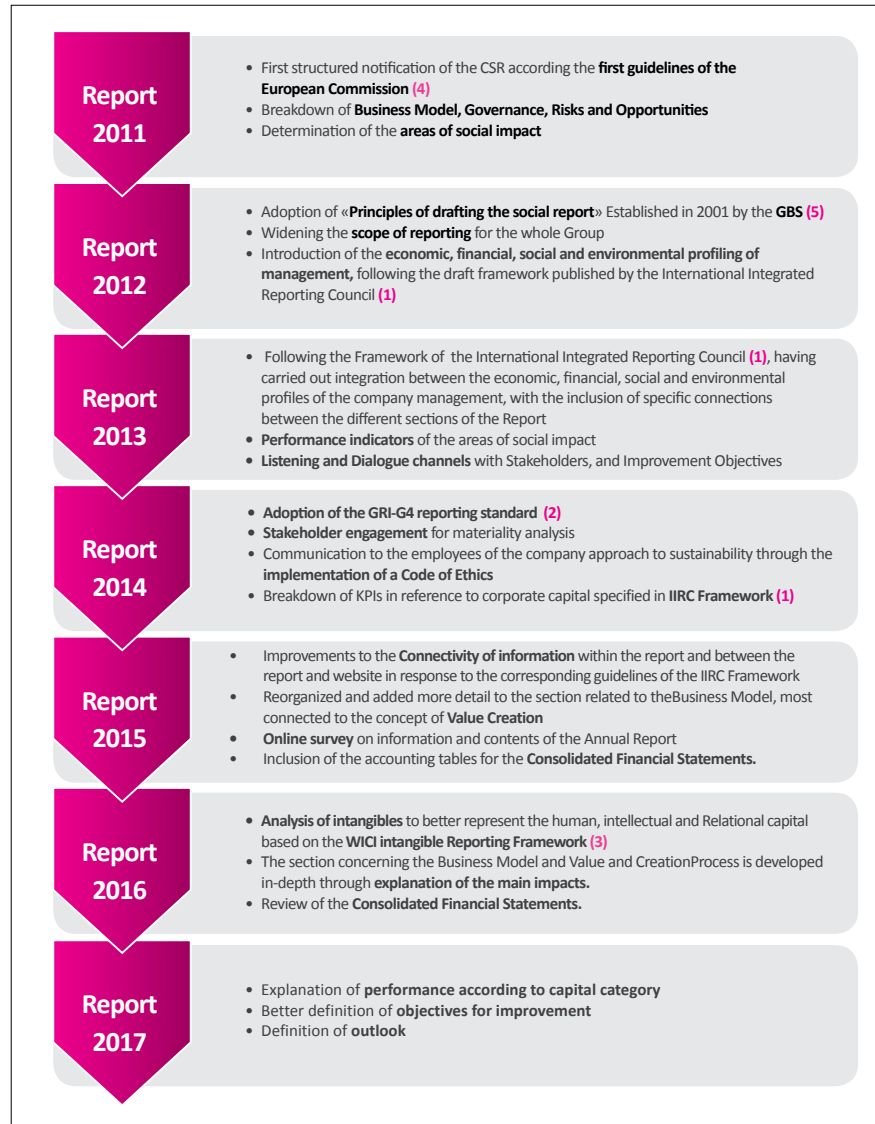
[www.dellasdiamondtools.com](http://www.dellasdiamondtools.com)

### 3. The Implementation of an Integrated Report in SMEs: Four Case Studies

*Action Plan  
(targets, time and  
cost for integrated  
reporting  
implementation)*

#### DELLAS EXPERIENCE ON ACTION PLAN

Dellas realized that it was not possible to introduce an integrated report in just one moment. Therefore, it has planned a 'Corporate Reporting Evolution' roadmap of three or four years. Its principle stages are summarised in the below Table.



Source: Integrated Annual Report 2017, p. 56

## MATERIALITY ANALYSIS

### STEPS

#### Definition of relevant topics about business/company

Identification of internal and external stakeholders

Internal and external stakeholders engagement about relevant topics

### OUTPUT

A materiality matrix construction

Material topics map for stakeholders

## NOVAMONT EXPERIENCE ON MATERIALITY ANALYSIS

The NOVAMONT Group is an international leader in development and production of bioplastics and biochemicals through the integration of chemistry, environment and agriculture.

It proposes a new model of sustainable development which includes the design of materials that can become a resource for future use at the end of their life. It also proposes the territories enhancement and the reduction of negative externalities on environment and society. Novamont Group closed 2014 with 412 employees, a turnover of 145 million and constant investments in R&D (7,2% of sales in 2014). It also holds a portfolio of approximately 1,000 patents. It is based in Novara and its production plant is based in Terni. It has research laboratories in Novara, Terni and Piana di Monte Verna (CE). It operates through its subsidiaries in Porto Torres (SS), Bottrighe (RO), Terni and Patrica (FR). Novamont is present through sales offices in Germany, France and United States, and it is also present through its distributors in Benelux, Scandinavia, Denmark, United Kingdom, China, Japan, Canada, Australia and New Zealand.

Novamont website: [www.novamont.com](http://www.novamont.com)

### Definition of relevant topics about business/company

## THE PROCESSES

### MATERIALITY ANALYSIS

The process of defining the material aspect is divided into four points:

01

**Identification, in parallel, of priorities for stakeholders and for the company**

The procedure of identifying the material aspects began in 2014, and is still in progress. As suggested by the GRI-G4 guidelines, integrated with GRI 3.1 (Topics identified as relevant by different stakeholder groups) for Chemicals (May 2013), an initial list of material aspects formed the foundation for identifying Novamont S.p.A.'s materials aspects. The association between the aspects identified and those proposed by the GRI-G4 guidelines is always made clear and is reported in the GRI Content Index. (see table on the following page)

02

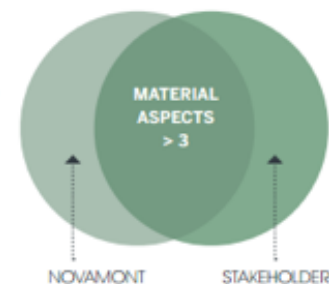
**Assigning the priorities**

Every priority identified was given a score on a priority scale of 1 to 5, by Novamont and by the different stakeholder groups involved. The criteria for giving the scores were as follows:

- Reciprocal positive or negative influence on Novamont and on the Stakeholders
- Extent of the dependency relationship
- Extension of the impact and number of subjects involved

03

**Validation of the material aspects identified: Materiality Matrix**



04

**Revision and improvement**

### 3. The Implementation of an Integrated Report in SMEs: Four Case Studies

#### MATERIALITY ANALYSIS

##### STEPS

Definition of relevant topics about business/company

Identification of internal and external stakeholders

**Internal and external stakeholders engagement about relevant topics**

##### OUTPUT

A materiality matrix construction

Material topics map for stakeholders

#### NOVAMONT EXPERIENCE ON MATERIALITY ANALYSIS

##### Internal and external stakeholders engagement about relevant topics

**I PROCESSI**

**STAKEHOLDER ENGAGEMENT**

Il processo di coinvolgimento degli stakeholder si articola in quattro punti:

**01**  
Identificazione delle categorie di stakeholder

Il percorso di identificazione degli stakeholder è stato svolto nel 2014 attraverso processi interni, coinvolgendo le varie funzioni aziendali mediante questionari e focus group. Tale percorso verrà aggiornato annualmente.

**02**  
Definizione delle modalità di coinvolgimento

Categorie di stakeholder identificate	Modalità di coinvolgimento
<b>Classi A</b> Governi	Monitoraggio del panorama legislativo
Fornitori	Comunicazione sulla sostenibilità e futura richiesta di dati
<b>Classi B</b> Clienti diretti (trattamentari)	Focus Group
Clienti indiretti (sistema distributivo e grandi brand)	Presentazione Rapporto di Sostenibilità one to one
Dipendenti	Focus Group
<b>Classi C</b> Comunità/Società	Brochure
Media e stampa	Monitoraggio della rassegna stampa
Associazioni e ONG	Invio di questionari su RSI 2013
Ricerca e innovazione	Presentazione Rapporto di Sostenibilità
Comunità locali	Monitoraggio attraverso media
Filiera del waste management	Presentazione Rapporto di Sostenibilità
Mondo Agricolo	Presentazione Rapporto di Sostenibilità
<b>Classi D</b> Organismi nazionali e internazionali	Presentazione Rapporto di Sostenibilità
Generazioni future	

**03**  
Attuazione dell'engagement

Lo stakeholder engagement è stato avviato nel 2015, contemporaneamente alla redazione del Rapporto di sostenibilità.

**04**  
Revisione e miglioramento

Individuazione degli aspetti prioritari per gli stakeholder mediante varie modalità di coinvolgimento.

#### MATERIALITY ANALYSIS

##### STEPS

Definition of relevant topics about business/company

Identification of internal and external stakeholders

Internal and external stakeholders engagement about relevant topics

##### OUTPUT

**A materiality matrix construction**

Material topics map for stakeholders

#### A materiality matrix construction

**THE PROCESSES**

**STAKEHOLDER ENGAGEMENT**

Table relating to point 01

Material aspects	Novamont	Customers	Government	Employees	Other stakeholders
<b>GENERATION OF VALUE</b>					DEFINITION OF MATERIAL ASPECTS STILL IN PROGRESS
Economic value of the company	✓			✓	
Indirect economic impacts	✓			✓	
Innovation	✓	✓	✓	✓	
Diversification of the market	✓	✓	✓	✓	
<b>MANAGEMENT OF WORK</b>					
Safety of the processes	✓			✓	
Attention to the employees	✓			✓	
Organization of the work	✓			✓	
<b>SUSTAINABILITY OF PRODUCTION CHAIN</b>					
Products	✓	✓	✓	✓	
materials	✓		✓		
Energy	✓		✓		
Biodiversity	✓				
Waste	✓		✓		
Actions overall	✓				
<b>LAWS AND REGULATIONS</b>					
Product conformity	✓	✓			
Regulatory context	✓	✓	✓		
Extended liability	✓				
Voluntary agreements	✓	✓			
<b>TRANSPARENCY AND COMMUNICATION</b>					
Product communication	✓	✓			
In-house communication	✓			✓	
Local territory and community	✓			✓	
<b>SAFEGUARDING AND ENHANCING THE TERRITORY</b>					
Water	✓				
Soil use	✓		✓		
Local communities	✓			✓	

MATERIALITY ANALYSIS
<b>STEPS</b>
Definition of relevant topics about business/company
Identification of internal and external stakeholders
Internal and external stakeholders engagement about relevant topics
<b>OUTPUT</b>
A materiality matrix construction
Material topics map for stakeholders

## STAFER EXPERIENCE ON MATERIALITY ANALYSIS

In order to describe its materiality analysis, Stafer Integrated Report 2017 uses narratives, a table and a graph. In line with the International <IR> Framework, the materiality determination process includes steps from the identification of the relevant matters to the determination of the information to disclose through evaluation and prioritization. As a result of this process, a table summarises the key activities identified as well as the evaluation of their impacts, the probability of occurrence and the level of imminence. Finally, this information is reported in a two-dimensional graph which cross-references the magnitude of the impact with the likelihood of occurrence.

### Materiality Analysis

An Integrated Report should provide information about the aspects that significantly influence the capability of the organization to create value in the short, medium and long term. In this view, the management of Stafer has operated an analysis of materiality in order to identify the most relevant activities and phenomena for the corporate value creation. These will guide the representation of the performance and the selection of associated metrics in the following chapter. An **innovative approach** has been followed aiming to highlight not only the significance/impact of an activity/phenomenon on the corporate value creation and the probability of its occurrence (as the International <IR> Framework suggests). For the first time this analysis has also included a third dimension of evaluation of the materiality. This is represented by the level of imminence of the activity/phenomenon considered. In the Table 4.12 and in the Figure 4.13, the more material activities and phenomena for Stafer are represented. More details

can be found in the methodological note. The materiality determination process is composed of the following steps:

- 1- Identification of the internal and external most relevant elements through market surveys, satisfaction questionnaires, visits of stakeholders to the organization and vice versa, formal and informal meetings;
- 2- Evaluation of the relevance of the elements identified in the phase 1 in the light of their impact on the corporate value creation ("magnitude");
- 3- Attribution to the identified elements of a probability of occurrence ("likelihood");
- 4- Attribution to these elements of a level of imminence ("imminence");
- 5- Prioritisation of these identified elements on the combined basis of "magnitude", "likelihood" and "imminence";
- 6- Identification of the most material elements.

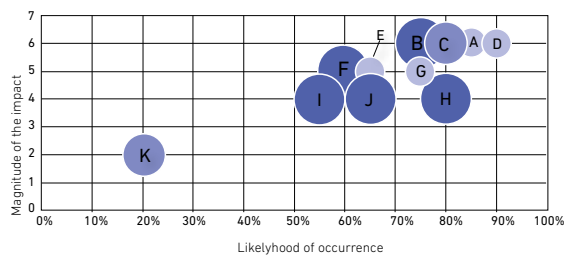
Activity	Evaluation of the impact	Probability of occurrence	Level of imminence
A - Customer satisfaction	6	85%	1
B - Optimization of the logistics/operating flexibility	6	75%	3
C - Training and satisfaction of the collaborators/organizational climate/corporate reputation	6	80%	2
D - Width and adequacy of the product range vis-à-vis market needs	6	90%	1
E - Quality and diversification of the products	5	65%	1
F - Increase in company value (tangible, intangible)	5	60%	3
G - Suitability and quality of the post-sale technical assistance	5	75%	1
H - Value creation for the territory	4	80%	3
I - Reduction and recycle of waste material (packaging)	4	55%	3
J - External growth (strategic alliances with technological partners)	4	65%	3
K - Downstream integration with clients	2	20%	2

Table 4.12: Materiality

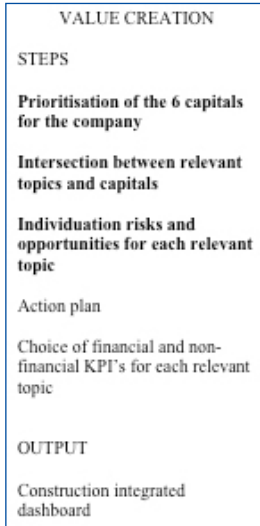
Evaluation of the impact:  
Scale from 1 to 6 (highest)

Level of imminence:  
● 1 = low imminence  
● 2 = medium imminence  
● 3 = high imminence

Figure 4.13:  
Results of the Materiality Analysis



### 3. The Implementation of an Integrated Report in SMEs: Four Case Studies

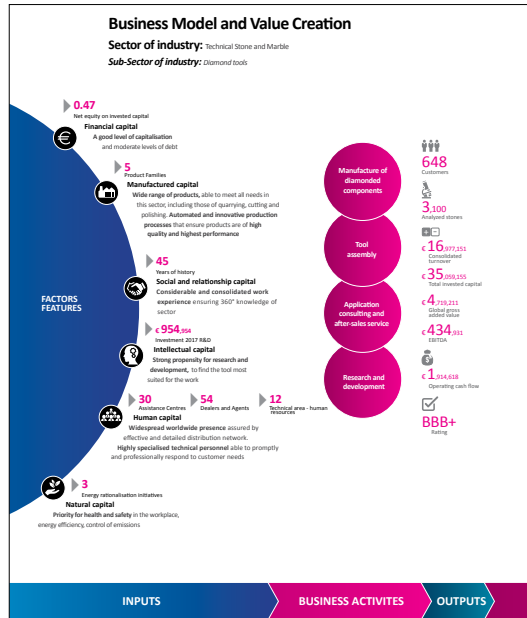


#### DELLAS EXPERIENCE ON VALUE CREATION

The main question to be answered with an integrated report is: "How Dellas creates value?". We have tried to answer this question using a 'waterfall plot' that can be useful to summarize, integrate and monitor different aspects of our value creation. The company's value creation, which is divided into inputs, business activities, outputs and outcomes. As can be seen from the graph below, to each capital is attributable a different category of stakeholders:

- internal stakeholders, the active participation of workers in company life is a fundamental part of the value creation system;
- external stakeholders, because the company is not only a business but also a real actor of the civil society with significant impact on the welfare and development of the community and of the local areas.

Each category of stakeholders has been involved in specific initiatives. Specific KPIs shall monitor not only the performance achieved to strengthening the specific capitals and the stakeholder interactions but also the implementation of specific improvement aims.



STAKEHOLDERS INVOLVED	THEMES OF INVOLVEMENT	KEY PERFORMANCE INDICATORS	IMPROVEMENT AIMS
<ul style="list-style-type: none"> <li>Shareholders</li> <li>Banks</li> <li>Public Administration</li> </ul>	<ul style="list-style-type: none"> <li>Value Added distribution</li> </ul>	<ul style="list-style-type: none"> <li>Consolidated added value</li> <li>Turnover of Group</li> </ul>	<ul style="list-style-type: none"> <li>Increase in Subsidiaries Turnover</li> <li>Increase in volume of turnover in the sectors of artificial stone and ceramics</li> </ul>
<ul style="list-style-type: none"> <li>Shareholders</li> <li>Banks</li> </ul>	<ul style="list-style-type: none"> <li>Value of fixed assets</li> </ul>	<ul style="list-style-type: none"> <li>New investments in tangible and intangible assets</li> </ul>	<ul style="list-style-type: none"> <li>Increase in production assets and financial holdings</li> </ul>
<ul style="list-style-type: none"> <li>Customers</li> <li>Suppliers</li> <li>Collectivity</li> </ul>	<ul style="list-style-type: none"> <li>Service, after-sales at the customer's premises and level of service in terms of the reliability of deliveries</li> <li>Reliability and regularity of payment</li> <li>Economic and social development in the community</li> </ul>	<ul style="list-style-type: none"> <li>Customer satisfaction level</li> <li>Average delivery times</li> <li>Average credit rating</li> <li>Lead production Time for MTD</li> <li>Top 30 suppliers in consistency of payment</li> <li>DPO (mean supplier payment time)</li> <li>N° and value of charity objectives</li> </ul>	<ul style="list-style-type: none"> <li>Improved average delivery times</li> <li>Consolidation of relations with the "historical" suppliers and partial change of innovation and development objectives</li> </ul>
<ul style="list-style-type: none"> <li>Customers</li> </ul>	<ul style="list-style-type: none"> <li>Product quality excellence</li> </ul>	<ul style="list-style-type: none"> <li>Costs allocated to R&amp;D projects</li> <li>Hours allocated to R&amp;D projects</li> </ul>	<ul style="list-style-type: none"> <li>Two projects aimed at achieving technological improvements to the products, as well as to expand and renew what is offered to customers</li> </ul>
<ul style="list-style-type: none"> <li>Human Resources</li> </ul>	<ul style="list-style-type: none"> <li>Improvements to competences, abilities and skills</li> <li>Increase in level of safety at the workplace</li> </ul>	<ul style="list-style-type: none"> <li>Staff Turnover</li> <li>Benefits</li> <li>N° of Accidents</li> </ul>	<ul style="list-style-type: none"> <li>Managerial developmental training</li> <li>Notification of partners of company approach to sustainability with the establishment of the Ethical Code</li> </ul>
<ul style="list-style-type: none"> <li>Environment</li> </ul>	<ul style="list-style-type: none"> <li>Improvement in the energy efficiency of production plant</li> </ul>	<ul style="list-style-type: none"> <li>Consumption in CO2 equivalent</li> <li>Saved CO2 equivalent</li> <li>Energy saved (Mw)</li> </ul>	<ul style="list-style-type: none"> <li>Granting responsibility of the company in the carrying out product process realization and in the products themselves, with regard to the consumption of energy resources and the disposal of waste, with the aim of minimizing the impact on the environment</li> <li>Electricity purchased at 100% from renewable sources</li> </ul>

Source: Dellas <IR> 2017, p. 8-9



<b>VALUE CREATION</b>	
<b>STEPS</b>	
Prioritisation of the 6 capitals for the company	
Intersection between material topics and capitals	
Individuation of risks and opportunities for each material topic	
<b>Action plan</b>	
Choice of financial and non-financial KPIs for each material topic	
<b>OUTPUT</b>	
Construction of integrated dashboard	

### COSTA EDUTAINMENT EXPERIENCE ON ACTION PLAN

To define and to monitor the Action Plan, Costa Edutainment used QuickScore, which is a web technology created for the Balanced Scorecard management and it is accessible through browser with an appropriate user license.



For the purpose of the Action Plan in the integrated reporting journey, the four traditional BSC dimensions have been modified in order to align them to the IIRC indications on value creation and the six capitals.

### Connectivity amongst the four dimensions:

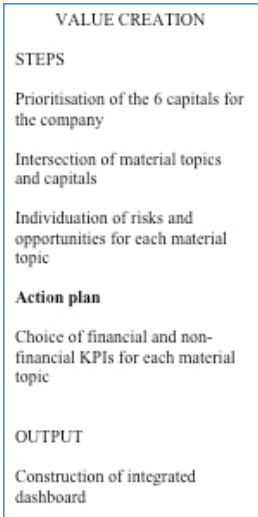


### Integrated strategic map with the 6 capitals (quickscore®)



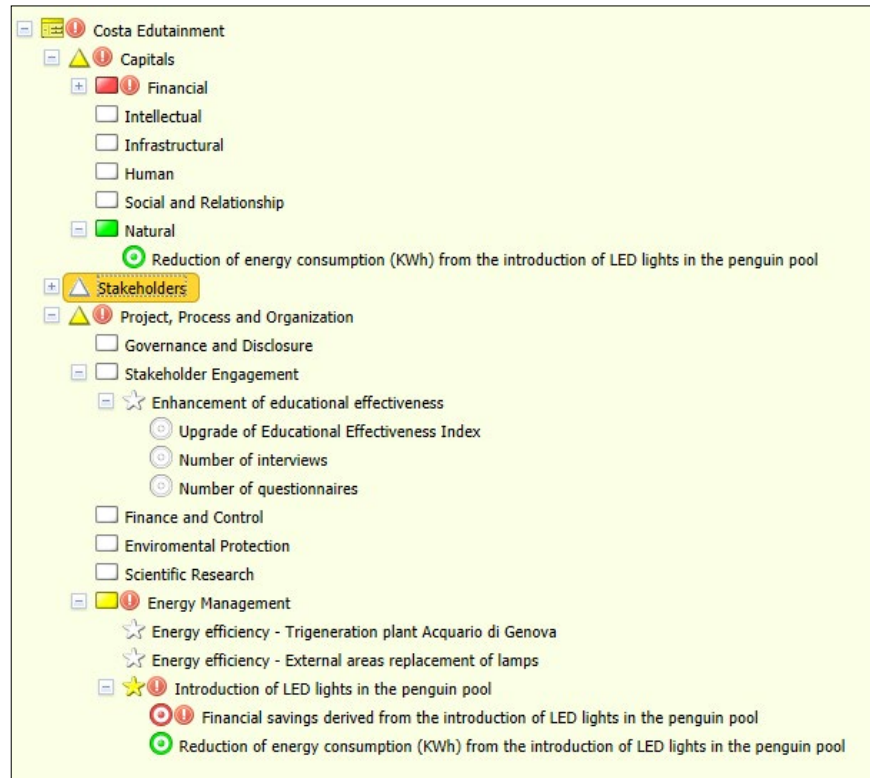
[www.costaedutainment.it](http://www.costaedutainment.it)

### 3. The Implementation of an Integrated Report in SMEs: Four Case Studies



#### COSTA EDUTAINMENT EXPERIENCE ON ACTION PLAN

The connection path between capitals, stakeholders and organizational objectives (Quickscore®)



IMPACT EVALUATION

STEPS

KPIs measurement (dashboard)

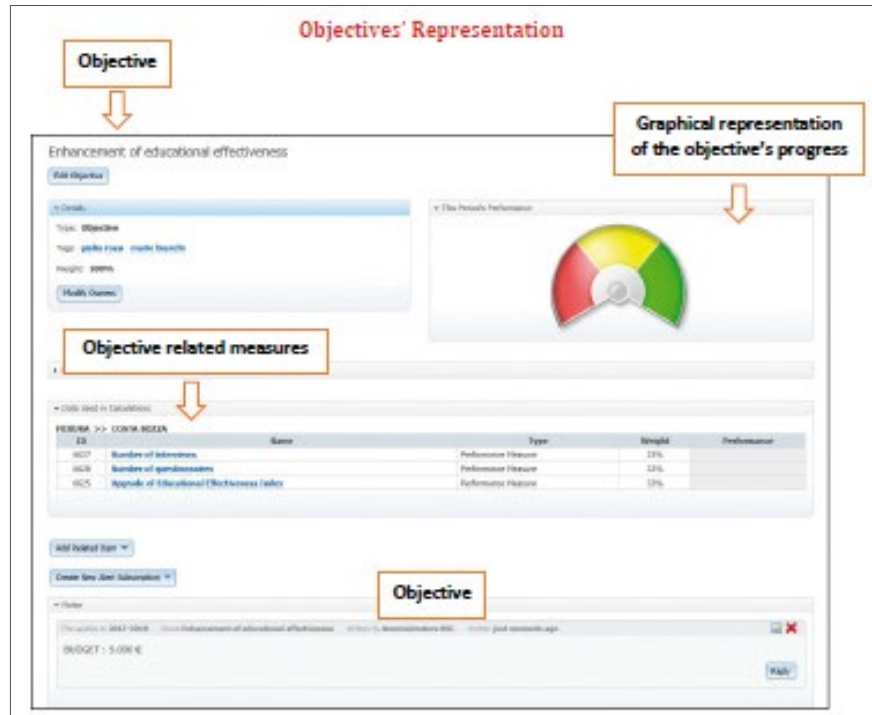
Valuation achievement of the objectives and set-up next targets (future perspective)

Integrated performance rewarding

OUTPUT

Integrated report realization

COSTA EDUTAINMENT EXPERIENCE ON IMPACT EVALUATION



IMPACT EVALUATION

STEPS

KPIs measurement (dashboard)

Valuation achievement of the objectives and set-up next targets (future perspective)

Integrated performance rewarding

OUTPUT

Integrated report realization

DELLAS EXPERIENCE ON IMPACT EVALUATION

In order to implement a continuous improvement of its activities and to generate shared value for its stakeholders, Dellas has identified specific Key Performance Indicators. They are divided for each capital with the aim of monitoring a series of improvement goals. In particular, Dellas traces its improvement aims for the coming year.

	STAKEHOLDERS INVOLVED	THEMES OF INVOLVEMENT	KEY PERFORMANCE INDICATORS	IMPROVEMENT AIMS
G4-2 G4-9 G4-26 G4-27 Financial capital	<ul style="list-style-type: none"> <li>Shareholders</li> <li>Banks</li> <li>Public Administration</li> </ul> (page 31)	<ul style="list-style-type: none"> <li>Value Added distribution</li> </ul>	<ul style="list-style-type: none"> <li>Consolidated added value</li> <li>Turnover of Group</li> </ul>	<ul style="list-style-type: none"> <li>Increase in Subsidiaries Turnover</li> <li>Increase in volume of turnover in the sectors of artificial stone and ceramics</li> </ul>
Manufactured capital	<ul style="list-style-type: none"> <li>Shareholders</li> <li>Banks</li> </ul> (page 34)	<ul style="list-style-type: none"> <li>Value of fixed assets</li> </ul>	<ul style="list-style-type: none"> <li>New investments in tangible and intangible assets</li> </ul>	<ul style="list-style-type: none"> <li>Increase in production assets and financial holdings</li> </ul>

Dellas integrated report 2017, p. 9

## Final Remarks for Section 3.

The reporting journey represents a significant experience for each of the four considered companies, both in an internal and external profile.

In particular:

- From the internal point of view, it has helped to strengthen the integration of functions and a holistic vision of the real areas where value is created;
- From the external point of view, it represented an innovative and complete tool that is available to the Company for the disclosure towards the financial capital suppliers, but also more generally towards to all stakeholders.

The journey continues for the four companies, in fact they have expressed their intention to continue to deepen and to improve the reporting process and therefore the quality of the report.

## Appendices to the integrated reporting guidance for SMEs

---

### **A.1** Proposed Key Performance Indicators (KPIs) for SMEs

A1.1 Methodology

A1.2 Comparability and specificity of KPIs

A1.3 Key Performance Indicators for SMEs

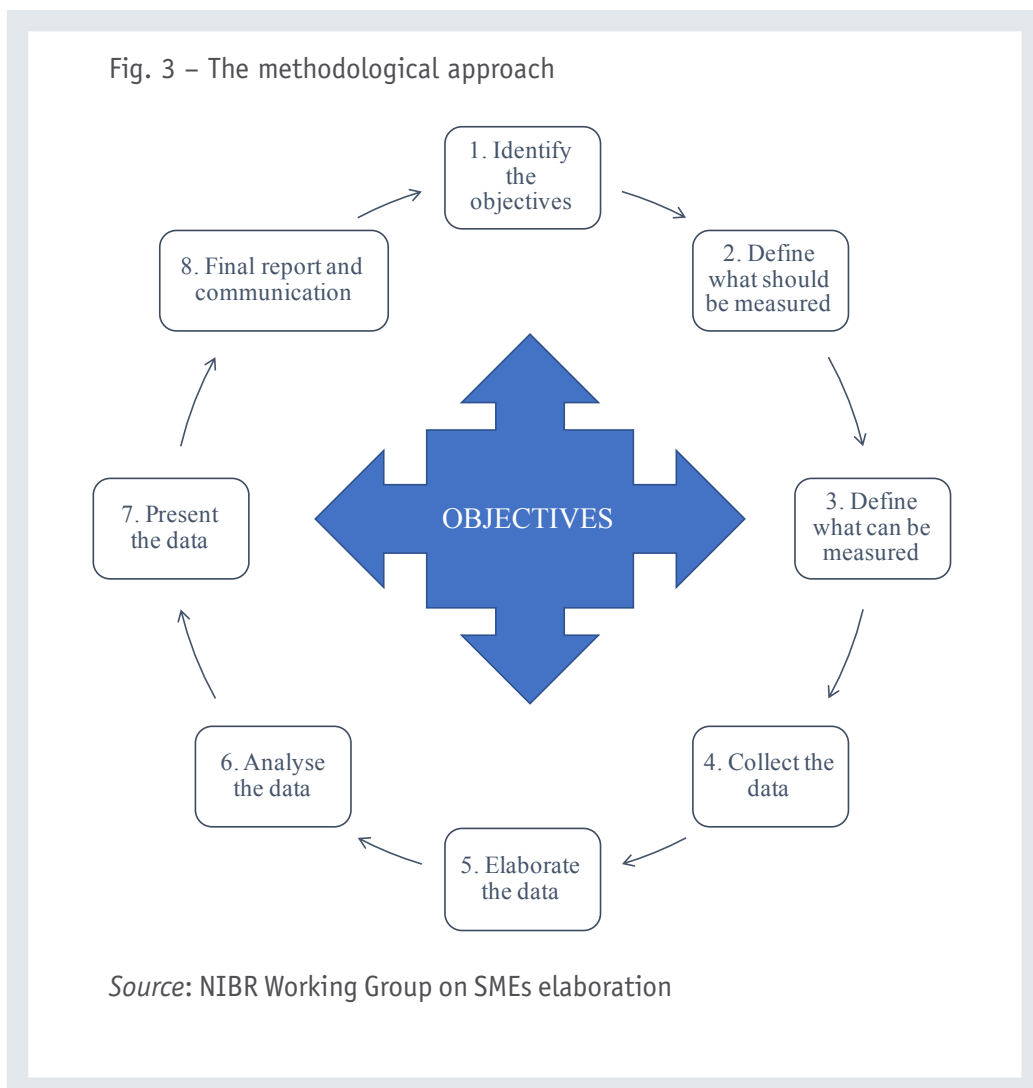
A1.4 Key Risks Indicators for SMEs

# A.1 Proposed Key Performance Indicators (KPIs) for SMEs

## A1.1 Methodology

The graph below (Figure 3) depicts the methodology to be applied for the identification and representation of organizational KPIs, bearing in mind that the selection of the KPIs to be included in the integrated report should be:

- correlated with organizational strategic objectives;
- significant and effective to represent and explain the value creation process;
- reliable, comprehensive, consistent and comparable.



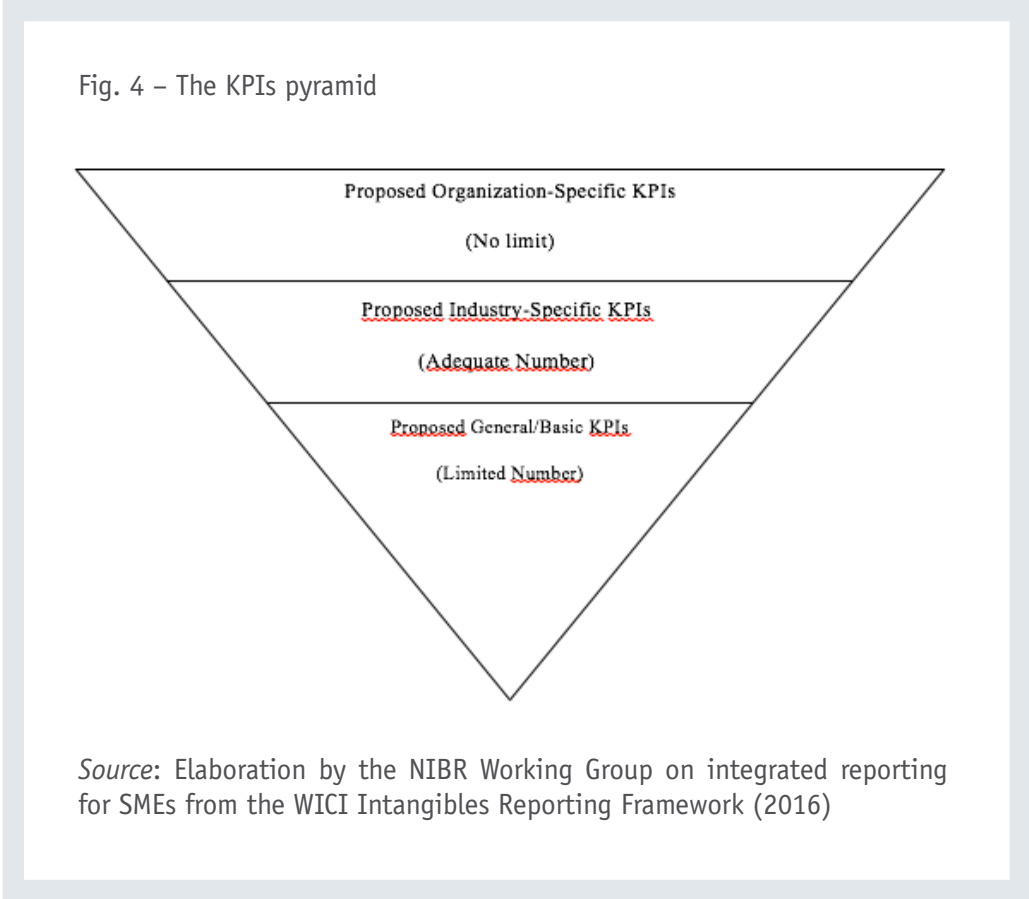
Data are usually provided by the company's information system. The data source is usually represented by the company's information system. After the assessment of the availability and significance/materiality of data made by the team composed by representatives of various business functions (see Section on 'Setting up the integrated reporting working group') the entrepreneur usually plays a key role in selecting the indicators/is responsible for the selection of the key indicators.

It should be noted that the process integrated reporting provides a valuable opportunity

to analyze, share and discuss strategic and operational business aspects/matters. For this reason it is appropriate to establish a small working group, coordinated by the same entrepreneur, who may play the role of promoter. Of particular importance is the narrative explanation associated with data, that allows one to correctly interpret the information by relating data to the time period (in terms of a comparison with previous years) or the market (benchmark). Finally, with regard to the frequency, the integrated report is prepared every year and it is supported by a continuous improvement processes.

## A1.2 Comparability and KPIs' specificity

In order to define the number and type of indicators to be included in the integrated report KPIs can be usefully divided into (Figure 4).



Although there is no specific limit in the choice of KPIs that goes beyond the relevant ones depending on the characteristics of each individual company, an SME may not wish to disclose information about every material matter and report all possible indicators; rather it should select those most suitable to representation its value creation story. Therefore, indicators should be selected to effectively summarize and depict the company's situation and perspective, avoiding the information redundancy that can hinder - rather than favor - the completeness and clarity of information.

It is useful to include the most significant general/basic KPIs within the first pages of the Report, specifically in the section containing the organization overview or the Executive Summary, if provided. Many organizations begin their integrated report with a company profile, through a representative slot of economic and financial indicators, as well as indicators related to the size and market positioning.

In the unfolding of the Report, notably in the section devoted to the performance, industry/sector KPIs should be reported in addition to the general/basic KPIs (represented in detail

and compared with previous years). Also in this case financial and non-financial indicators should allow a time-series analysis by report users (compare the change in KPIs over time, normally with respect to the two previous years and a competitive analysis (to compare KPIs across companies).

An organization is expected to report the KPIs which best represent the uniqueness of its value creation mechanism. The organization-specific KPIs cover the processes, the research activities, the sales or other specific topics of interest relative to additional peculiarities and distinctive features. It is to be noted that there can be a high chance of overlap between these three tiers. So, an organization-specific indicator might also fit into the categories of general or industry-specific indicators.

Finally, the importance of proper units of measure and clear terminology, despite differences in business language from company to company, should be noted.

For this reason, a glossary of keywords is recommended, to be included as a last section of the integrated report.



## A1.3 Proposed Key Performance Indicators (KPIs) for SMEs

A first general company overview can be provided through 4 or 5 indicators selected among those below listed:

### Highlights

- 1 Total revenues
- 2 EBITDA
- 3 Total number of employees
- 4 Number of venues
- 5 Number of customers
- 6 Customer Satisfaction Index
- 7 Market share or market position
- 8 % of revenues invested in R&D

To supplement fundamental data, the company overview can be completed by inserting the following basic indicators in the sections devoted to the content of the integrated reporting and in particular in the section "Performance".

### General/basic KPIs

- 1 Products sales Turnover
- 2 Services sales
- 3 Turnover of after-sales services
- 4 Profit for the year
- 5 Cash flow generated
- 6 Average employee turnover
- 7 % of sales from new customers
- 8 % of sales from existing customers
- 9 % of sales from new markets
- 10 Number of new products released
- 11 Number of new services offered
- 12 Number of new patents
- 13 % of sales from new products
- 14 % of sales from new services
- 15 Average revenue per customer
- 16 Average Margin on product revenues
- 17 Average Margin on service revenues
- 18 Total personnel cost
- 19 Average personnel cost

**General/basic KPIs**

- 20 % of commercial costs on revenue
- 21 % of administrative staff on total number of employees
- 22 % of general and administrative costs on revenues
- 23 % of management costs on revenues
- 24 % of revenues invested in R&D
- 25 % of revenues invested in training
- 26 Training hours per employee

In addition to indicators that mainly represent the tangible aspects of the company, some KPIs may be selected among those listed below, according to the characteristics and core competencies of the organization. This way it could be possible to more effectively represent the value components related to relationship capital, human and intellectual capital that distinguish the company in the market.

**Industry-Specific KPIs**  
(Relationship Capital)

- 1 Number of customers
- 2 Number of new clients
- 3 Level of customer concentration by sale classes
- 4 Level of sales concentration by customers and geographical area
- 5 Customers segmentation by market or territory
- 6 % of foreign sales on total sales
- 7 Breakdown of turnover by sales/distribution channel
- 8 % of sales to direct sales
- 9 % of sales to indirect sales
- 10 % of turnover by web (e-commerce)
- 11 Number of employees devoted to commercial activity (sales and marketing)
- 12 Average commercial staff turnover
- 13 Number of employees devoted to international firm activity
- 14 Average foreign sales per dedicated resource
- 15 Number of commercial offers/proposals made
- 16 % of successful commercial offers on total offers made
- 17 Customer Satisfaction index
- 18 Customer Satisfaction index relative to the first 5 or 10 customers
- 19 Customer Loyalty rate
- 20 % of loyal customers
- 21 % of bad debts on total outstanding receivables
- 22 Number of complaints per year
- 23 Number of ongoing legal disputes
- 24 Brand recognizability/brand strength
- 25 Corporate external image perceived by customers

**Industry-  
Specific KPIs**  
(Relationship  
Capital)

- 26 Communication channels with customers
- 27 Market share by product, region and customer
- 28 Corporate Internal image
- 29 Employees' internal satisfaction level (business climate)/Level of employee satisfaction
- 30 % of sales invested in new customers' search
- 31 % of sales invested in the loyalty of existing customers
- 32 % of sales invested in communication
- 33 Average number of suppliers
- 34 Degree of purchases concentration
- 35 Number of commercial and technological partnerships
- 36 % of the output made/realized abroad
- 37 Total revenues generated abroad
- 38 % of the personnel dedicated to foreign production
- 39 Number of banks utilized and credit lines
- 40 Channels of communication with stakeholders

**Industry-  
Specific KPIs**  
(Human Capital)

- 1 Total Number of employees
- 2 Number of external resources on a contract
- 3 Average age of employees
- 4 Average employee's seniority
- 5 Staff turnover
- 6 School attendance staff
- 7 % of graduate employees
- 8 Specialization level (% of personnel with a high degree education - certified personnel)
- 9 % of women (number of women on total employees)
- 10 Number of employees belonging to protected categories
- 11 Ratio male-female salary by contractual category
- 12 Breakdown of employees by age group
- 13 Breakdown of employees by professional status and gender
- 14 Breakdown of employees by type of contract
- 15 Total cost of personnel
- 16 Number of people devoted to/assigned to R&D activities
- 17 Number of people/resources devoted to sales and marketing activities
- 18 Number of people for production activities
- 19 Number of people devoted to/assigned to general and administrative activities
- 20 Number of people devoted to/assigned to post-sales services
- 21 % of utilization of external/outsourced resources

**Industry-  
Specific KPIs**  
(Human Capital)

- 22 % of employees with an incentive plan
- 23 Employee's loyalty plans
- 24 Incentives and prizes allocated
- 25 Proportion of total personnel costs devoted to incentives
- 26 Employee's Satisfaction Index/Level of Employee satisfaction
- 27 Average day absence per employee
- 28 % of days lost due to sickness or accident
- 29 Overtime (number of hours)
- 30 Rate of accidents at work
- 31 Absenteeism rate
- 32 Number of disciplinary letters
- 33 Average age of management
- 34 Degree of leadership management
- 35 Composition of governance bodies
- 36 Degree of management alignment with business objectives
- 37 Management ability in providing needed resources
- 38 Number of managerial meetings
- 39 Number of annual meetings with partners
- 40 % of sales revenues invested in training
- 41 % of employees who have benefited from training courses
- 42 Total training hours
- 43 Multi-skill index
- 44 Versatility index
- 45 Value added per employee

**Organization-  
specific KPIs**  
(Intellectual and  
Structural Capital)  
manufactured

- 1 Infrastructure owned (number/value)
- 2 Infrastructure rented or leased out
- 3 Number and type of certifications
- 4 Number of certified sites/venues
- 5 Number of operating sites
- 6 Number of sites/branches abroad
- 7 Number of production sites
- 8 Number of non-compliances detected by the quality system
- 9 Number of registered patents
- 10 Number of licenses
- 11 Number of registered web domains
- 12 Number of employees involved in/dedicated to R&D activities
- 13 Ratio of R&D investment to sales

**Organization-specific KPIs**  
(Intellectual and Structural Capital)  
manufactured

- 14 Ration of investments to production on total sales
- 15 Ration of investments to promotion and marketing on total sales
- 16 Ratio of investments to IT, infrastructures and web on total sales
- 17 Investments made in energy saving
- 18 Investments planned in energy saving
- 19 Investments in after-sales services
- 20 Number of projects initiated
- 21 % of innovative projects
- 22 Number of projects completed with past deadlines
- 23 Number of products delivered with past deadlines
- 24 Number of corrective actions requested by the management
- 25 Number of external awards obtained for innovation
- 26 Number of external events in which the company participated
- 27 Number of annual internal meetings
- 28 Number of tenders and competitions
- 29 % of successful tenders/competitions
- 30 % of national/local resources used
- 31 % of foreign resources used
- 32 % of discarded incoming materials/inputs
- 33 % of discarded products on the total by materials category
- 34 % of the production value not intended for sale
- 35 Direct energy consumption
- 36 Total CO<sub>2</sub> equivalent emissions

It should be noted that some of the above mentioned indicators are easily available as they relate to both data already recorded in the financial statements (included in the Management commentary, the management report and other descriptive documents) and data obtainable from the organization's accounting system. In general, it can be said that most of these indicators are included among those placed on top of the pyramid (the general/basic KPIs such as turnover/revenues data, weight of costs, profitability, and operational results, etc.), while indicators placed at the base of the pyramid are more specific in nature (sector/industry-specific KPIs or organization-specific KPIs). Therefore, the management should select the relevant qualitative information (e.g., the customer satisfaction index or the employee's commitment index, the distributions channels, the level of management leadership and the alignment with business goals).

## A1.4 Proposed Key Risks Indicators (KRIs) for SMEs

The following is an illustrative list of risk indicators used in the context of the narrative presented in the sections relating to the content of the integrated report, and in particular in the section “Opportunities and Risks”.

### **Organization-specific KRIs**

- 1 Level of concentration of credit lines granted by financial institutions
- 2 % of credit lines utilized
- 3 Hedge operations for interest rate risk protection
- 4 % of total net debt
- 5 Checks on new customers’ solvency
- 6 Bad debt provision
- 7 Price and availability risk in procurement
- 8 Market price monitoring
- 9 Reputational risk management
- 10 Checks on incoming materials
- 11 Checks on the quality of products sold
- 12 Checks on the service level provided to customers
- 13 Checks on customer satisfaction
- 14 Safety in the workplace
- 15 Checks and controls on privacy
- 16 Systems of environmental risks management and control
- 17 Organizational/management model to prevent corporate crimes (Italian Legislative Decree no. 231/2001)
- 18 Risk of know-how loss due to personnel leaving
- 19 Level of dependence on key personnel
- 20 Level of dependence on key customers
- 21 Loss of know-how for failure or insufficient documentary materials
- 22 Level of documentation of business processes and procedures
- 23 Level of interpretation/processing of information (“intelligence”)
- 24 Skills level
- 25 Intellectual property protection
- 26 Internal systems of control and management of orders/commissions
- 27 Degree of alignment in/with corporate strategies
- 28 Processes of internal communication
- 29 Probability and vulnerability relating to possible customer losses
- 30 Probability and vulnerability relating to possible business partner losses

**Organization-specific KRIs**

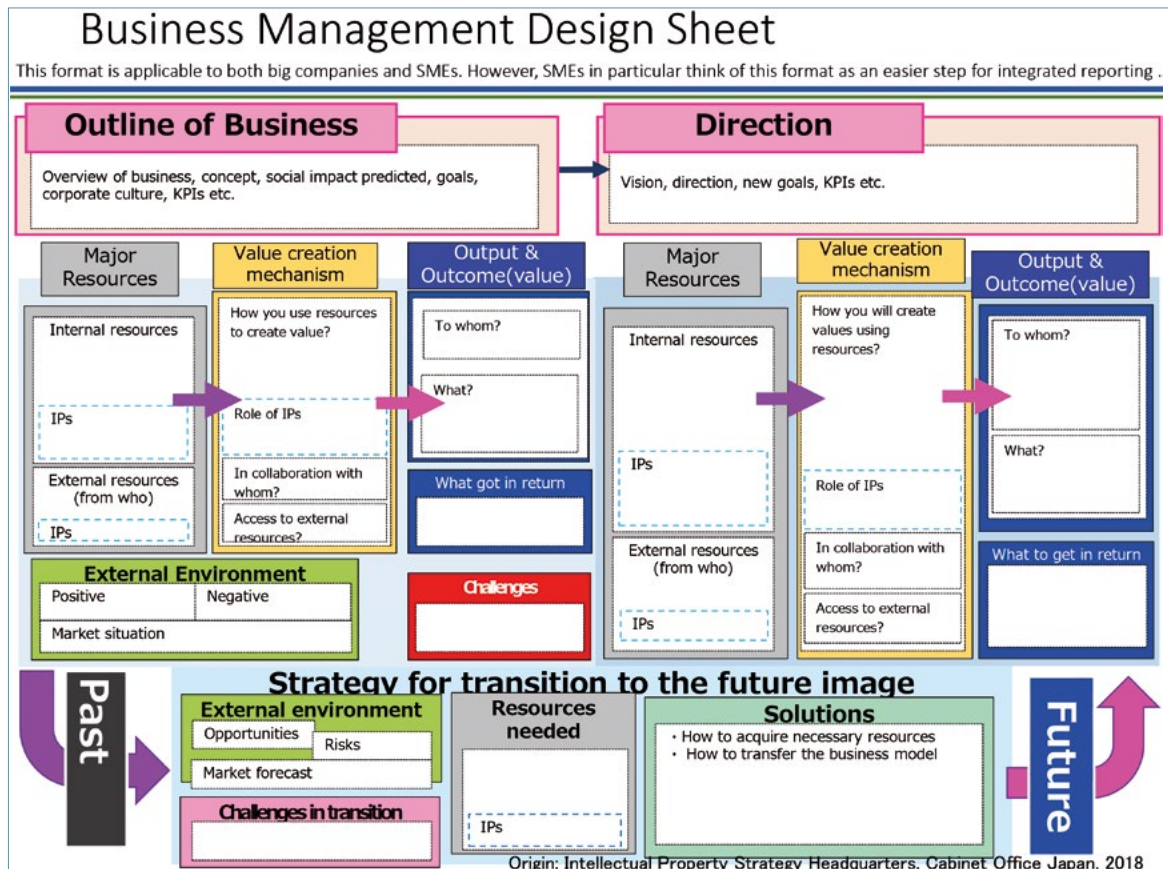
- 31 Level of dependence on suppliers
- 32 Suppliers' requests for guarantees and restrictions on payment modes
- 33 Legal disputes and trade union conflicts
- 34 Fairness in partnering with customers and suppliers
- 35 Fairness in internal relations between employees
- 36 Management loyalty and transparency

## A.2 A synthetic approach to the Implementation of Integrated Reporting for SMEs suggested by the Japanese Government

The following two diagrams represent a synthetic approach to the implementation of Integrated Reporting for SMEs as suggested by the Cabinet Office of Japanese Government to support this category of organizations in their journey towards this new reporting practice.

In particular, the first diagram is expected to be applicable by both large companies and SMEs. However, SMEs think that this diagram represents already an easier step for the implementation of their integrated reporting rather than the <IR> International Framework.

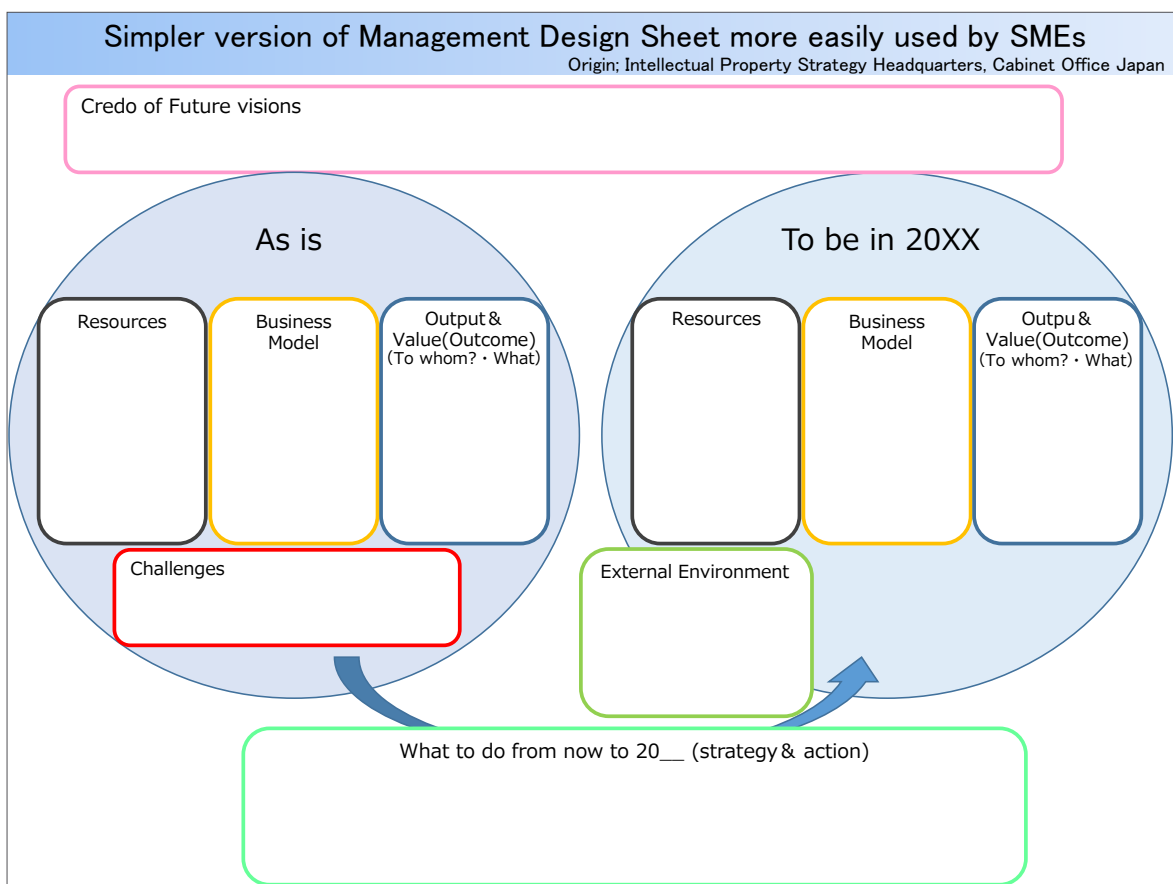
Diagram 1 – Format applicable to both large companies and SMEs for implementing integrated reporting



Source: Intellectual Property Strategy Headquarters, Cabinet Office, Japan, 2018.



Diagram 2 – Simpler version of Management Design Sheet for integrated reporting of SMEs



Source: Intellectual Property Strategy Headquarters, Cabinet Office, Japan, 2018.

Graphic design and paging



MERCURIO<sub>GP</sub>

[www.mercuriogp.eu](http://www.mercuriogp.eu)



