

INTEGRATED REPORTING FOR SMEs – HELPING BUSINESSES GROW

Case studies

To build a successful SME, it is not sufficient to have a healthy current demand for your product or service or to have efficient processes in place. There is also a need for timely information relevant for decision making both within the organisation and also by external stakeholders.

But financial information alone will not suffice. A complete picture of performance, position and prospects demands pre-financial* information and a clear explanation of the interconnectedness of the two data sets.

Good management information must look forward and not just report past performance. It should help decision-makers to understand current performance and to help predict the future too. These are all aspects at the heart of Integrated Reporting (<IR>) - an evolution in corporate communication that is fast gaining global momentum.

Through <IR>, SMEs will enhance their reputation among stakeholders, build trust and improve employee loyalty and

motivation. In short, integrated reporting provides the ideal basis for successful SMEs to become a global engine of growth and recovery.

The following case studies provide evidence of the growing relevance of integrated communication to SMEs particularly in the areas of:

- a) Access / Cost of Capital
- b) Access to markets
- c) Better business understanding
- d) Enhancing reputation

Each case study is a strong example of how companies are using <IR> to grow their businesses.

* The term "Pre-Financial" is used to denote those factors that although not impacting on an organisation's financial performance in the short-term will inevitably have a financial impact over time. Common practice is to use the term "non-financial" to describe these factors but this can give the false impression that there is no medium or long term financial impact.

For example, an organisation's people are one of its most important assets and metrics often used to assess the strength of this asset derive from staff engagement surveys and satisfaction surveys. A deterioration in these so-called "non-financial" indicators will inevitably lead to financial issues such as increased costs as a result of lower efficiency and engagement with key objectives and lower revenue as a result of poorer relationships with customers. We therefore believe that the term "Pre-financial" is a more accurate term to use to help embed the importance of these factors.

IMPAHLA CLOTHING

Impahla Clothing (Impahla) is a South African-based company that manufactures sports and lifestyle apparel as well as fabrics. Privately owned, with its head office based in Maitland, Cape Town, Impahla has grown organically over the last 10 years from an ailing business with 40 employees in 2004 to a thriving business producing in excess of 2.7 million units per year with over 450 employees, focused on the diverse needs of its clients. Impahla has geared its operations to the highest international standards and is PUMA's first locally engaged World Cat Strategic Supplier. This achievement has seen the company benefit from a steady stream of orders from PUMA, effectively providing sustainability for the company and its stakeholders.

Impahla means 'clothing' in Xhosa and the logo is the Flame lily, a flower that is most prominent in Zimbabwe, and which represents the spirit and intentions of the company. Having grown up in Zimbabwe, William Hughes (managing director) remembers the Flame lily as a beautiful African flower that embodies the essence of the company.

Hughes is a strong believer in transparency, with all aspects of the business open for scrutiny. In 2007 Impahla underwent a lengthy process of formalising their understanding of corporate responsibility and reporting, ultimately resulting in their first ever sustainability report. There followed four further sustainability reports before in 2012, following recommendations by The King Report on Governance for South Africa 2009 ('King III') Impahla produced its first integrated report.

In the 2014 Impahla Integrated Report, Hughes says that "transparency is vital to the sustainability of Impahla, and we credit our success to our inclusive and transparent business model". The report itself discusses the company's key risks and opportunities and communicates how they run their business. As Hughes goes on to say "It is written as much for ourselves as it is for our external stakeholders, for it serves as a yardstick against which we can measure and reflect on our progress from year to year".

The Impahla enlightened reporting journey started well before the IIRC was formed. However, developments such as the <IR> Framework document with its focus on value creation, a broad set of capitals, the business model, a forward-looking orientation and connectivity helped Impahla continue to develop both its own internal and external reporting. Hughes firmly believes that integrating financial information with their sustainability information has been crucial to provide a more complete report and has been hugely beneficial, especially for Impahla's financial partners.

Commenting on Impahla's policy of transparent and holistic reporting, both internally and externally, Hughes believes the major benefits to be:

- Helping to secure long term customers such as Puma. Impahla's mission has been to create a niche market whereby customers want to do business with them. Adopting a policy which brings with it good practice and transparency has been key to creating this niche.
- Employee motivation. Impahla recognises that its employees are its most important asset and, importantly, acts on that belief. Treating them with respect and including them in decision making has helped create a team with a common goal.
- Helping to secure access to credit to finance growth. Impahla's Integrated Reports provide their financial partners with all the detail they require about the company and has made decision making that much easier for them.
- Helping to build meaningful relationships with customers that enables Impahla to focus on providing a quality product, on time, in full and at the right price.
- Helping the company to develop a better understanding of its business model, identify risks and opportunities and create value. The integrated reporting approach has helped the company identify its most material issues and develop strategies to manage them.

SMEs are often concerned that they will not have the resources available to identify, capture and interpret the data required to be able to report in an integrated way. And this is an issue that Impahla has had to contend with over the years. It does not have a full time department concentrating on gathering the data needed but has recognised that time does need to be found in already busy schedules to do so as this is such an important task integral to long term business success.

Technically, over the past two years, Impahla has moved beyond the accepted boundaries of being classified as an SME. Nevertheless the lessons that they have learned and the benefits that they have and are continuing to derive from an integrated reporting philosophy are very relevant to SMEs. Asked whether he would recommend SMEs to adopt the principles underlying <IR> Hughes confirmed his belief that this approach would help any business "who are in it for the long haul". The most important tip he could give to those embarking on an <IR> journey is "to stick with it, in the beginning it can be daunting but the benefits will come".

With thanks to William Hughes, Founder and Managing Director, Impahla Clothing

VIASAT S.P.A.

Viasat S.p.A. operates in the European satellite security systems market integrating modern telematics technologies to guarantee the safety of vehicle and occupants. From humble origins in Turin in the mid-1970s, Viasat has grown into an organisation achieving sales of €39m in 2013 with nearly 300 employees. Viasat has a strong tradition of social responsibility in terms of its relations with a variety of stakeholders including clients, suppliers, institutions, employees and partners. Trust is an important element with the safety and security market. Viasat products need to be trusted foremost by its client base and its insurance partners and this requires trust in the organisation itself.

It is against this background that the Viasat Group decided over ten years ago that it needed to improve its financial reporting with additional relevant information that would take Viasat up to the level of best practice for the sector.

Viasat believes that their integrated report should be a document that must be able to systematically connect a series of dimensions:

- The past and the future
- Financial and pre-financial data
- Risks and opportunities
- The company and its stakeholders

Viasat places particular emphasis on the latter set of interconnections as they believe this dynamic not only builds a closer relationship between it and its clients/marketplace but provides them with a powerful mechanism to improve their own value generation process through instructive feedback.

The company views the relationships that it has built up over forty years of activity as 'a point of excellence and a competitive edge of significant importance'. Their integrated report supplements the financial statements to let users more reliably and completely assess the Group's value and helps to nurture even closer relationships in the future. Undeniably, Viasat regards its level of transparency as one of its most cherished intangible assets.

Viasat places a high value on its relationship with its finance providers, believing that significant information asymmetry between banks and companies is a cause of credit rationing, credit rejection and market failure. The benefits that Viasat believes it accrues from a transparent relationship include: improved credit pricing, greater availability of funds and improved company reputation.

**With thanks for the assistance of Laura Girella,
Region Lead – Italy, IIRC**

MONNALISA S.P.A.

Monnalisa's journey towards Integrated Thinking and Reporting: refining strategy execution through stakeholder engagement.

Monnalisa is a medium-sized Italian fashion company, which designs and sells high-end fashion garments and accessories for children. Despite the increasing turbulence of the market environment, during the past ten years, Monnalisa has experienced considerable growth in turnover with sales more than tripling between 2000 and 2010. In 2013, the company employed about 65 people.

With its first integrated report released in 2005, Monnalisa was among the pioneers of this form of thinking and reporting. Among the innovative contents, the initial version of this form of reporting presented a section focused on intangibles, and another one on the Balanced Scorecard and its associated Strategy Map.

However, it is with the 2009 annual report that the most significant innovation in term of reporting design was introduced in Monnalisa. The traditional sections rooted and labelled around financial, social and environmental performance had been replaced by seven chapters that represent matters material to the stakeholders and to the company. The seven chapters of the Integrated Report emerged through an intense process of stakeholder engagement and represented the pillars of Monnalisa's strategy. Namely: maintain a strong identity; guarantee economic sustainability; guarantee high quality; excel in innovation; promote valorisation; communicate and involve in a transparent and effective way; and contribute to the development of the territory.

"All the recent advances in control and reporting have been adopted to capture and monitor the value creation story of Monnalisa, as well as the connectivity among relevant elements featuring the strategy and business model of the company", says the company's CFO, who added, "Engagement with stakeholders enabled us to understand what is important to them. We realized how stakeholders perceive value, opportunities and risks. This was very helpful for the process of identifying material matters and assess the importance of these matters in terms of their effect on sustainable value creation. Notably, we also had the opportunity to rely on the information collected to feed and revise the contents of our internal dashboards and scorecards".

The structure of Monnalisa's Integrated Report continues to be quite unique. It is a structure built around strategy execution; a structure that illustrates how financial and pre-financial capitals engage within the company Business Model to sustain value creation over time.

With thanks to Cristiano Busco, Professor of Accounting and Integrated Reporting, LUISS University, Italy and Roehampton University, London. This case study was developed from the Monnalisa case study included in Busco C, Frigo M, Riccaboni A, Quattrone P (2013) Integrated Reporting: Concepts and Cases that Redefine Corporate Accountability.

DELLAS S.P.A.

Dellas manufactures and sells diamond tools for working marble and granite. The company has been operating since the 1970s and, in 2013, reported 142 employees and a turnover of €15m. Facing up to the challenge and commitment to improve reporting to stakeholders, Dellas produced its first integrated report in 2012. Dellas felt that the restrictions of financial reporting did not allow it to fully explain its values and approach to business, particularly the link between strategy, performance and business objectives, with two main objectives in mind:

1. External communication

Dellas wanted to better explain and illustrate its capacity for adding value in a sustainable manner over the longer term, through its core pre-financial drivers:

- Customer satisfaction in terms of flexibility and delivery times

- Good relations with its main suppliers based on payment reliability and accuracy
- Very low staff turnover as a result of a good level of training and safety at work

2. Internal communication for management and shareholders.

Dellas had just concluded a generational passage from the founder to his sons and a reorganizing of the company by empowering the managers. Historically the founder followed all business activities closely and he embodied the values of the company. Following the change, it was important that the shift towards KPIs as important management tools was recognised and accepted both within the company and amongst its stakeholders.

In 2013, Dellas conducted a series of interviews with its various corporate stakeholders seeking comment on its 2012 Integrated Report. Here is a summary of the feedback received.

FEEDBACK

"Communication and relationship building tools to develop an all round knowledge of Dellas"

"competitive advantage"

"reinforcement of the bonds of mutual trust between stakeholders and the company and the growth in Dellas reputation"

"objectives for improvement as a view to the future"

COMMENT

Suppliers, credit institutions, distributors and staff welcomed the first edition of the report and expressed a high level of appreciation for a tool giving a complete overview of the company

Suppliers were interested in the reporting contained in the notes to the accounts, recognising that Dellas is one of the few SMEs providing information that goes beyond that required by law. The visibility given to the various R&D projects aimed at improving the produce was particularly appreciated

During the meeting organised with all the credit institutions united as a whole, the perception that the notes to the report were an initiative aimed at openness and clarity set out to communicate, apart from the pure analysis of the financial ratios, the potential of the business to create value

Considerable interest was seen from employees and staff who through their work make an individual day to day contribution to reaching those high quality standards associated with Dellas. Apart from the main economic data, the report was appreciated for its analysis of the social dimension as well as the objectives for improvement

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