



ERASMUS+ KA2 Strategic Partnership
2019-1-HU01-KA202-060911
INTEREST - INTEgrated REporting for SMEs Transparency

SME integrated thinking and reporting – a possible new model of SME governance

***Adriana TIRON-TUDOR,
full professor Babes-Bolyai University, FSEGA***

UAB ICMEA Conference
Alba Iulia, 19-20 November 2020

Plenary session

Co-funded by the
Erasmus+ Programme
of the European Union



ONE HUNDRED YEARS OF ROMANIAN
ECONOMIC HIGHER EDUCATION
IN CLUJ - 1920-2020





ERASMUS+ KA2 Strategic Partnership
2019-1-HU01-KA202-060911
INTEREST - INTEgrated REporting for SMEs Transparency

Content

1. Corporate Governance –accountability-reporting
2. SME indirect impacted by the EU NFI Directive-debates
3. Different NFI international reporting frameworks
4. Integrated thinking and reporting – **INTEREST project**





1. Corporate Governance –accountability-reporting

• Corporate Reporting - Criticisms of Existing Model

Characteristic	Criticism
Quantity of information	Excessive volume / number of data
Nature of information	Difficult to understand (technical barrier)
Time perspective / period	Purely historical (not looking forward)
Objective / orientation	Compliance oriented (not explaining linkage with strategy and business model)
Scope	Not exhaustive (request for holistic vision)
Other	Lack of coherence and consistency Failed to evolve like management reporting Form and content is supply not demand driven

Corporate Governance –accountability-reporting

Financial

Financial & Non-financial





1. Corporate Governance –accountability- **NFI reporting**

Political and Regulatory Developments
 Real Economy



25 June 2020
 EC requested EFRAG to undertake preparatory work for possible EU NFR standards in a revised NFR Directive





1. Corporate Governance –accountability- **NFI reporting**

- EU Accounting Directive
 - Management Report (MR) ‘houses’ non-financial information (NFI)
- Non-Financial Reporting Directive (NFRD)
 - Only applies to large public-interest companies with more than 500 employees but some countries have widened scope to smaller entities and evidence of supply chain effects
 - Policies in relation to **environmental protection**, **social responsibility** and treatment of employees, **respect for human rights**, **anti-corruption** and **bribery**, and diversity on company boards
- Review of NFRD (Feb. 2020 – Jan 2021)
 - Desire to see greater standardization, depth and reliability of NFR
 - IR framework may be basis for new EU standard for NFR and voluntary NFR for SMEs standard





2. SME indirect impacted by the EU NFI Directive-debates

Non-financial reporting: SMEs need a simplified voluntary standard



Future of Non-Financial Reporting by SMEs

Webinar, Thursday 29 October 2020, 13:30 CEST



19 November, 10:00 - 11:30 | Webinar

**SMALL IN SIZE, BIG IN IMPACT:
CAN NFI WORK FOR SMES?**



SMALL IN SIZE, BIG IN IMPACT: CAN NFI WORK FOR SMES?





2. SME indirect impacted by the EU NFI Directive-**debates**

Non-Financial Information EU Directive

a voluntary engagement of entrepreneurs, as the amount of administrative obligations has reached already an unbearable level for SME

=> **the scope of the Directive should not be enlarged to SMEs.**

Entrepreneurs should be able to choose the appropriate way for their specific situation and the needs of their stakeholders.

- SMEs need indicators that are simple and oriented to their specific characteristics
- Also in SMEs, NFI can be useful for the decision-making process as strategic decisions are also based on the values of the entrepreneur.
- But SMEs need thereto support, accompanying measures, and adapted proportional tools, affordable and easy to apply, in order to be able to comply with the taxonomy if they want or have to, he concluded.





2. SME indirect impacted by the EU NFI Directive-**debates**

For SME reporting :

- financial information mandatory
- Non-financial information –voluntary

SMEs are increasingly required to provide NFI reports, which is a heavy administrative burden, even though these are not (yet) demanded by legislation. These NFI requests come from their supply chains, banks, or as part of public procurement

How can NFI reporting work for SMEs?

Future standards should be affordable and easy to apply in small businesses as well
- and accepted in the whole supply chain.

⇒ Simplified NFR standard for SME-

- ⇒ Appropriate KPI
- ⇒ voluntary base





3. Different NFI international reporting frameworks

Environmental, Sustainability, Social, Governance reporting

STANDARD	FOCUS	WHY REPORT	SCORING	WHO REPORTS
	Primarily GHG emissions, but has grown to address water and forestry issues as well.	CDP holds the largest repository of corporate GHG emissions and energy use data in the world and is backed by nearly 800 institutional investors representing more than \$90 trillion in assets. Its transparent scoring methodology helps respondents understand exactly what's expected of them. CDP was regarded as the world's most most credible sustainability rating in 2013.	Companies receive two separate scores for Disclosure and Performance using a 100-point scale. CDP recognizes top scoring companies in the Carbon Disclosure Leadership Index [CDLI].	Public and private companies, cities, government agencies, NGOs, supply chains.
	Industry-specific criteria considered material to investors. Equal balance of economic, social and environmental indicators.	Membership in the DJSI is prestigious as it represents the top 10% of the 2,500 largest companies in the S&P Global Broad Market Index. The Corporate Sustainability Assessment [CSA] brings a sector-specific focus and need-to-know simplicity to disclosure for public companies. This index was regarded as the world's second most credible sustainability rating after CDP.	Companies receive a total Sustainability Score is between 0 -100 and are ranked against peers; includes a Media and Stakeholder Analysis; those scoring within the top 10% are included in index.	The 2,500 largest public companies in the world.
	Corporate social responsibility with an equal weight on environmental, social and governance factors. Heavy on stakeholder engagement to determine materiality.	GRI was announced as the official reporting standard of the UN Global Compact, making it the default reporting framework for the compact's more than 5,800 associated companies. It's among the oldest, most widely adopted and most widely respected reporting methodologies in the world. Its thorough focus on social and governance aspects of ESG is unparalleled.	Focus is on transparency so no true scoring methodology; new G4 framework requires entity reporting to choose "Core" or "Complete" reporting.	Public and private companies, cities, government agencies, universities, hospitals, NGOs.
	Environmental, social and governance performance in the global commercial real estate sector only. Includes asset- and entity-level disclosures.	Private and public institutional investors look to GRESB's annual survey as the barometer of sustainability performance in the commercial real estate industry. Its niche target audience allows it to give deeper and more accurate insights into industry performance and reveal "investment grade" results.	Responses scored out of a possible 140.5 points distributed across two categories of data. Heavy weighting placed on implementation and asset-level performance.	Commercial real estate owners, asset managers and developers.
	US public companies only. Industry-specific issues deemed material to investors.	SASB's standards enable comparison of peer performance and benchmarking within an industry. Studies by Goldman Sachs and Deutsche Bank have shown the stock of companies who disclose on sustainability outperforms that of companies who do not. SASB is backed by the likes of Bloomberg LP and the Rockefeller Foundation, giving it extra clout with capital markets.	No scoring system. Instead, SASB is a standardized methodology for reporting sustainability performance through the Form 10-K.	No one yet - they've just released their first sector reporting guidelines.





ERASMUS+ KA2 Strategic Partnership

2019-1-HU01-KA202-060911

INTEREST - INTEGrated REporting for SMEs Transparency

3. Different NFI international reporting frameworks

Environmental, Sustainability, Social, Governance, Economic reporting



**The Organisation for Economic Co-operation and
Development (Guidelines for Multinational Enterprises)**



UN Global Compact- SDG reporting



**International Organization for Standardization (ISO 26000 Guidance
on social responsibility)**



The International Integrated Reporting Council (IIRC Framework)





3. Different NFI international reporting frameworks

MANDATORY (regulated) Financial reporting IAS/IFRS or national

+

Voluntary Non financial reporting - Huge diversity of frameworks

International trend ! ---differ from EU trend (NFI GRI)

Integrated Reporting

=

Non-financial reporting

+

Financial reporting

**in an integrated manner reflecting
the entity integrated thinking**

**Statement of Intent to
Work Together Towards
Comprehensive Corporate
Reporting**



September 2020

**Summary of alignment discussions among
leading sustainability and integrated reporting
organisations CDP, CDSB, GRI, IIRC and SASB**





ERASMUS+ KA2 Strategic Partnership
2019-1-HU01-KA202-060911
INTEREST - INTEgrated REporting for SMEs Transparency

4. Integrated thinking and reporting

INTEREST project

P
A
R
T
N
E
R
S

	18 57 BGE
	 HOCHSCHULE RHEIN-WAAL Rhine-Waal University of Applied Sciences
	 Wrocław University of Economics
	 Universitatea BABEȘ-BOLYAI
	 UNIVERSITÀ DEGLI STUDI DI UDINE
	 LEEDS BECKETT UNIVERSITY LEEDS BUSINESS SCHOOL





4. Integrated thinking and reporting

INTEREST project

Main idea: Integrated Thinking and Reporting

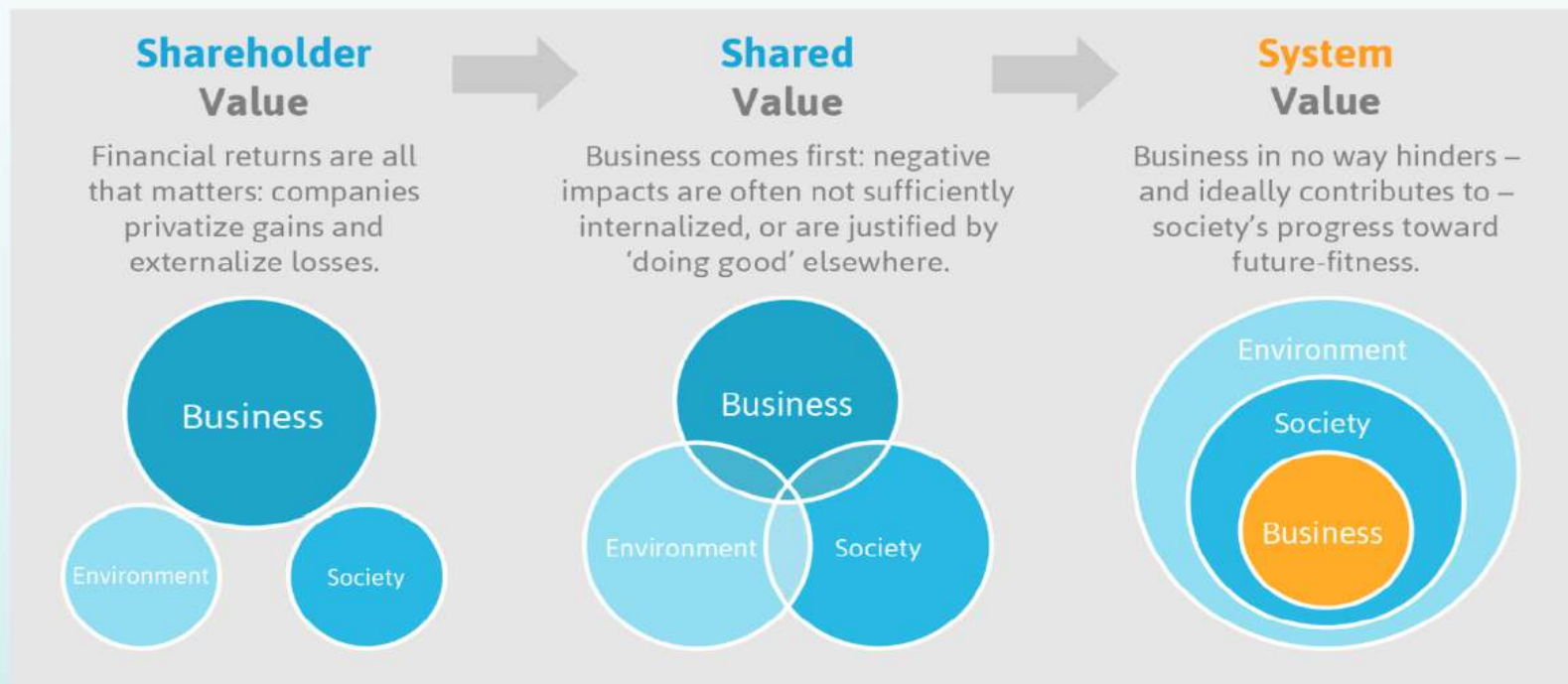
- Offer a Big Picture
- Helps align capital allocation and corporate behavior to wider goals of financial stability and sustainable development goals
- Integrated Thinking – the key to sustainable value creation
 - *is embedded within mainstream business practice*
- *The cycle of integrated thinking and reporting, resulting in efficient and productive capital allocation, will act as a force for financial stability and sustainability.*





4. Integrated thinking and reporting

INTEREST project



.....in an increasingly uncertain world, focusing on broader concepts of purpose and value will be critical to business success.

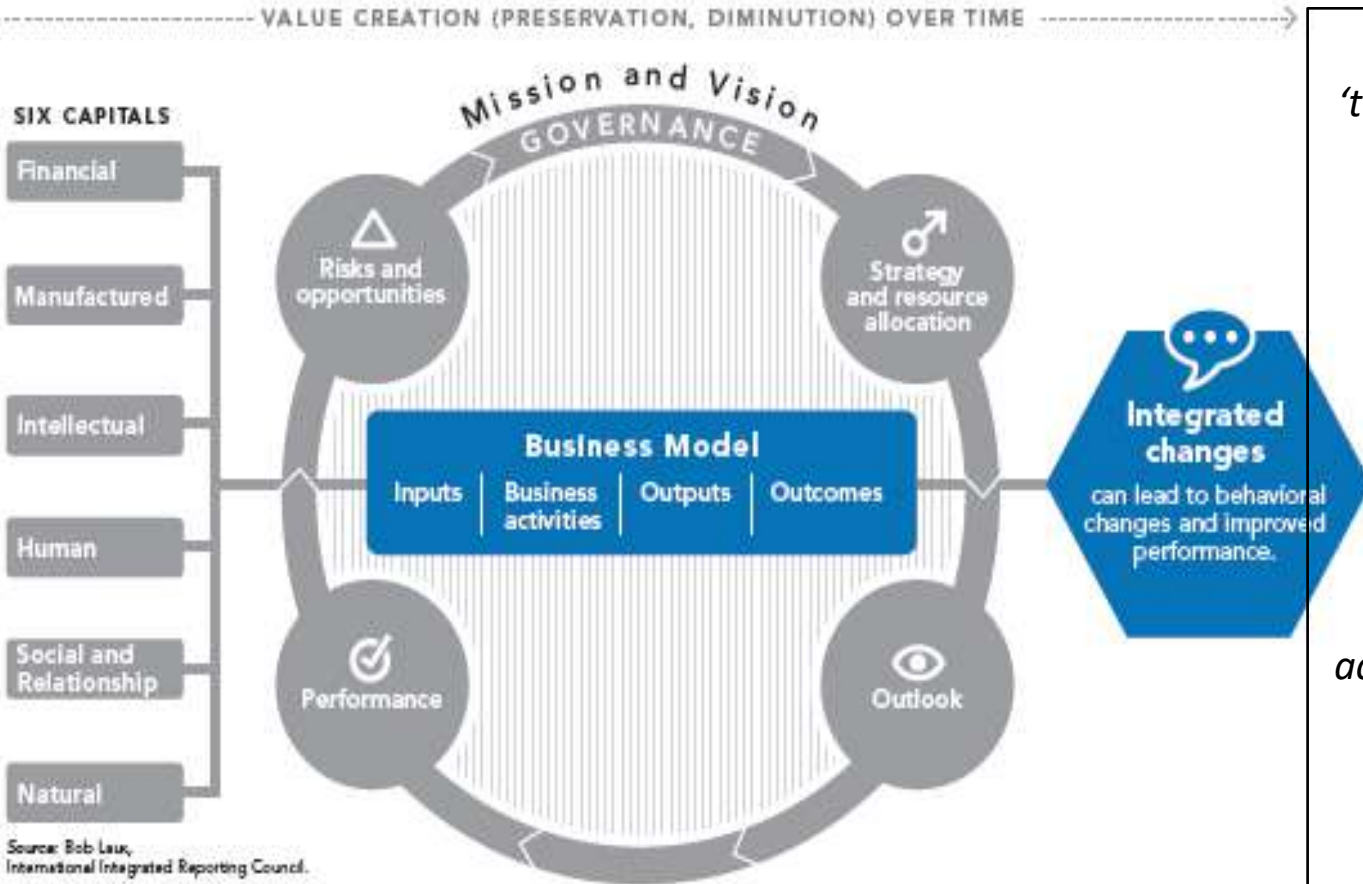




4. Integrated thinking and reporting

INTEREST project

I
N
T
E
G
R
A
T
I
O
N



Integrated thinking
'the active consideration by an organisation, of the relationships between its various operating and functional units, and the capitals that the organisation uses or affects which leads to integrated decision-making and actions that consider the creation of value over the short, medium and long term'
 (IIRC 2013a, p.33)

materiality- connectivity- value chain

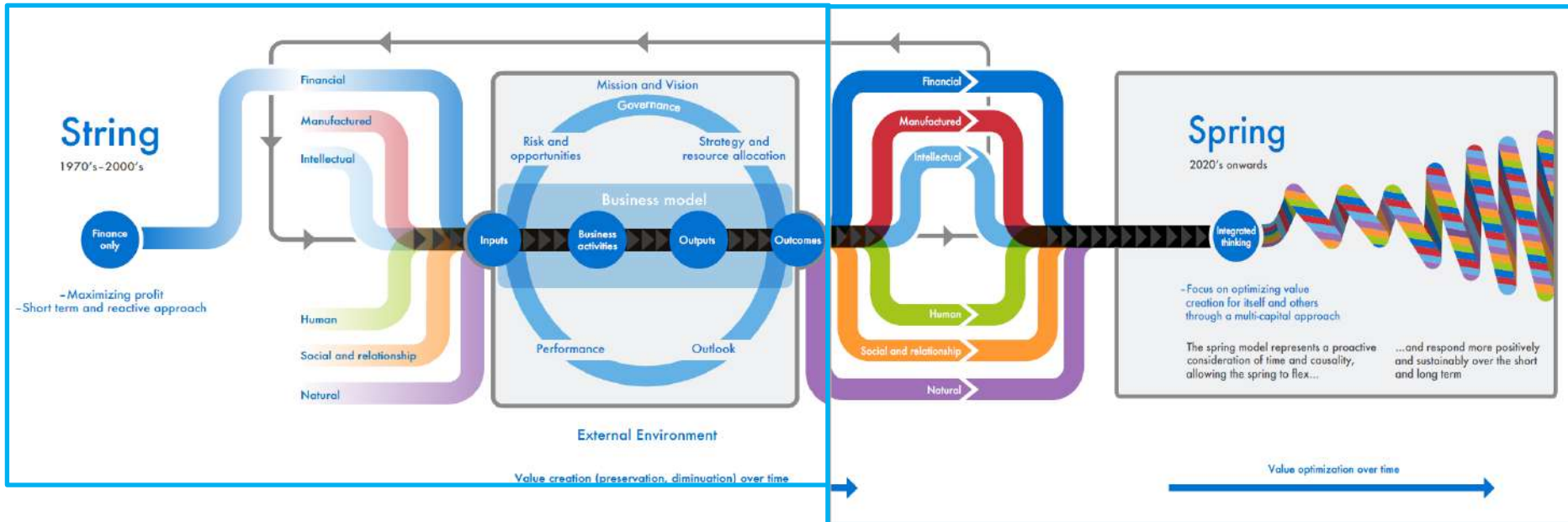




4. Integrated thinking and reporting

INTEREST project

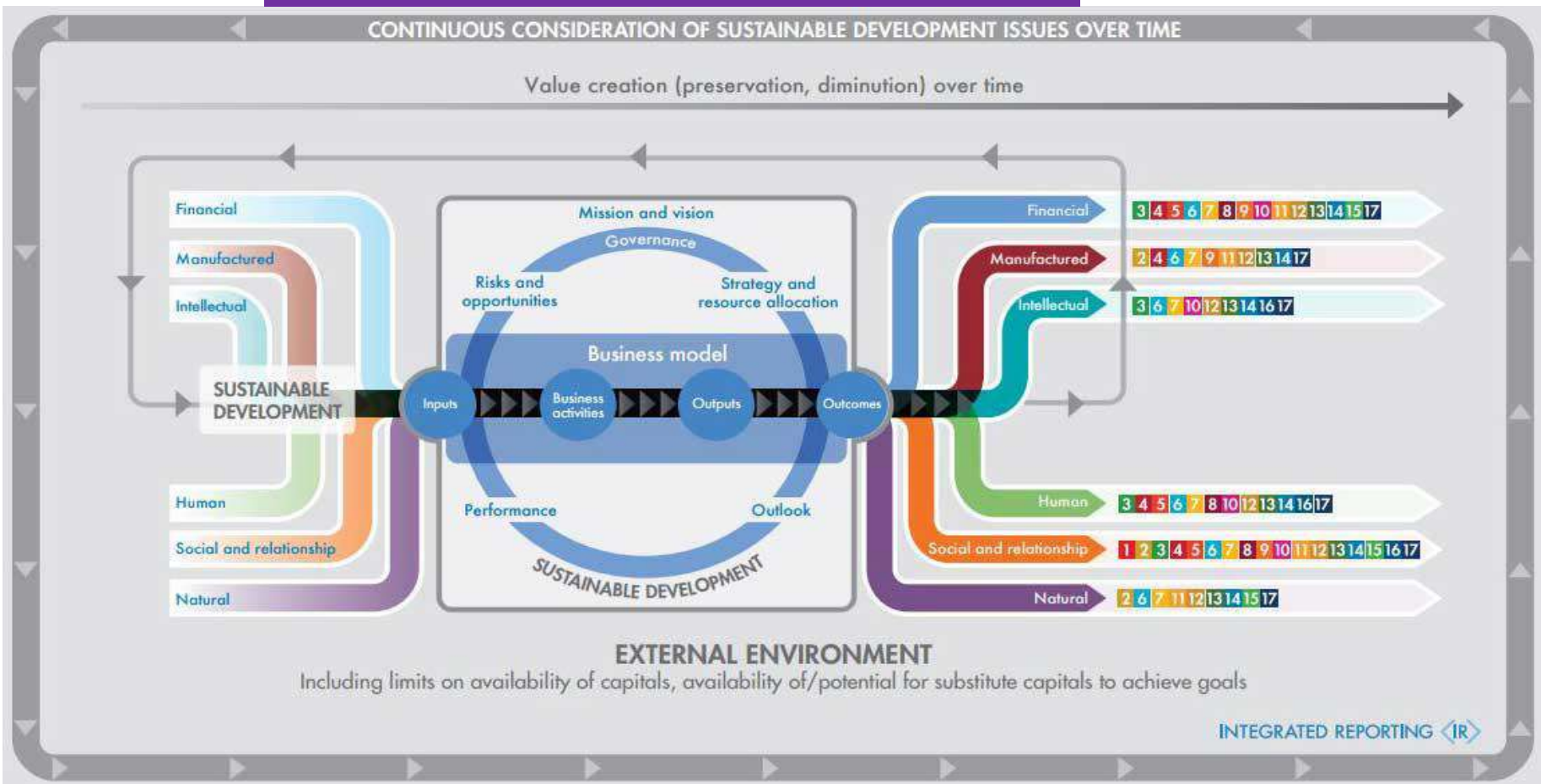
IR “a concise communication about how an organization’s strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term”





4. Integrated thinking and reporting

INTEREST project





4. Integrated thinking and reporting

INTEREST project

SMEs can more easily move toward IR for following reasons:

- rooted in the territory of origin
- smaller size
- presence of the entrepreneur and his/her family in company operations
- Importance of social and relationship and human capitals

INTEREST project outputs

- 1) **Guideline** – an adaptation scheme of the 6-capital-based IR to SMEs, an easily digestible suggestion for SMEs on how to prepare their IR and develop an integrated thinking approach to value creation and decision making processes.
- 2) A mix of face-to-face, e-learning and work based learning modular **training material** for SMEs, SME accountants and students on IR, based on the 6 capitals.
- 3) Dissemination of **possible incentives to encourage SMEs to adopt IR**





ERASMUS+ KA2 Strategic Partnership
2019-1-HU01-KA202-060911
INTEREST - INTEgrated REporting for SMEs Transparency

We are open to further dissemination and collaboration related to Integrated Reporting for SMEs.

Project LinkedIn group

<https://www.linkedin.com/groups/13789948/>



Project website

<https://www.interest-project.eu/>

Romanian team

UBB FSEGA Cluj-Napoca

<https://www.facebook.com/INTERESTRO/>

adriana.tiron@ubbcluj.ro

Supporting partner CECCAR Romania, Cluj branch

