

A high-angle, top-down photograph of a woman with dark skin and braided hair, wearing glasses and a white button-down shirt. She is looking down at her hands, which are clasped together in a thoughtful or contemplative gesture. The background is a light-colored, textured surface.

**Can integrated thinking
be the key to SMEs' resilience?**

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We're a thriving global community of 241,000 members and 542,000 future members based in 178 countries and regions, who work across a wide range of sectors and industries. We uphold the highest professional and ethical values.

We offer everyone everywhere the opportunity to experience a rewarding career in accountancy, finance and management. Our qualifications and learning opportunities develop strategic business leaders, forward-thinking professionals with the financial, business and digital expertise essential for the creation of sustainable organisations and flourishing societies.

Since 1904, being a force for public good has been embedded in our purpose. We believe that accountancy is a cornerstone profession of society and is vital helping economies, organisations and individuals to grow and prosper. It does this by creating robust trusted financial and business management, combating corruption, ensuring organisations are managed ethically, driving sustainability, and providing rewarding career opportunities.

And through our cutting-edge research, we lead the profession by answering today's questions and preparing for the future. We're a not-for-profit organisation.

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Introduction

Small and medium-sized enterprises (SMEs) are crucially important to societies and economies around the world. Across the Organisation for Economic Co-operation and Development (OECD) countries, SMEs account for 99% of all businesses and three-quarters of all jobs in those sectors most affected by the COVID-19 crisis (eg tourism, retail and professional services, and construction and transportation).

COVID-19, the war in the Ukraine, and the ensuing economic crises have hit SMEs hard. Surging inflation, heightened supply chain issues, the energy crisis, and barriers in access to finance, make this an extremely stressful time for SME owners. With usually small cash buffers to withstand unexpected economic shocks, SMEs across the world struggle to survive. In February 2022, the Association of Chartered Certified Accountants (ACCA) and The Corporate Finance Network (The CFN) SME Recovery Tracker revealed that, in the UK, one in four SMEs were struggling to meet payroll costs in 2022 (ACCA 2022).

In light of these challenges, the Deakin Integrated Reporting Centre (DIRC) has published a [white paper](#) with the support of the ACCA and the Chartered Accountants Australia and New Zealand (CA ANZ), exploring how SMEs' transition from traditional business thinking to adopting an integrated approach can help them survive. The white paper draws on expert views and evidence presented at an international roundtable comprising leading global thinkers and practitioners in accountancy and business, including small and medium-sized accounting practice (SMP) and SME representatives (DIRC 2022).



How can integrated thinking support SMEs?

In today's complex and changing business environment, it is more important than ever for SMEs to be future-fit and resilient, asking themselves the following questions.

- **Why am I here?** What kind of value is my business here to create? SMEs must have crystal-clear and thorough understanding of their business models and purpose.
- **What do I need to survive and then thrive?** SMEs need to manage important non-financial value drivers for their business: taking care

of employees and customers, supply chain relationships, the environment, as well as thinking about the business' ability to innovate.

- **What's next?** How do I get to where I want to be? SMEs need to think strategically about the long-term, be agile, and proactively pre-empt risks and seize opportunities.

Answering these questions requires, in essence, applying integrated thinking, which forms the base for integrated reporting.



What is **integrated thinking**?

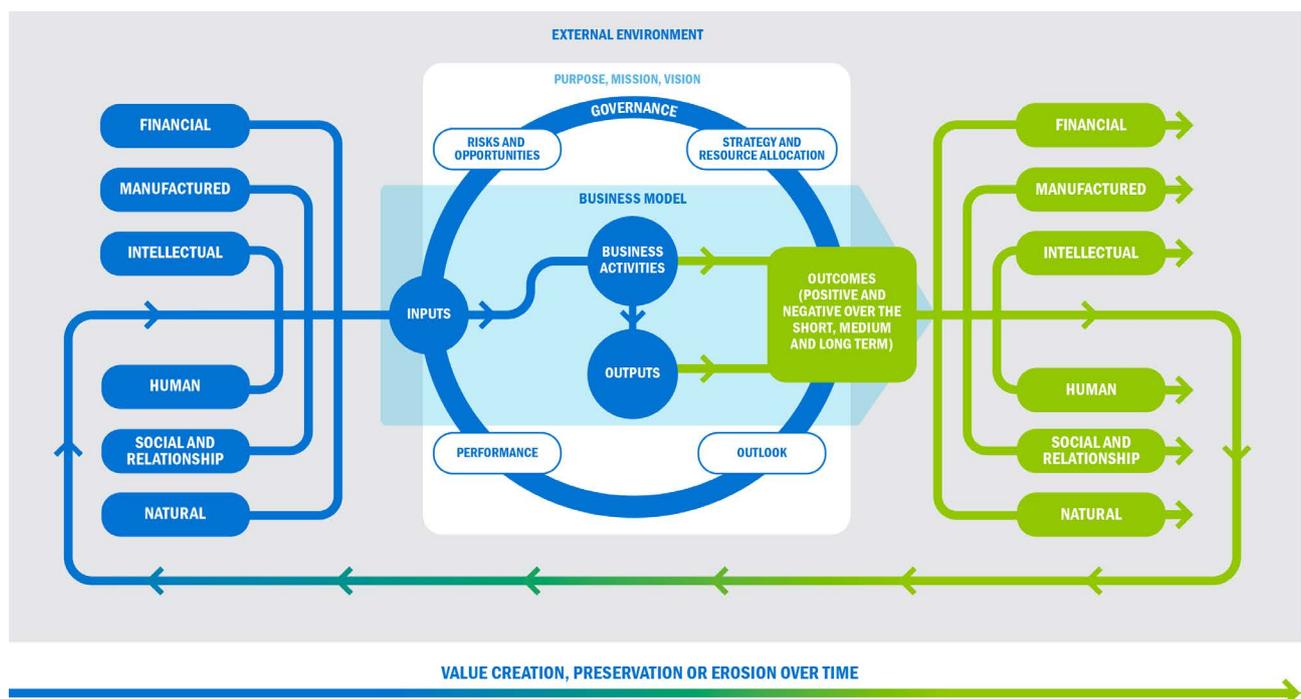


‘Integrated thinking: The active consideration by an organisation of the relationships between its various operating and functional units and the capitals that the organisation uses or affects. Integrated thinking leads to integrated decision-making and actions that consider the creation, preservation and erosion of value over the short, medium, and long term’ (IIRC 2021: 53).

‘Integrated reporting: a process founded on integrated thinking that results in a periodic integrated report by an organisation about value creation, preservation or erosion over time and related communications regarding aspects of value creation, preservation or erosion’ (IIRC 2021: 53).

The Integrated Thinking Principles represent a leadership and management philosophy focusing on the identification and organisation of multiple capitals to create value over time for the enterprise and its key stakeholders. This integration between financial and non-financial capitals is intended to lead to enhanced decision-making and increased transparency, and promote a forward-looking culture. The output – the integrated report – is an effective way of communicating an entity’s process of value creation, preservation and erosion to its stakeholders. The cycle of integrated reporting and thinking can result in efficient and productive capital allocation, which then acts as a force for financial stability and sustainable development.

FIGURE 1: Process through which value is created, preserved or eroded



Source: IIRC 2021: 22

Why **integrated thinking** and **integrated reporting**?

If they have clarity and a thorough understanding of where their business is and where they want to take it, key research findings from the **white paper** confirm that SMEs of any size or type adopting integrated thinking and integrated reporting stand to reap a range of external and internal benefits.

External benefits

- **Better access to capital** – SMEs can use integrated reporting to meet various information requests and provide a more complete picture of their strategy, business model and possession of the resources that drive business performance, enhancing their credibility and prospects with finance providers.
- **Communication tool** – SMEs can gain competitive advantage in attracting new business by demonstrating that their strategy aligns with the aims of their external stakeholders, eg customers.
- **Support growing information requests** – SMEs will be better equipped to report through the value chain and respond to environmental, social and governance (ESG)-related information requests, amid global trends towards ESG and sustainability reporting.

Internal benefits

- **Better understanding of the business** – SMEs can improve understanding of their business strategy across the organisation and communicate their value creation process to all stakeholders.
- **Attracting and retaining staff** – In the aftermath of the ‘great resignation’ phenomenon¹, integrated thinking can help SMEs articulate their purpose and strategy better, enabling them to recruit and retain talent.
- **Relationships with stakeholders** – Often family-owned and strongly linked to the stakeholders served, SMEs can amplify their value through trust and close relationships.

So why aren’t more SMEs embracing integrated thinking and integrated reporting?

Top barriers to SMEs’ implementation of integrated thinking and integrated reporting include:

- the limited resources (time, human, financial) typically available to SMEs and constant ‘firefighting’ with a short-term focus on survival to keep their businesses running
- the cost of, and lack of access to, information systems required to access broader data collection needed to support integrated thinking and integrated reporting
- perceptions that integrated reporting is too complex for SMEs, exacerbated by the limited implementation guidance tailored to SMEs currently available.

Several participants at the international roundtable observed that the SMEs most likely to adopt integrated thinking and reporting were those already thinking in an integrated way, while not formally adopting integrated reporting. In fact, well-embedded integrated thinking can make organisations more resilient in the face of challenges (ACCA 2021).

From this, it is clear that SMEs can begin with integrated thinking, and work towards integrated reporting as part of their long-term journey towards better reporting and the creation of value by their businesses over time. Our **ACCA playbook** can guide SMEs towards becoming better integrated thinkers, while taking into consideration sustainability-related matters (ACCA and CA ANZ 2022), and **ACCA’s report** shares insights and ‘top tips’ on how to prepare a great integrated report (ACCA 2017).

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¹ ‘The Great Resignation’ is a new workplace phenomenon whereby a large number of workers have or are expected to leave their jobs voluntarily as the world moves to a new ‘normal’ post-COVID-19.

How can we **support SMEs** along **this journey?**

In many jurisdictions, SMEs are facing growing compliance pressures: regulation, tax and reporting requirements. But SMEs should also turn their gaze a little beyond this compliance burden, to think also about the opportunities that come with integrated thinking and integrated reporting.

A fitting quote comes from a Business at OECD policy paper.

A POST-COVID WORLD WILL NOT BE A RETURN TO BUSINESS AS USUAL, AS SMEs, HOPING FOR A RETURN TO THE OLD NORMAL ARE NOT LIKELY TO SURVIVE. SMALL BUSINESS OWNERS NEED TO BE ACTIVE AGENTS IN CRAFTING THEIR OWN FUTURE SUCCESS BY EXPLOITING THE OPPORTUNITIES CREATED IN BUILDING BACK BETTER'. (OECD 2021)



At the same time, we at ACCA recognise that this is a journey that SMEs cannot and should not have to undertake alone, as the right policies and environment are crucial to the success of this journey. Hence, we have called for and are continuing to call for governments and policymakers to reduce administrative burdens on SMEs to help them through this recovery phase. There are also other key players in the economic system with crucial roles along this journey.

With the above in mind, key recommendations for a multi-stakeholder coordinated approach and enabling tools to support SMEs are summarised as follows.

RECOMMENDATION 1

Governments should act to enable and encourage SMEs to adopt integrated thinking and integrated reporting by supporting and incentivising their service providers to develop the skills, guidance materials and tools to facilitate adoption.

RECOMMENDATION 2

Accountants, especially SMPs, as trusted advisers, either working within SMEs or providing professional services to SMEs, should seek to assess the potential benefits of integrated thinking and integrated reporting for their SME clients and, where appropriate, encourage adoption.

As '**sustainability trailblazers**', SMPs can also help create an ethical and responsible SME sector (ACCA 2020), **guiding SMEs** through the maze of emerging reporting frameworks, carbon accounting, and waste reduction schemes and help them become both economically and environmentally sustainable (ACCA and CA ANZ 2022).

RECOMMENDATION 3

Professional accountancy associations and industry organisations, supported by governments, should educate their members, particularly SMPs, who work as trusted advisers to SMEs, about the potential benefits of integrated thinking and integrated reporting for their SME clients. Education initiatives could also focus on potential investors and financiers, who might then incentivise SMEs to present additional, especially non-financial information.

At ACCA, we have the **Practice Connect hub** (ACCA n.d.a), a dedicated resource, and **The Practice Room** (ACCA n.d.b), a peer-to-peer support community, both of which are specifically aimed at supporting SMPs.

RECOMMENDATION 4

Software providers should work collaboratively with SMEs, SMPs, and other relevant stakeholders (such as financiers, supply chain members, and government) to develop technology solutions that facilitate and simplify integrated thinking and integrated reporting processes for SMEs, share practical insights and guidance on their adoption, or capture the benefit SMEs derive from integrated thinking.

RECOMMENDATION 5

IFRS Foundation is encouraged to develop simplified tailored guidance materials supporting the International Integrated Reporting Framework and Integrated Thinking Principles, specifically targeted at SMEs.

RECOMMENDATION 6

Academics should undertake more research to enhance understanding of the potential benefits and costs associated with integrated thinking and integrated reporting for SMEs, and the extent to which integrated thinking and integrated reporting could be adopted across the sector globally.

Further details on the above recommendations are available in the white paper 

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